OGK-5 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2006

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company "The Fifth Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-5"):

We have audited the accompanying consolidated financial statements of OJSC "OGK-5" and its subsidiaries (the "OGK-5 Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the OGK-5 Group 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 5 to the accompanying consolidated financial statements. The Government of the Russian Federation has an ultimate controlling interest in the OGK-5 Group and Governmental economic and social policies affect the OGK-5 Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers

Moscow, Russian Federation
27 June 2007

OGK-5 Group
Consolidated Balance Sheet as at 31 December 2006
(in thousands of Russian Roubles)

	Notes	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	6	44,114,896	18,121,250
Investments in associates		40,309	-
Deferred income tax asset	12	-	396,953
Other non-current assets	7	220,783	53,221
Total non-current assets		**44,375,988**	**18,571,424**
Current assets			
Inventories	9	2,513,597	1,618,501
Trade and other receivables	8	1,865,140	1,668,413
Current income tax prepayments		251,368	46,446
Short-term investments	10	13,052,210	-
Cash		325,481	181,475
Total current assets		**18,007,796**	**3,514,835**
TOTAL ASSETS		**62,383,784**	**22,086,259**
EQUITY AND LIABILITIES			
Equity	11		
Share capital		35,371,686	29,407,170
Treasury shares (nominal value 350,383)		(879,549)	-
Share premium		6,818,747	-
Retained earnings		3,941,562	1,838,843
Other reserves		3,653,696	(15,537,266)
Equity attributable to shareholders of OJSC "OGK-5"		**48,906,142**	**15,708,747**
Minority interest		-	255,339
Total equity		**48,906,142**	**15,964,086**
Non-current liabilities			
Non-current borrowings	13	5,000,000	96,988
Deferred income tax liability	12	5,422,380	3,068,789
Pension liabilities	14	268,871	-
Total non-current liabilities		**10,691,251**	**3,165,777**
Current liabilities			
Current borrowings and current portion of non-current borrowings	15	620,977	897,135
Trade and other payables	16	1,584,075	1,348,993
Current income tax payable		-	1,805
Other taxes payable	17	581,339	708,463
Total current liabilities		**2,786,391**	**2,956,396**
Total liabilities		**13,477,642**	**6,122,173**
TOTAL EQUITY AND LIABILITIES		**62,383,784**	**22,086,259**

General Director — A.V. Bushin

Chief Accountant — M.V. Antipov

27 June 2007

OGK-5 Group
Consolidated Income Statement for the year ended 31 December 2006
(in thousands of Russian Roubles, except for earning per ordinary share information)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Revenues	18	24,811,272	10,100,149
Operating expenses (excluding reversal of impairment of property, plant and equipment)	19	(24,643,371)	(10,051,335)
Reversal of impairment of property, plant and equipment	6	-	6,360,728
Operating expenses		(24,643,371)	(3,690,607)
Other operating income		243,805	192,905
Operating profit		**411,706**	**6,602,447**
Finance income		102,897	
Finance costs	20	(323,743)	(121,084)
Share of result of associates		309	-
Profit before income tax		**191,169**	**6,481,363**
Income tax benefit/(charge)	12	3,027,758	(1,571,759)
Profit/(loss) for the year		**3,218,927**	**4,909,604**
Attributable to:			
Shareholders of OJSC "OGK-5"		3,211,358	4,916,281
Minority interest		7,569	(6,677)
Earnings per ordinary share for profit attributable to the shareholders of OJSC "OGK-5" – basic and diluted (in Russian Roubles)	21	0.10	0.18

General Director A.V. Bushin

Chief Accountant M.V. Antipov

27 June 2007

OGK-5 Group
Consolidated Cash Flow Statement for year ended 31 December 2006
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**191,169**	**6,481,363**
Adjustments for:			
Depreciation	6	2,018,120	1,392,942
Reversal of impairment of property, plant and equipment	6	-	(6,360,728)
(Reversal)/charge for impairment of trade and other receivables	19	(522,779)	35,514
Property, plant and equipment write-off	6	312,849	-
Finance costs	20	323,743	121,084
Finance income		(102,897)	(189,478)
Other non-cash operating (income)/costs		(35,587)	96,796
Share of result of associates		(309)	-
Operating cash flows before working capital changes		**2,184,309**	**1,577,493**
Decrease/(increase) in trade and other receivables		298,822	(899,956)
Increase in inventories		(899,228)	(917,731)
Increase in trade and other payables		230,087	801,254
(Decrease)/increase in taxes payable, other than income tax		(127,124)	221,800
Increase in pension liabilities		268,871	-
Cash generated from operations		**1,955,737**	**782,860**
Income tax paid in cash		(667,002)	(266,754)
Net cash generated from operating activities		**1,288,735**	**516,106**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other non-current assets		(3,366,255)	(1,641,727)
Proceeds from sale of property, plant and equipment and other non-current assets		175,557	78,523
Establishment of subsidiaries and associates		(45,000)	-
Proceeds from sale of investments in other entities		160,676	-
Short-term investments in banks	10	(13,052,210)	-
Interest received		65,162	-
Net cash used in investing activities		**(16,062,070)**	**(1,563,204)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from current borrowings		5,507,000	5,164,385
Proceeds from non-current borrowings		4,999,050	-
Repayment of borrowings		(6,000,300)	(5,100,321)
Issue of ordinary shares	11	12,278,250	-
Costs of issuing ordinary shares	11	(359,503)	-
Purchase of treasury shares	11	(879,549)	-
Interest paid		(118,425)	(117,038)
Dividend paid by the Group to shareholders of OJSC “OGK-5”		(508,851)	(161,230)
Dividend paid by the Group to minority interest shareholders		(331)	(33,831)
Settlement of previously unpaid share capital		-	1,401,361
Net cash generated from financing activities		**14,917,341**	**1,153,326**
Net increase in cash		144,006	106,228
Cash at the beginning of the year		181,475	75,247
Cash at the end of the year		325,481	181,475

General Director A.V. Bushin

Chief Accountant M.V. Antipov

27 June 2007

OGK-5 Group

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

(in thousands of Russian Roubles)

	Note	Ordinary share capital	Unpaid share capital	Share premium	Treasury shares	Retained earnings	Other reserves	Total	Minority interest	Total equity
		Attributable to the shareholders of OJSC «OGK-5»								
At 1 January 2005		**29,407,170**	**(4,268,931)**	-	-	**(1,042,055)**	**(15,537,266)**	**8,558,918**	**1,128,102**	**9,687,020**
Profit/(loss) for the year *		-	-	-	-	4,916,281	-	4,916,281	(6,677)	4,909,604
Payment of share capital	11	-	1,401,361	-	-	-	-	1,401,361	-	1,401,361
Issue of treasury shares	11	-	2,867,570	-	(2,867,570)	-	-	-	-	-
Transactions with minorities	11	-	-	-	2,867,570	(2,035,383)	-	832,187	(832,187)	-
Dividends	11	-	-	-	-	-	-	-	(33,899)	(33,899)
At 1 January 2006		**29,407,170**	-	-	-	**1,838,843**	**(15,537,266)**	**15,708,747**	**255,339**	**15,964,086**
Revaluation of property, plant and equipment	6	-	-	-	-	-	18,698,442	18,698,442	492,520	19,190,962
Profit for the year		-	-	-	-	3,211,358	-	3,211,358	7,569	3,218,927
Total recognised income for the year		-	-	-	-	**3,211,358**	**18,698,442**	**21,909,800**	**500,089**	**22,409,889**
Transactions with minorities	11	864,516	-	-	-	(601,608)	492,520	755,428	(755,428)	-
Issue of ordinary shares	11	5,100,000	-	6,818,747	-	-	-	11,918,747	-	11,918,747
Purchase of treasury shares	11	-	-	-	(879,549)	-	-	(879,549)	-	(879,549)
Employee share option plan	5	-	-	-	-	9,971	-	9,971	-	9,971
Dividends	11	-	-	-	-	(517,002)	-	(517,002)	-	(517,002)
At 31 December 2006		**35,371,686**	-	**6,818,747**	**(879,549)**	**3,941,562**	**3,653,696**	**48,906,142**	-	**48,906,142**

* The amount of total recognised income/(loss) for the year is equal to profit/(loss) for the year

General Director A.V. Bushin

Chief Accountant M.V. Antipov

27 June 2007

(in thousands of Russian Roubles)

Note 1. The Group and its operations

Open Joint-Stock Company "The Fifth Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-5", or the "Company") was established on 27 October 2004 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The OGK-5 Group (the "Group") operates 4 power plants and its principal activity is electricity and heat generation. The Group consists of OJSC "OGK-5" and its subsidiaries. The Group's principal subsidiaries as at 31 December 2005 were two State-District Power Plants (the "SDPP"):

	Ownership, %
OJSC Konakovo SDPP (Konakovo SDPP)	88.7
OJSC Nevinnomyssk SDPP (Nevinnomyssk SDPP)	99.9

In November 2005 the shareholders of OJSC «OGK-5», Konakovo SDPP and Nevinnomyssk SDPP approved the merger of these companies, which took place on 1 April 2006 (see Note 11).

In September 2006 the Company, jointly with OJSC "Novatek", following decision taken at the meeting between Board Chairman of RAO UES of Russia and Board Chairman of OJSC "Novatek" and following Board decision of OJSC "OGK-5", established OJSC "Energeticheskaya Severnaya Companiya" (OJSC "ESC") whose purpose is construction and operation of new generating capacities. OJSC "ESC" is a 40% interest associate of OJSC "OGK-5".

On 30 October 2006 following the Board Decision the Company registered a wholly-owned subsidiary OOO "OGK-5 Finance" for the purpose of realisation share option plan of OJSC "OGK-5" (see Note 5).

The Company is registered by the Lenin District Inspectorate of the RF Ministry of Taxation of Yekaterinburg, Sverdlovsk Region. The Company's office is located at bld. 2, 10-A, 4th Setunsky proezd, 119136, Moscow, Russia.

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

Relations with the state and current regulation. As at 31 December 2006 the Russian Federation owned 52.7% of RAO UES of Russia (the "Parent"), which in its turn owned 75.03% of OJSC "OGK-5". As at 31 December 2005 the Russian Federation owned 52.7% of RAO UES of Russia (the "Parent"), which in its turn owned 90.25% of OJSC «OGK-5». The Russian government is the ultimate controlling party of the Group.

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

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

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). As described in Notes 2, 22 and 23, the government's economic, social and other policies could have material effects on the operations of the Group.

Sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which RAO UES Group and its successor companies (including OJSC "OGK-5") can raise the capital required to maintain and expand current capacity.

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

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

As at 29 May 2003, the Board of Directors of RAO UES of Russia approved a "Concept of RAO UES of Russia strategy for the period from 2003 through 2008". In February 2006 the Board of Directors approved an Appendix to the Concept of RAO UES Strategy: "Generating companies of the Wholesale Electricity Market (OGKs)". This document provides a detailed description of the major changes that are planned to take place in respect of wholesale generation companies during the electric utilities reform program. In accordance with this Concept, RAO UES of Russia is developing the first stage of its own reorganization which assumes a spin-off of 2 generating companies (including OJSC "OGK-5") with proportional distribution of shares of the separated companies between the shareholders of RAO UES of Russia. Thus, 25.03% of OJSC "OGK-5" were disposed (see Note 25).

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

Note 2. Financial condition

As at 31 December 2006, the Group's current assets exceeded the current liabilities by RR 15,221 million (as at 31 December 2005 – by RR 558 million).

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

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

- introduction of improved financial budgeting procedures;
- negotiations with federal and regional governments and regulators for real increases in tariffs to support adequate long term investment into the Group's generation assets; and
- raising long-term debt for investments in new generating assets.

Note 3. Basis of preparation

Statement of compliance. These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation. None of the reclassifications made were material.

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

Predecessor Accounting. In December 2004, the Parent transferred to the Company 51.0% and 99.9% of the outstanding ordinary shares of Konakovo SDPP and Nevinnomyssk SDPP, respectively. The Group accounted for this business combination amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the transferred entities were accounted for at the carrying value, as determined by the Parent in its IFRS financial statements.

In December 2004 the Parent transferred the property, plant and equipment of two power plants (Sredneuralsk SDPP and Reftino SDPP) as a contribution to the Company's charter capital. These assets were rented out by the Group to another subsidiary of the Parent (OJSC "TGK-9") until 1 January 2006 and the transfer included the rental agreement. Starting from 1 January 2006 the Company hired the personnel previously employed by OJSC "TGK-9", purchased inventories from OJSC "TGK-9" by 31 December 2005, and started conducting a full operational activity at these plants.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, prior to the adoption of revaluation as a basis for accounting for property, plant and equipment (See Note 4) on 1 January 2006, the amounts expressed in the measuring unit current at 31 December 2002 were treated as the basis for the carrying amounts of these financial statements.

New accounting developments. Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

- IAS 39 (Amendment) – The Fair Value Option;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IAS 39 (Amendment) – Cash Flows Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment) – Financial Guarantee Contracts;
- IAS 21 (Amendment) – Net Investment in a Foreign Operation;
- IAS 19 (Amendment) – Employee Benefits;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;

- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;
- IFRS 6, Exploration for and Evaluation of Mineral Resources.

The effect of adoption of the above new or revised standards and interpretations on the Group's financial position at 31 December 2006 and 31 December 2005 and on the results of its operations for the years then ended was not significant.

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

- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information disclosed in respected of financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements;
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IAS 23, Borrowing Cost (Amendment, applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009). 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, these new standards and interpretations are not expected to significantly affect the Company's financial statements.

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

Critical accounting estimates and assumptions. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and 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. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Property, plant and equipment. Fair value of property, plant and equipment has been determined by an independent appraiser based on the depreciated replacement cost method. Further, management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group. Carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost, residual value and remaining useful lives, and actual results could differ from these estimates.

Provision for impairment of trade and other receivables. Provision for impairment of trade and other receivables is based on the Group's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

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

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

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of OJSC "OGK-5" and the financial statements of those entities whose operations are controlled by OJSC "OGK-5". Control is presumed to exist when OJSC "OGK-5" controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

A) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The minority interest has been presented as part of equity.

B) Transactions eliminated on consolidation

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

C) Transactions with minority interest

The Group applies a policy treating transactions with minority interest as transactions within the Group. In case of purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognised in equity.

D) Associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

Financial assets. The Company classifies its financial assets into the following measurement categories: trading, available-for-sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Company classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term.

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

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

Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

(in thousands of Russian Roubles)

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

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

Property, plant and equipment. Until 31 December 2005, property, plant and equipment were recognized at the carrying value determined in accordance with the IFRS at the date of their transfer to the Company by the Parent (see Note 3, *Predecessor accounting*).

Following finalization of the Group structure and starting full operational activity at all of its plants from 1 January 2006, the Group changed its accounting policy to revaluing its property, plant and equipment, excluding construction in progress, from 1 January 2006. Management believes that it would result in a more meaningful presentation of the Group's financial position and financial performance.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity, unless the decrease of the reserve previously recognized in the income statements. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

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

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use.

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

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997	Revised starting from 1 January 2006
Electricity and heat generation	4-50	20-50	5-80
Electricity distribution	14-27	25	2-25
Heating networks	17-20	20	5-17
Other	8-10	10	5-40

The majority of electricity and heat generation assets have useful lives between 50 and 80 years as revised by management starting from 1 January 2006.

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

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

Trade and other receivables. Accounts receivable are recorded inclusive of value added taxes. Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. Such a provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate.

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

Treasury shares. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Any gains or losses arising on the disposal of treasury shares are recorded directly in equity attributable to the shareholders of OJSC “OGK-5”.

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

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax expense/(benefit) comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Trade and other payables. Accounts payable are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Debt. Debt is recognized initially at its fair value net of transaction costs. If it is significantly different from the transaction price, fair value is determined using the prevailing market interest rate for a similar instrument. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

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

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

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

OJSC "OGK-5" operates a number of defined benefit plans: lump-sum payments at retirement, jubilee benefits, finanacial support for current pensioners, old age life pension program, death benefits. Defined benefits plans, except old-age life pensions, are paid on a pay-as-you-go basis. For old-age life pensions payments OJSC "OGK-5" has contracted with a non-state pension fund. OJSC "OGK-5" settles its obligation in relation to former employees when they retire from OJSC "OGK-5" by purchasing annuity policies in the fund. All defined benefits plans are considered to be fully unfunded. When the pension obligation is settled via a non-state pension fund, the employer buys an annuity with the amount of contributions allocated to individual accounts held by the non-state pension fund and any additional contributions that may be required from the employer to meet the cost of the benefit promise.

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

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

(in thousands of Russian Roubles)

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

Social expenditure. To the extent that the Group's contributions to social programs benefit the community at large without creating constructive obligation to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

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

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

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

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

Note 5. Related Parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2006 and the year ended 31 December 2005 or had significant balances outstanding at 31 December 2006 and 31 December 2005 are detailed below.

Parent

As at 31 December 2006 and 31 December 2005 the Group owned 2,860,038 shares of RAO UES of Russia.

Transactions with RAO UES of Russia were as follows:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Other sales	10,860	-
Purchases of property, plant and equipment	402,125	-

In August 2006 the Group's trade receivables for electricity sales were paid off with ordinary shares of OJSC "Kavkazskaya Energeticheskaya Upravlyauschaya Companiya" in amount of RR 160,676 thousand which were sold by OJSC "OGK-5" to RAO UES.

(in thousands of Russian Roubles)

Balances with RAO UES of Russia were as follows:

	31 December 2006	31 December 2005
Accounts payable	65,087	-

Parent's subsidiaries

Transactions with the Parent's subsidiaries were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Sale of electricity	17,092,593	3,948,127
Sale of heat	885,063	83,704
Rent	-	1,638,840
Other sales	134,239	52,366
Purchase of inventories	188,745	992,879
Purchase of SO-CDU services	387,121	-
Purchase of assets under construction	-	347,348
Other purchase	153,398	28,786
Interest expense	18,200	-

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

	31 December 2006	31 December 2005
Accounts receivable, gross	941,434	1,970,877
Provision for impairment of accounts receivable	(429,953)	(1,136,762)
Accounts payable	51,742	635,000

Reversal of provision for impairment of accounts receivable recognised as an income during the year ended 31 December 2006 was RR 508,240 thousand (year ended 31 December 2005: an expense of RR 37,573 thousand).

Other, besides RAO UES and its subsidiaries, state-controlled entities

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

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

	Year ended 31 December 2006	Year ended 31 December 2005
Heat sales	141,003	87,670
Other sales	5,186	-
Purchase of electricity	-	97
Purchase of fuel	5,300,582	4,013,968
Interest income	10,249	-
Interest expense	67,876	54,466

(in thousands of Russian Roubles)

	31 December 2006	31 December 2005
Trade and other receivables	22,338	10,893
Trade and other payables	21,103	6,211
Non-current borrowings	-	96,988
Current borrowings	530,566	384,000

Tax balances are disclosed in the balance sheet and Notes 12 and 17. Tax transactions are disclosed in the income statement and Notes 12 and 19.

Transactions with key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

At 31 December 2006 interest-free loans receivable from key management were RR 6,356 thousand (at 31 December 2005: RR 3,100 thousand).

Total remuneration accrued and paid to the members of the Board of Directors and Management Board for the year ended 31 December 2006 and for the year ended 31 December 2005 was as follows:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Expense	Accrued liability	Expense	Accrued liability
Remuneration	86,480	27,114	85,965	73,040

At 31 December 2006 and at 31 December 2005 there were 11 members of the Board of Directors and 5 members of the Management Board.

Employee share option plan. In October 2006, the Board of Directors approved Share Option Plan to Board members, General Director and employees of OJSC “OGK-5” (hereinafter the Plan).

The Plan provides for the granting of share options to the members of company’s management and employees of OJSC “OGK-5” (hereinafter the Plan participants).

The Plan participants will be rewarded for their work in OJSC “OGK-5” over the period of 3 years, starting from 1 December 2006.

Participation of the members of the Board of Directors and General Director in Share Option Plan and the number of shares in their share option agreements are determined by decision of the Board of Directors. General Director (Board Chairman) determines the list of employees (including top managers) who will participate in the Plan, the number of such persons and personal volumes of participation.

In October 2006, the Board of Directors of OJSC “OGK-5” approved the number of shares allocated under the Plan. A total of up to 353,716,855 ordinary shares (or one percent of the issued ordinary shares of OJSC “OGK-5”) may be allocated under the Plan.

Ordinary shares ultimately allocated under the Plan are allocated from treasury shares purchased by the Group for that purpose on the open market by a special-purpose entity, which is controlled by the Group. For the purpose of realisation of the Plan of OJSC "OGK-5" a subsidiary OOO “OGK-5 Finance” was set in October 2006.

The number of shares, which the Plan participants may purchase as part of implementation of the Plan, in the event that the Plan participant has terminated its employment with the Company before 30 November 2009, will be calculated proportionally based on the number of days worked prior to terminating the employment. In case of breaching certain defined provisions of the labor agreement and termination of employment at the initiative of the Company, the Plan participants will lose their right to purchase the shares.

(in thousands of Russian Roubles)

The exercise price of the share option is RR 2.30 per share, which is the weighted average price of the shares of OJSC "OGK-5" on MICEX over the period of 1 December 2005 through 30 November 2006.

The Plan participant can exercise the share option at any time over the period from 30 November 2009 through 18 December 2009.

As at 31 December 2006, in the course of the Plan implementation the Group had purchased 350,383,660 treasury shares. Their purchase cost was RR 879,549 thousand.

As at 31 December 2006, the number of outstanding share options was 318,661,252.

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

Share price (in Russian Roubles)	2.90
Exercise price (in Russian Roubles)	2.30
Expected volatility	27%
Option life	1,096 days
Risk-free interest rate	6.13%
Fair value at measurement date (in Russian Roubles)	**1.11**

The measure of volatility used in option pricing model is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period (one year before grant date).

During the year ended 31 December 2006, the Group recognised an expense of RR 9,971 thousand related to the fair value of the options.

Note 6. Property, plant and equipment

Appraisal value or cost	Heat and electricity generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2005	24,274,709	3,271,178	426,312	1,192,149	6,368,376	35,532,724
Elimination of accumulated depreciation	(11,422,364)	(1,490,758)	(102,060)	-	(4,396,292)	(17,411,474)
Revaluation	18,764,497	22	122,535	-	6,364,212	25,251,266
Additions	57,353	807	642	2,864,259	159,187	3,082,248
Transfer	758,632	68,460	-	(1,384,858)	557,766	-
Disposals	(310,750)	(13,151)	-	(5,088)	(6,367)	(335,356)
Closing balance as at 31 December 2006	**32,122,077**	**1,836,558**	**447,429**	**2,666,462**	**9,046,882**	**46,119,408**
Accumulated depreciation						
Opening balance as at 31 December 2005	11,422,364	1,490,758	102,060	-	4,396,292	17,411,474
Elimination of accumulated depreciation	(11,422,364)	(1,490,758)	(102,060)	-	(4,396,292)	(17,411,474)
Charge for the period	1,177,266	172,060	18,390	-	650,404	2,018,120
Disposals	(11,290)	(1,378)	-	-	(940)	(13,608)
Closing balance as at 31 December 2006	**1,165,976**	**170,682**	**18,390**	**-**	**649,464**	**2,004,512**
Net book value as at 31 December 2005	**12,852,345**	**1,780,420**	**324,252**	**1,192,149**	**1,972,084**	**18,121,250**
Net book value as at 31 December 2006	**30,956,101**	**1,665,876**	**429,039**	**2,666,462**	**8,397,418**	**44,114,896**

(in thousands of Russian Roubles)

Cost	**Heat and electricity generation**	**Electricity distribution**	**Heating networks**	**Construction in progress**	**Other**	**Total**
Opening balance as at 31 December 2004	22,495,461	3,218,652	401,598	1,760,461	5,878,928	33,755,100
Additions	431,964	-	16,110	1,155,228	240,371	1,843,673
Transfer	1,369,172	65,511	8,604	(1,705,450)	262,163	-
Disposals	(21,888)	(12,985)	-	(18,090)	(13,086)	(66,049)
Closing balance as at 31 December 2005	**24,274,709**	**3,271,178**	**426,312**	**1,192,149**	**6,368,376**	**35,532,724**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2004	17,060,208	1,430,580	81,616	-	3,832,074	22,404,478
Charge for the period	586,736	153,383	20,444	-	632,379	1,392,942
Reversal of impairment loss	(6,216,790)	(84,352)	-	-	(59,586)	(6,360,728)
Disposals	(7,790)	(8,853)	-	-	(8,575)	(25,218)
Closing balance as at 31 December 2005	**11,422,364**	**1,490,758**	**102,060**	**-**	**4,396,292**	**17,411,474**
Net book value as at 31 December 2004	**5,435,253**	**1,788,072**	**319,982**	**1,760,461**	**2,046,854**	**11,350,622**
Net book value as at 31 December 2005	**12,852,345**	**1,780,420**	**324,252**	**1,192,149**	**1,972,084**	**18,121,250**

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

The Group changed its accounting policy to revaluing its property, plant and equipment, excluding construction in progress, from 1 January 2006. Independent appraisers engaged by the Group have estimated fair value of the Group's property, plant and equipment, excluding construction in progress, at RR 42,180 million as at 1 January 2006. This change was accounted for prospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", therefore comparatives were not restated.

Fair values were determined primarily based on the depreciated replacement cost method. The replacement cost of buildings, constructions and transfer devices has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of equipment was estimated based on data of aggregative replacement cost of heat-power station, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit – Konakovo SDPP, Nevinnomyssk SDPP, Reftino SDPP, Sredneuralsk SDPP. The discount rate used was 16.07%, the forecast period - 20 years, long-term growth – 4.5%. As a result of the revaluation, the Group's equity increased by RR 19,190,962 thousand, comprising in increase in carrying value of property, plant and equipment of RR 25,251,266 thousand, net of related deferred tax of RR 6,060,304 thousand.

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

Cost	**Heat and electricity generation**	**Electricity transmission**	**Heating networks**	**Construction in progress**	**Other**	**Total**
Net book value as at 31 December 2006	12,065,703	1,683,121	304,391	2,666,461	2,006,620	18,726,296

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

As at 31 December 2006 property, plant and equipment balances did not include assets which were pledged as collateral according to loan agreements (at 31 December 2005: RR 387,127 thousand).

Property, plant and equipment write-off. On 20 December 2006 there was an emergency shutdown of unit No. 10 at Reftino SDPP. Oil slobbered and burst out of generator frame which led to the partial collapse of roof of the turbine workshop of 500 MW unit. The collapsed roof fell down on the turbine shell, generator frame, housings of exciter and support equipment of 500 MW unit. For the purposes of these financial statements, damaged items of property, plant and equipment were written-off. The write-off was recognised in the 2006 income statement totaling to RR 312,849 thousand (see Note 19). The right for an insurance compensation arose in 2007. During the period starting from 1 January 2007 till issuance of these financial statements the Group received insurance compensation in the amount of RR 229,341 thousand. Compensation for damaged and destroyed property, plant and equipment items is based on accounting values under Regulations on Accounting and Reporting of the Russian Federation. In the nearest future, the Group is expecting to bear additional expenses relating to this accident, which are expected to be compensated in full (as described above) per the agreement with the insurance company.

Impairment. The carrying value of property, plant and equipment at 31 December 2004 is stated net of an impairment loss of RR 7,571,000 thousand. As at 31 December 2005, the Group assessed whether there is any indication that an impairment loss recognised in prior periods for property, plant and equipment may no longer exist. Management concluded that at the reporting date there were indications for reversing previously recognised impairment losses based on significant changes with a favourable effect on the Group that have occurred or are expected to occur in the near future in the market and economic environment in which the Group operates. Key positive developments include a higher expected growth of demand for electricity and heat in the regions the Group operates, which is based on recent trends and a higher certainty about the free trading sector for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1). These developments have resulted in a change to the assumptions that were used to determine the value in use of the assets that comprise the power generation cash generating units and a reversal of the previously recognised impairment loss to the extent of RR 6,360,728 thousand at 31 December 2005. A respective gain together with a corresponding deferred tax expense of RR 1,526,575 was recognised in the income statement for the year ended 31 December 2005. Carrying value of property, plant and equipment at 31 December 2005 is stated net of an impairment loss of RR 263,272 thousand.

In the cost model carrying value of property, plant and equipment is stated net of an impairment loss of RR 263,272 thousand at 31 December 2005 and of RR 237,173 thousand at 31 December 2006.

Management believes that there were no indication of impairment of the Group's principal operating assets at 31 December 2006, due to the following reasons:

- higher than expected growth of demand for electricity and heat in regions in which the Group operates, which is based on recent trends;
- higher certainty about the free trading sector for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1);
- the prices for gas, tariffs for electric energy and heat (in regulated sector), authorized by corresponding regulating bodies for 2006, have grown by 10,2%, 13,6 % and 10,3 % accordingly in comparison with the year ended 31 December 2005;
- the prices for gas, tariffs for electric energy and heat (in regulated sector), authorized by corresponding regulating bodies for 2007, have grown by 15,0 %, 15,0 % and 16,5 % respectively in comparison with the year ended 31 December 2006.

Operating leases

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

(in thousands of Russian Roubles)

Operating lease rentals are payable as follows:

	31 December 2006	31 December 2005
Less than one year	8,233	14,837
Between one and five years	7,961	72,759
More than five years	7,856	508,932
Total	**24,050**	**596,528**

The land areas leased by the Company are the territories on which the Company's electric power stations, heating stations and other assets are located. The leases typically run for an initial period of 5 to 45 years with an option to renew the lease after that date. The lease payments are subject to regular review that may result in adjustments to reflect market conditions.

Note 7. Other non-current assets

	31 December 2006	31 December 2005
Investments in other entities	86,237	41,274
Non-current portion of value added tax recoverable	64,589	1,021
Long-term loans issued	34,179	2,153
Other	35,778	8,773
Total	**220,783**	**53,221**

Investments in other entities include investments in RAO UES of Russia (0.0066%) determined at fair value at the reporting date: at 31 December 2006 in the amount of RR 81,320 thousand and at 31 December 2005 in the amount of RR 34,620 thousand.

Long-term loans issued represent non-current portion of the Company's employees' receivables on rent payments by installments and on interest-free loans provided by Company.

Note 8. Trade and other receivables

	31 December 2006	31 December 2005
Advances to suppliers	623,550	229,997
Trade receivables (net of provision for impairment of accounts receivable of RR 429,953 thousand at 31 December 2006 and RR 1,158,876 thousand at 31 December 2005)	737,414	639,123
Value added tax recoverable	9,017	331,620
Other receivables	495,159	467,673
Total	**1,865,140**	**1,668,413**

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Management of the Company believes that the Company will be able to realise the net receivable amount through direct collections and other non-cash settlements, and therefore the recorded value approximates their fair value.

During the year ended 31 December 2006 RR 915,841 thousand of the Company's total accounts receivable was settled via non-cash settlements (year ended 31 December 2005: RR 312,289 thousand).

(in thousands of Russian Roubles)

Note 9. Inventories

	31 December 2006	31 December 2005
Fuel supplies	1,651,233	762,114
Materials and supplies	222,998	222,048
Other inventories (net of provision for impairment of RR 3,403 thousand at 31 December 2006 (at 31 December 2005:nil))	639,366	634,339
Total	**2,513,597**	**1,618,501**

At 31 December 2006 the inventory balances did not include inventories which were pledged as collateral according to loan agreements. As at 31 December 2005 the inventory balances included RR 61 thousand of inventories pledged as collateral.

Note 10. Short-term investments

	31 December 2006	31 December 2005
JSB "Gazprombank" (CJSC)	3,000,000	-
JSCB "International Moscow Bank " (CJSC)	1,752,210	-
JSCB "Petrocommerce" (OJSC)	1,700,000	-
JSCB "Promsvyazbank" (CJSC)	1,500,000	-
JSB "TransCreditBank" (OJSC)	1,000,000	-
JSCB "International Industrial Bank" (CJSC)	1,000,000	-
JSB "Russian Agricultural Bank" Yaroslavl Branch (OJSC)	1,000,000	-
JSCB "Svyaz-Bank" (OJSC)	800,000	-
JSCB "Absolut Bank" (CJSC)	300,000	-
Bank deposits	**12,052,210**	-
JSCB "CIT Finance Investment bank" (OJSC)	1,000,000	**-**
Bank bills of exchange	**1,000,000**	**-**
Total	**13,052,210**	**-**

In November and December 2006 the Company deposited its cash collected from the initial public offering with banks for less than one year period. Deposit interest rates vary from 6.9 per cent per annum to 9.5 per cent per annum.

In October 2006 the Company purchased a number of promissory notes of CIT Finance Investment Bank maturing in 2007. Interest rate for promissory notes is 9 per cent per annum.

Note 11. Equity

Share capital *Number of shares unless otherwise stated*	**Ordinary shares 31 December 2006**	**Ordinary shares 31 December 2005**
Issued shares	35,371,685,504	29,407,170,459
Par value (in RR)	1.00	1.00

As at 31 December 2006 the number of issued ordinary shares is 35,371,685,504 with a par value of RR 1.00 each.

Contributions to the Company's charter capital were effected as follows. Cash contributions amounted to RR 1,437,569 thousand, of which RR 36,208 thousand were paid in 2004 and RR 1,401,361 thousand – in 2005.

(in thousands of Russian Roubles)

RR 25,103,031 thousand were paid in kind of property, plant and equipment and shares in the Company's subsidiaries (see Note 1), which values were determined by independent appraisers. Because of application of predecessor accounting, IFRS carrying value of the contributed assets were RR 10,779,946 thousand, of which RR 1,215,181 thousand were attributable to minority interest. The difference of RR 15,537,266 between the nominal value of share capital paid, the IFRS carrying value of the contributed assets and the minority interest has been recorded as a merger reserve within equity attributable to the Company's shareholders.

RR 2,867,570 thousand had not been paid by the Parent within the period stipulated by the Company's foundation documents (three months from the date of incorporation) and in accordance with the Russian legislation became treasury shares in January 2005. In September 2005 these treasury shares were exchanged for a 37.7% minority stake in Konakovo SDPP. As a result of this transaction, the Company's share in Konakovo SDPP increased to 88.7%.

As of 1 April 2006, the Company issued 864,515,045 shares in exchange for all outstanding minority interest in Konakovo SDPP(11.3%). Following this, Konakovo SDPP and Nevinnomyssk SDPP were merged with the Company, and ceased to be separate legal entities.

Shares issued for cash

In November 2006 the Company completed an initial public offering of its shares. As a part of the offering, the Company issued 5,100,000 thousand ordinary shares in exchange for RR 11,918,747 thousand, net of costs of issuing shares. At 31 December 2006 the share capital was fully paid.

Share premium

	At 31 December 2006	At 31 December 2005
Share premium in excess of par value	7,178,250	-
Costs of issuing shares	(359,503)	-
Total	**6,818,747**	**-**

Total amount of cash proceeds from the public offering of 5,100,000 thousand shares at price of RR 2.4075 per each share was RR 12,278,250 thousand. Share premium received in excess of par value was RR 7,178,250 thousand.

Total costs of issuing shares accounted for as a deduction from equity amounted to RR 359,503 thousand in the period.

Treasury shares. In November 2006 the Group reacquired 350,383,660 ordinary treasury shares which makes up 0.991% of its share capital at 31 December 2006. Acquisition cost of 208,896,916 treasury shares was equal to their placement cost determined for the initial public offering. Reacquisition of 141,486,744 of treasury shares was made at acquisition cost exceeding par value of ordinary shares as well. Consideration paid for the purchase of treasury shares is accounted for as a deduction from equity.

Treasury shares were reacquired in order to realise the Company's employee OJSC "OGK-5" Share Option Plan (see Note 5).

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

In June 2006 the Company declared dividends for the year ended 31 December 2005 of RR 0.0066069 per share for the total of RR 200,002 thousand. In September 2006 the Company declared dividends for the six months ended 30 June 2006 of RR 0.01047183 per share for the total of RR 317,000 thousand. These dividends were recognized as a liability and paid and deducted from equity at 31 December 2006.

(in thousands of Russian Roubles)

There were no dividends recognized as a liability at 31 December 2005 as OJSC "OGK-5" was established in the end of 2004 and first dividends for 2005 were recognised as a liability and deducted from equity at 31 December 2006.

Other reserves

	31 December 2006	31 December 2005
Merger reserve	(15,537,266)	(15,537,266)
Revaluation reserve	19,190,962	-
Total	**3,653,696**	**(15,537,266)**

Note 12. Income tax

Income tax benefit/(charge)	Year ended 31 December 2006	Year ended 31 December 2005
Current income tax charge	(282,002)	(227,060)
Deferred income tax benefit/(charge)	3,309,760	(1,344,699)
Total income tax benefit/(charge)	**3,027,758**	**(1,571,759)**

During the year ended 31 December 2006 the Group entities were subject to a 24% income tax rate on taxable profits.

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

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

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before tax	191,169	6,481,363
Theoretical tax charge at the statutory tax rate of 24%	(45,881)	(1,555,527)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income tax interest and penalties	(63,954)	60,607
Effect of recognition of increase in tax value of property, plant and equipment related to prior period	3,277,824	-
Tax effect of operating income and expenses which are not assessable for taxation purposes	(140,231)	(76,839)
Total income tax benefit/(charge)	**3,027,758**	**(1,571,759)**

Following favorable court rulings during the year ended 31 December 2006 the Company increased the tax base of property, plant and equipment of Sredneuralsk SDPP and Reftino SDPP to fair value at the date of contribution of these assets by the Parent. Previously predecessor tax base had been applied, which was the position of the tax authorities the Company was disputing. As a result of the recognition of increase in tax value of property, plant and equipment a deferred tax benefit of RR 3,277,824 thousand was recognised in the income statement for the year ended 31 December 2006.

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at 24%, the rate applicable when the temporary differences will reverse.

(in thousands of Russian Roubles)

Deferred income tax liabilities

	31 December 2005	Movement for the period recognized in the income statement	Movement for the period recognized in the statement of changes in equity	31 December 2006
Property, plant and equipment	3,025,506	(3,490,363)	6,060,304	5,595,447
Inventories	-	10,053	-	10,053
Trade and other payables	31,285	(31,285)	-	-
Other	11,998	(5,526)	-	6,472
Total	**3,068,789**	**(3,517,121)**	**6,060,304**	**5,611,972**

	31 December 2004	Movement for the period recognized in the income statement	31 December 2005
Property, plant and equipment	1,606,262	1,419,244	3,025,506
Trade and other payables	44,629	(13,344)	31,285
Other	25,873	(13,875)	11,998
Total	**1,676,764**	**1,392,025**	**3,068,789**

Deferred income tax assets

	31 December 2005	Movement for the period recognized in the income statement	31 December 2006
Provision for impairment of trade receivables	174,081	(98,119)	75,962
Trade receivables	158,984	(156,624)	2,360
Trade and other payables	27,922	16,456	44,378
Pension liabilities	-	64,529	64,529
Inventories	22,233	(22,233)	-
Other	13,733	(11,370)	2,363
Total	**396,953**	**(207,361)**	**189,592**

	31 December 2004	Movement for the period recognized in the income statement	31 December 2005
Provision for impairment of trade receivables	269,607	(95,526)	174,081
Trade receivables	29,226	129,758	158,984
Trade and other payables	31,218	(3,296)	27,922
Inventories	8,689	13,544	22,233
Other	10,887	2,846	13,733
Total	**349,627**	**47,326**	**396,953**

As of 31 December 2005 the Group did not offset deferred tax assets and deferred tax liabilities due to the fact that they related to income taxes levied by different taxation authorities. As at 31 December 2006, deferred tax assets in amount of RR 189,592 thousand and deferred tax liabilities in amount of RR 5,611,972 thousand were offset, resulting in net deferred tax liability in amount of RR 5,422,380 thousand as the merger took place in April 2006 (see Note 11), and the Group obtained legally enforceable right to set off current tax assets against current tax liabilities.

(in thousands of Russian Roubles)

Note 13. Non-current borrowings

At 31 December 2006 this line shows amounts payable on the Company's bonds issued. In October 2006 OJSC "OGK-5" performed public offering of ordinary documentary interest bearing non-convertible bonds, with a mandatory centralized custody.

The number of issued bonds was 5,000,000 with a nominal value of RR 1,000 per each bond, maturing on day 1,820 from the date of placement start. Prior redemption of 1,092 days from the date of placement start is available. (See also Note 15.)

No property was pledged as collateral for the long-term debt.

Note 14. Pension liabilities

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

	31 December 2006
Present value of defined benefit obligations (DBO)	1,222,179
Unrecognised actuarial losses	51,736
Unrecognised past service cost	(1,005,044)
Net liability in balance sheet	**268,871**

Benefit expenses recognised in the consolidated income statement:

	Year ended 31 December 2006
Current service cost	40,228
Interest cost	59,438
Amortisation of past service cost	66,210
Benefit plan amendment - immediate recognition of vested prior service cost	176,017
Total	**341,893**

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

	31 December 2006
Present value of defined benefit obligations (DBO) at beginning of year	-
Current service cost	40,228
Interest cost	59,438
Actuarial (gain)/loss	(51,736)
Past service cost	784,931
Benefits paid	(73,022)
Benefit plan amendment	462,340
Present value of defined benefit obligations (DBO) at the end of year	**1,222,179**

Principal actuarial assumptions are as follows:

	31 December 2006
Nominal discount rate	6.75%
Wage growth rate	7.0%
Inflation rate	5.0%

(in thousands of Russian Roubles)

There were no changes in actuarial assumptions during 2006. Thus actuarial gains and losses arising during this period correspond to experience adjustments in full.

	31 December 2006
Present value of defined benefit obligations (DBO)	(1,222,179)
Surplus in plan	(1,222,179)
Losses arising from experience adjustments on plan liabilities	(51,736)

Expected payments under the schemes in 2007 are RR 159,316 thousand.

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

	31 December 2006	31 December 2005
Current borrowings	530,566	897,135
Current portion of non-current borrowings	90,411	-
Total	**620,977**	**897,135**

Current borrowings include unpaid portion of current borrowings from JSB “Gazprombank” (CJSB) received for the purpose of fuel and equipment repairs purchases. Effective interest rate on these loans is 7.5 per cent per annum. No property was pledged as collateral for the short-term loans.

Current portion of non-current borrowings represents accrued coupon yield payable on placed bonds (see Note 13) for the period from the date of placement of securities till the reporting date. A 7.5 per cent per annum interest rate on the first coupon was determined at the competitive bidding conducted on the date of bond placement. According to Offering Memorandum the coupon period for the payment of coupon yield to securities holders is set at 182 days. Payment of the coupon yield for the first coupon period was made in April 2007.

Note 16. Trade and other payables

	31 December 2006	31 December 2005
Trade payables	1,288,411	944,808
Accrued liabilities and other payables	276,090	389,606
Dividend payable	19,574	14,579
Total	**1,584,075**	**1,348,993**

Note 17. Taxes payable

	31 December 2006	31 December 2005
Property tax	205,160	106,997
Value added tax	121,710	461,305
Fines and interest	22,251	22,949
Employee taxes	20,942	11,997
Other taxes	211,276	105,215
Total	**581,339**	**708,463**

The value added tax figure at 31 December 2006 includes RR 121,710 thousand of deferred VAT (31 December 2005: RR 364,740 thousand), which only becomes payable to the authorities when the underlying receivable balances are either recovered or written off.

(in thousands of Russian Roubles)

Note 18. Revenues

Revenues	**Year ended 31 December 2006**	**Year ended 31 December 2005**
Electricity	22,975,795	7,754,223
Heating	1,518,609	461,004
Rent	29,314	1,638,987
Other	287,554	245,935
Total	**24,811,272**	**10,100,149**

During the year ended 31 December 2005 the Group derived revenues from renting property, plant and equipment of Reftino SDPP and Sredneuralsk SDPP.

Note 19. Operating expenses (excluding reversal of impairment of property, plant and equipment)

	Notes	**Year ended 31 December 2006**	**Year ended 31 December 2005**
Fuel		15,916,160	4,639,158
Repairs and maintenance		2,059,606	1,040,898
Depreciation	6	2,018,120	1,392,942
Employee benefits		1,807,567	1,091,572
Taxes other than income tax		868,823	498,976
Water usage expenses		578,863	483,682
SO CDU services		387,121	-
Property, plant and equipment write-off	6	312,849	-
Insurance cost		176,347	34,188
Raw materials and supplies		143,068	241,901
Security services		141,266	56,461
Consulting, legal and audit services		75,509	64,804
Social overhead costs		25,673	47,703
Reversal of provision for impairment of accounts receivable		(522,779)	35,514
Expensed value added tax		(57,542)	18,485
Other expenses		712,720	405,051
Total		**24,643,371**	**10,051,335**

Employee benefits expenses comprise the following:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Salaries and wages, benefits and payroll taxes	1,525,112	1,091,572
Benefit plan amendment – past service cost recognized immediately	176,017	-
Non-governmental pension fund expenses	106,438	-
Employee benefits	**1,807,567**	**1,091,572**

Property, plant and equipment write-off related to the fire accident occurred in December 2006 in Reftino SDPP (see Note 6).

(in thousands of Russian Roubles)

Note 20. Finance costs

	Year ended 31 December 2006	Year ended 31 December 2005
Interest expense	268,463	113,871
Effect of discounting	55,280	7,213
Total	**323,743**	**121,084**

Note 21. Earnings per share

	Year ended 31 December 2006	Year ended 31 December 2005
Weighted average number of ordinary shares issued (thousands)	30,785,093	27,293,130
Adjustment for weighed average number of treasury shares (thousands)	(46,078)	-
Weighted average number of ordinary shares outstanding (thousands)	30,739,015	27,293,130
Profit attributable to the shareholders of OJSC «OGK-5»	3,211,358	4,916,281
Earnings per ordinary share for profit attributable to the shareholders of OJSC "OGK-5" – basic and diluted (in Russian Roubles)	**0.10**	**0.18**

Note 22. Commitments

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

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

Fuel commitments. The Group has a number of outstanding contracts to purchase natural gas and coal, which are supplied under annual contracts. The quantity of natural gas to be supplied is annually allocated by RAO UES of Russia in coordination with OJSC GAZPROM given the capacity of utilization of alternative fuel and the required fuel reserve fixed by RAO UES of Russia. The purchase price of gas is fixed by the Federal Service of Tariffs.

In 2006 a long-term gas contract (until December 2011) was concluded with OJSC "NOVATEK". A two years' coal agreement was concluded with OOO "Uralenergougol" in August 2006 with a possibility of being renewed for the same period.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 1,076,610 thousand at 31 December 2006 (at 31 December 2005: RR 55,219 thousand).

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 to those risks for which it does not have insurance.

Legal proceedings. The Company was not a party to any legal proceedings which, upon final disposition, will have a material adverse effect on the financial position of the Company.

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

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

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

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

Environmental matters. The Company and its predecessor 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 evaluate 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 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 Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company is only exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates. The Group's significant interest bearing assets are disclosed in note 10. The majority of these assets bear fixed interest and are thus exposed to fair value interest rate risk

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

Note 25. Post balance sheet events

Forthcoming spin-off from RAO UES. On 6 December 2006 the Extraordinary General Meeting of Shareholders of RAO UES took a decision to spin-off OJSC "OGK-5" from RAO UES according to the following scheme:

- OJSC "OGK-5 Holding" will be formed by the way of spin-off as a new and a separate company, which will hold as assets ordinary shares owned before by RAO UES;

- simultaneously (the same day) with its formation, OJSC "OGK-5 Holding" will be merged with and into OJSC "OGK-5", which will be the surviving entity. All of the assets of OJSC "OGK-5 Holding", consisting of only the ordinary shares of OJSC "OGK-5", will be transferred to OJSC "OGK-5;

- upon the merger, OJSC "OGK-5 Holding" will cease to exist and its shares will be cancelled;

- each holder of RAO UES shares:

  - on the day of formation – will be entitled to a number of shares in the OJSC "OGK-5 Holding" equal to the number of RAO UES shares held by such holder as at this day;

  - upon the cancellation of OJSC "OGK-5 Holding" shares – will become a shareholder of OJSC "OGK-5" and will continue to own the same number of RAO UES shares as such holder held immediately preceding the day of formation.

For the purposes of the share swap to take place during the merger of OJSC "OGK-5 Holding" with and into OJSC "OGK-5", additional issue of 1,000,000 ordinary shares with a par value of RR 1.00 each was approved at the Annual General Meeting of Shareholders of OJSC "OGK-5" on 1 June 2007.

Decrease of RAO UES ownership in OJSC "OGK-5". On 9 February 2007 the Board of Directors of RAO UES approved the change of RAO UES interest in OJSC "OGK-5" from 75.03% to 50% by disposing of 8,853,757,803 of ordinary non-documentary shares of OJSC "OGK-5" (25.03%) through the open auction sale.

The open auction for the sale of 25.03% of OJSC "OGK-5" shares owned by RAO UES was held on 6 June 2007. Enel Investment Holding B.V. won the auction. The auction conditions stipulate that the winner becomes the owner of the purchased stake after it receives approval of the Federal Antimonopoly Service of Russia and pays for the whole stake within 50 calendar days after the purchase contract was executed.

Dividends declared. On 17 April 2007 Board of Directors of OJSC "OGK-5" and on 1 June 2007 the Annual General Meeting of Shareholders of OJSC "OGK-5" approved the amount of dividends for the year ended 31 December 2006 of RR 0.00634689 per share for the total of RR 224,500 thousand.