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

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company Territorial Generating Company № 5 (JSC TGC-5):

We have audited the accompanying combined and consolidated financial statements of JSC TGC-5 and its subsidiaries (the "Group") which comprise the combined and consolidated balance sheet as at 31 December 2006, the combined and consolidated income statement, combined and consolidated statement of changes in equity and combined and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

We have not audited or reviewed the combined and consolidated balance sheet as at 31 December 2005 and the related combined and consolidated income statement, combined and consolidated statement of changes in equity and combined and consoildated statement of cash flows for the year then ended, and accordingly, we express no opinion or assurance thereon.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these combined and 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 combined and 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.

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INDEPENDENT AUDITOR'S REPORT

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

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

Without qualifying our opinion, we draw your attention to Note 2 a) of the accompanying combined and consolidated financial statements. These combined and consolidated financial statements include allocations of revenues and expenses incurred prior to 1 May 2005 by electricity and heat generating divisions within OJSC Kirovenergo, predecessor legal entity that had other business activities. Because of the various assumptions made in allocating revenues and expenses, as described in Note 2 a) and elsewhere in these combined and consolidated financial statements, those revenues and expenses related to the electricity and heat generation operations within the former structure of the business may not be indicative of revenues expected to be earned and costs expected to be incurred on a prospective basis for the electricity and heat generation operations within the Company as a separate business and, as such, these combined and consolidated financial statements may not be indicative of future results of operations and trends.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
27 July 2007

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

	Notes	31 December 2006	31 December 2005 (unaudited)
ASSETS			
Non-current assets			
Property, plant and equipment	6	10,670,889	6,262,125
Financial assets available for sale		983	1,271
Other non-current assets	7	234,164	72,024
Deferred tax assets	8	-	295,867
Total non-current assets		**10,906,036**	**6,631,287**
Current assets			
Cash and cash equivalents	9	131,713	155,539
Accounts receivable and prepayments	10	1,176,584	1,525,774
Inventories	11	1,238,297	900,484
Other current assets	12	-	11,739
Total current assets		**2,546,594**	**2,593,536**
TOTAL ASSETS		13,452,630	9,224,823
EQUITY AND LIABILITIES			
Share capital	13	9,005,196	10,000
Merger reserve	13	(1,929,703)	4,785,083
Retained earnings/(loss)		3,324,123	(91,704)
Equity attributable to parent company shareholders		**10,399,616**	**4,703,379**
Minority interest		-	2,394,353
Total equity		**10,399,616**	**7,097,732**
Non-current liabilities			
Deferred tax liabilities	8	1,100,490	330,847
Non-current borrowings	14	67,081	201
Pension liabilities	15	101,249	83,081
Other non-current liabilities	15	18,792	-
Total non-current liabilities		**1,287,612**	**414,129**
Current liabilities			
Current borrowings and current portion of non-current borrowings	14	800,487	496,284
Accounts payable and accrued liabilities	16	633,256	601,713
Provision for liabilities and charges	17	61,572	-
Income tax payable		8,207	52,433
Taxes other than income payable	18	261,880	562,532
Total current liabilities		**1,765,402**	**1,712,962**
Total liabilities		**3,053,014**	**2,127,091**
TOTAL EQUITY AND LIABILITIES		13,452,630	9,224,823

Chief executive officer
Under power of attorney # 19-8/166 dated 23 October 2006 (issued for one year) — E. S Glinchak

Chief Accountant — A.V. Plusnin

27 July 2007

ТГК-5

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

TGC-5 Group

Combined and Consolidated Income Statement for the year ended 31 December 2006

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Revenues			
Sales of electricity		6,500,373	5,942,870
Sales of heating		4,367,833	4,452,464
Rent income		202,679	62,534
Other sales		534,253	676,568
Total revenues and other income		**11,605,138**	**11,134,436**
Operating expenses	19	(11,081,143)	(10,917,115)
Other operating income		53,771	78,945
Impairment of property, plant and equipment	6,19	(298,823)	-
Release of impairment of property, plant and equipment	6, 19	4,480,167	-
Operating profit		**4,759,110**	**296,266**
Finance costs, net	20	(87,750)	(79,020)
Profit before taxation		**4,671,360**	**217,246**
Income tax charge	8	(1,186,857)	(147,011)
Profit for the year		**3,484,503**	**70,235**
Profit/ (loss) aattributable to:			
Parent company shareholders		3,532,436	(46,374)
Minority interest		(47,933)	116,609
Earnings/(loss) per ordinary share for profit attributable to the parent company shareholders – basic and diluted (in Russian Roubles)	**21**	**0.005205**	**(0.059600)**

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

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**4,671,360**	**217,246**
Adjustments to reconcile profit before tax and net cash from operating activities:			
Depreciation of property, plant and equipment	6, 19	374,760	725,044
Release of impairment of property, plant and equipment	6	(4,480,167)	-
Impairment of property, plant and equipment	6	298,823	-
(Reversal) / write-down of inventories to net realisable value	11, 19	(20,847)	58,834
(Reversal) / Charge of impairment of accounts receivables	10, 19	(327,382)	127,532
Write-down of accounts receivable	19	-	7,935
Provision for liabilities and charges	17	61,573	-
Loss / (gain) on disposal of property, plant and equipment	19	498	(10,448)
Gain on disposal of other assets		(1,148)	-
Finance cost	20	87,750	79,020
Others		2	80
Operating cash flows before working capital changes and income tax paid		**665,222**	**1,205,243**
Working capital changes:			
Decrease/ (increase) in accounts receivable and prepayments		307,358	(858,042)
Increase in inventories		(316,966)	(57,517)
Decrease / (increase) in other current assets		11,739	(13,661)
Decrease in accounts payable and accrued liabilities		(96,357)	(661)
Increase in accounts payables to employees		54,764	127,312
(Decrease)/increase in taxes other than income payable		(290,949)	337,041
Increase in other non-current liabilities		46,064	-
Income tax paid		(165,744)	(167,665)
Net cash generated by operating activities		**215,131**	**572,050**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(512,415)	(384,080)
Proceeds from sale of property, plant and equipment		4,144	20,714
Interest received		4,659	3,443
Net cash used for investing activities		**(503,612)**	**(359,923)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		1,654,817	1,359,850
Repayment of borrowings		(1,194,251)	(1,353,537)
Interest paid		(27,965)	(62,425)
Dividends paid		(158,414)	(16,245)
Tax paid from dividends		(9,532)	(4,584)
Proceeds from shares issuance		-	10,000
Net cash generated by/(used for) financing activities		**264,655**	**(66,941)**
(Decrease) / increase in cash and cash equivalents		**(23,826)**	**145,186**
Cash and cash equivalents at the beginning of the year	9	**155,539**	**10,353**
Cash and cash equivalents at the end of the year	9	**131,713**	**155,539**

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

Combined and Consolidated Statement of Changes in the Equity for the year ended 31 December 2006
(in thousands of Russian Roubles, unless otherwise stated)

	Attributable to the parent's shareholders				Minority interest	Total equity
	Share capital	Merger reserve	Retained earnings	Total		
At 1 January 2005 (unaudited)	**-**	**4,785,083**	**-**	**4,785,083**	**2,294,948**	**7,080,031**
Issuance of shares (Note 13)	10,000	-	-	10,000	-	10,000
Profit for the year	-	-	(46,374)	(46,374)	116,609	70,235
Dividends (Note 13)	-	-	(45,330)	(45,330)	(17,204)	(62,534)
At 31 December 2005 (unaudited)	**10,000**	**4,785,083**	**(91,704)**	**4,703,379**	**2,394,353**	**7,097,732**
At 1 January 2006	**10,000**	**4,785,083**	**(91,704)**	**4,703,379**	**2,394,353**	**7,097,732**
Profit for the year	-	-	3,532,436	3,532,436	(47,933)	3,484,503
Change in fair value of financial assets available for sale	-	-	(288)	(288)	-	(288)
Dividends (Note 13)	-	-	(116,321)	(116,321)	(66,010)	(182,331)
Issuance of shares (Note 13)	8,995,196	(6,714,786)	-	2,280,410	(2,280,410)	-
At 31 December 2006	**9,005,196**	**(1,929,703)**	**3,324,123**	**10,399,616**	**-**	**10,399,616**

(in thousands of Russian Roubles, unless otherwise stated)

Note 1. General information

The Group and its operations

Open Joint-Stock Company (OJSC) “Territorial Generating Company-5” (“TGC-5”, or the “Company”) was established on 22 March 2005 within the framework of Russian electricity sector restructuring in accordance with Resolution No. 183 adopted by the Board of directors of RAO UES of Russia (“RAO UES”) on 24 December 2004. The structure and principles of foundation of TGC-5 were adopted by the Board of Directors of RAO UES of Russia on 23 April 2004 (Resolution # 168).

Since its foundation TGC-5 is controlled by RAO UES (hereinafter also the “Parent”), and ultimately by the Government of the Russian Federation (see also Note 5).

The shareholders of TGC-5 were following:

№	Name	% of share capital at 31 December 2006	% of share capital at 31 December 2005 (unaudited)
1	RAO UES of Russia	64.8	63.0
2	Other	35.2	37.0
	Total	100.0%	100.0%

The TGC-5 Group’s (hereinafter - the Group) primary activities are generation and sale of electricity and heat. TGC-5 became operational on 1 July 2005 by leasing the generating assets from the following generating companies: Chuvash Generation Company, Udmurt Regional Generation Company, Mari Regional Generation Company, Vyatskaya Electricity and Heat Company.

The lease contracts were approved by the Extraordinary General Meetings of shareholders of Vyatskaya Electricity and Heat Company (Minutes No. 4 of 03.06.2005), Udmurt Regional Generation Company (Minutes No. 3 of 30.06.2005), Board of Directors meeting of Mari Regional Generation Company (Minutes No. 13-g/05 of 30.06.2005), As RAO UES of Russia was an only shareholder of Chuvash Generation Company, the approval of the lease contract by the extraordinary general meeting was not required for this company.

Chuvash Generation Company (hereinafter - Chuvash GC) was founded on 1 January 2005 and is the legal successor in respect of part of rights and obligations Chuvashenergo approved by the annual general meeting of shareholders of Chuvashenergo (minutes No. 1001/2 of 27 April 2004).

Udmurt Regional Generation Company (hereinafter - Udmurt RGC) was founded on 1 January 2005 and is the legal successor in respect of part of rights and obligations Udmurtenergo approved by the annual general meeting of shareholders of Udmurtenergo (minutes No. 14 of 30 June 2004).

Mari Regional Generation Company (hereinafter - Mari RGC) was founded on 1 January 2005 and is the legal successor in respect of part of rights and obligations Marienergo approved by the annual general meeting of shareholders of Marienergo (minutes No. 14 of 06 April 2004).

Vyatskaya Electricity and Heat Company (hereinafter - Vyatskaya EHC) was founded on 01 May 2005 and is the legal successor in respect of part of rights and obligations of Kirovenergo in accordance with the separation balance sheet of Kirovenergo approved by the annual general meeting of shareholders of Kirovenergo (minutes No. 14 of 4 April 2004).

Starting from the moment of registration of Vyatskaya EHC, Mari RGC, Udmurt RGC and Chuvash GC and till the moment of their merging into TGC-5 (31 March 2006), the controlling shareholder of the companies was RAO UES of Russia – 48.2%, 64.4%, 49.0% and 100.0%, accordingly.

On 31 March 2006, Vyatskaya EHC, Mari RGC, Udmurt RGC and Chuvash GC (inlcuding their subsidiaries JSC «Kirovenergoremont», JSC «Kirovenergospezremont», JSC «Marienergoremont», JSC «Chuvashenergoremont», see the description bellow) were merged into TGC-5 and ceased to exist as separate legal entities. Since that time TGC-5 has been the owner of their generating assets and the lease agreements were terminated.

(in thousands of Russian Roubles, unless otherwise stated)

As a result of the generating assets that TGC-5 was leasing, being merged into TGC-5, and the use of the predecessor basis in these combined and consolidated financial statements (see Note 3 (a)), the combined and consolidated financial statement of TGC-5 have been prepared as if it had operated the generating businesses throughout 2005 and 2006. There is no leasing expense or income in these combined and consolidated financial statements.

The Company's generating assets are located in Kirov region, Chuvashskaya Republic, Udmurtskaya Republic, Mariel Republic of Russia. The Company's registered office is located at 4/4 Yakovleva avenue, Cheboksary, Chuvash Republic, 428029.

The TGC-5 head office locates at 51, Luganskaya street, Kirov, 610601.

The employees number of the Group as at 31 December 2006 amounted to 6,768 (31 December 005 – 6,715).

As at 31 December 2006 TGC-5 Group includes JSC TGC-5 with branches and four subsidiaries.

TGC-5 Group has the following structural divisions (branches):

Name	Location
Kirov branch	21 Vodoprovodnaya Str, Kirov, 610002
Chuvash branch	4/4 pr Yakovleva, Cheboksary, Chuvash Republic, 428029,
Udmurt branch	30 Sovetscaya Str , Izhevsk, Udmurtskaya Republic, 426004
Mari branch	47 Krylova Str, Yoshkar-Ola, Mariel Republic, 424000,

TGC-5 Group has the following subsidiaries:

Name	% of share capital	Location	Activities
JSC «Kirovenergoremont»	100.0%	Kirov	Repair equipment
JSC «Kirovenergospezremont»	100.0%	Kirov	Design and construction
JSC «Marienergoremont»	100.0%	Yoshkar-Ola	Repair and construction
JSC «Chuvashenergoremont»	99.9%	Cheboksary	Repair and construction

On 22 August 2006 the Board of Directors of TGC-5 (the minute # 31) approved the sale of non-core subsidiaries JSC «Kirovenergoremont» (KER), JSC «Kirovenergospezremont» (KESR), JSC «Marienergoremont» (MER), JSC «Chuvashenergoremont» (ChER).

Net assets of JSC Kirovenergoremont, JSC Kirovenergospezremont, JSC Marienergoremont, JSC Chuvashenergoremont at 31 December 2006 were as follows:

	KER	KESR	MER	ChER	Total
Property, plant and equipment	34,800	28,108	3,767	21,311	87,986
Other non-current assets	1,435	14,836	4,349	1,120	21,74
Current assets	56,353	186,594	4,677	21,474	269,0
Non-current liabilities	(3,360)	(16,674)	-	(2,606)	(22,640)
Current liabilities	(28,896)	(134,637)	(2,745)	(7,980)	(174,2
Net assets	**60,332**	**78,227**	**10,048**	**33,319**	**181,926**
% of ownership	100.0%	100.0%	100.0%	99.9%	-
The Company's share in net assets of subsidiaries	(60,332)	(78,227)	(10,048)	(33,316)	(181,923)

Although initially the appropriate level of management has been commited to a plan to sell the disposal group, the active programme to locate a buyer has not been fully implemented, thus the management of the Group does not classify it 's non-core subsidiaries as a disposal group.

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.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Relations with the state and current regulation

As at 31 December 2006 the Russian Federation owned 52.7% shares of RAO UES, which in its turn owned 64.83% of voting shares of TGC-5.

The Company's customer base includes a large number of entities controlled by or related to the State of Russian Federation. 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 regulating by the Federal Service on Tariffs («FST»), with respect to their wholesale energy sales, and by the Regional Tariff Service («RSTs»), with respect to its retail electricity and heat sales. The operations of all generating facilities are coordinated by JSC System Operator – Central Dispatch Unit of the Unified Electric 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 are governed by regulations specific to the electricity industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases.

As described in Notes 2, 22 and 23, the Russian government's economic, social and other policies could have material effect on the operations of the Group.

Regulatory issues and sector restructuring

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

A crucial step towards the target wholesale electricity (capacity) market model was the adoption of the new Wholesale Electric Power (capacity) Market Rules of the Transitional Period approved by Resolution of the Government of the Russian Federation No. 529 dated August 31, 2006 "On Improvement of the Procedure for Functioning of Wholesale Electric Power (Capacity) Market" which came into force on September 1, 2006. Under the new wholesale market model, the existing electricity and power purchase-and-sale relations in the regulated market sector are to be replaced 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 substantially reduce. The pace of reduction will be set annually by the Russian Federation Government according to socio-economic development forecasts. In 2007 up to 95% of the forecasted production volumes will be traded at regulated prices. The period from 2006 to approximately 2013 is a transition period. After that it will become possible to launch a fully competitive wholesale market. The new market model implies two ways of electricity trading at free prices, being free bilateral contracts and a day –

ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and supply volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers a day before the electricity is actually supplied. The competitive selection is performed by the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market". If there are deviations from the day-ahead forecast, participants are obliged to sell excess amounts or buy missing ones in the balancing market. As a whole, the day-ahead market replaces the free trade sector that was previously operating. Consumption and production planning held by System operator CDU UES is based on the results of bidding.

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. Basis of preparation

Statement of compliance

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

Each 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 ("RAR"). The accompanying financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

These are the first IFRS financial statements of the Company. The Group has applied IFRS for the first time as at 1 January 2005. The Group did not previously prepare Russian GAAP financial statements as a separate reporting entity and accordingly no meaningful reconciliations from Russian GAAP to IFRS can be provided.

(a) Predecessor Accounting

In March 2006 the Parent transferred to the Company the outstanding ordinary shares of Vyatskaya Electricity and Heat Company (48.2%), Mari Regional Generation Company (64.4%) , Udmurt Regional Generation Company (49.0%), Chuvash Generation Company (100.0%). As disclosed in Note 13 this was done by converting all shares of these entities into ordinary shares of TGC-5. As a result, RAO UES shareholdings and minorities' shareholdings were exchanged for the shares of TGC-5.

In these combined and consolidated financial statements, the Group accounted for this business combination amongst entities under common control 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 consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2005 has been restated as if the business combination took place at the beginning of the earliest period presented.

Therefore, Chuvash Generation Company, Udmurt Regional Generation Company, Mari Regional Generation Company were consolidated into the Company's consolidated financial statements starting from 1 January 2005.

Before the formation of Vyatskaya Electricity and Heat Company at 01 May 2005, it's generating assets comprised OJSC Kirovenergo ("Kirovenergo") assets. In these consolidated financial statements, the financial information relating the generating activity of Vyatskaya Electricity and Heat Company for the period since 01 January up to 30 April 2005 was carved out from the respective financial statement of Kirovenergo.

These consolidated financial statements include allocations of assets and liabilities, revenues and expenses incurred prior to 1 May 2005 by electricity and heat generating divisions within Kirovenergo, predecessor legal entity of TGC-5 that had other business activity.

The following significant assumptions were made by management in allocating assets and liabilities, revenues and expenses to generating businesses:

- Revenue from heat and electricity generation was calculated by applying the tariffs for generation established by the Regional Services on Tariffs ("RST") for Kirovenergo for the 4 months ended 30 April 2005, to the actual volume of heat and power generated by these entities during that period;

- Direct operating expenses and production overheads, such as direct labour, fuel, repairs and maintenance, depreciation, were recorded on actual basis as incurred by respective power stations for the 4 months ended 30 April 2005. Only those overheads that were attributed to assets and liabilities belonging to generation were accounted for (property tax, environmental tax, interest expense on borrowings drawn down by generating divisions or to finance construction of generating assets). General and corporate overheads, such as costs of central accounting department and General director, consulting and legal services, IT, were not allocated to the generating business;

- Current income tax charge was calculated on the basis of the effective income tax rate for the 4 months ended 30 April 2005 for Kirovenergo, applied to profits before tax carved-out following principles for revenue and expenses as above;

- Income tax payable and other taxes payable were not recognised on the balance sheet as all tax liabilities were transferred upon restructuring to energo-company spin off, legal successor of Kirovenergo, and were subsequently paid by it;

- Property, plant and equipment, including provision for impairment, were recorded as determined by the Parent in its IFRS consolidated financial statements;

- Other assets and liabilities, including cash, inventory, accounts receivable and accounts payable, borrowings were recorded on actual basis from accounting ledgers maintained by generating divisions and attributable to generating businesses only;

- Deferred tax liability was calculated using the balance sheet method on the basis of carved-out balance sheets for the generating business.

(b) Accounting for the effects of inflation

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Ruble ("RR"), which is the functional currency of the Group and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

(d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement 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.

(e) 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.

- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.

- IAS 39 (Amended) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group may now designate financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Company's Board of Directors; or (c) a contract contains one or more embedded derivatives unless: (i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis when the embedded derivative is first considered that separation of the embedded derivative(s) is prohibited. The Group applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. The amendment did not have an impact on these financial statements.

- IAS 39 (Amended) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. The Group does not apply hedge accounting and therefore the amendment did not have an impact on these financial statements.

- IAS 39 (Amended) – Financial Guarantee Contracts (effective from 1 January 2006). As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.

- IAS 21 (Amended) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (eg quasi-equity intercompany loans) to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment did not have a significant impact on these financial statements.

- IAS 19 (Amended) - Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment did not have a significant impact on these financial statements.

- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset. This interpretation did not have a significant impact on these financial statements.

- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2006, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised until the measurement period because participation in the market during the measurement period is the obligating event in accordance with IAS 37. This interpretation did not have a significant impact on these financial statements.

- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements. This standard did not have a significant impact on these financial statements.

The effect of Adoption. 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.

(f) Other new standards and interpretations

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted.

- 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 about 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. The Group is currently assessing what impact the new IFRS will have on disclosures in its financial statements.

- 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);

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

- IFRIC 14, IAS 19 - The limit on a Defined Benefit Asset, Minimum Finding Requirments and their interaction (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. The Group is currently assessing what impact the new IFRS will have on its financial statements.

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

Note 3. Summary of significant accounting policies

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

a) Principles of consolidation

The combined and consolidated financial Statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company. Control is presumed to exist when the Company controls entities directly or indirectly through subsidiaries

(i) Subsidiaries

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

(ii) 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.

(in thousands of Russian Roubles, unless otherwise stated)

b) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount.

Indications of impairment can include the following:

- significant changes in technological production process, economic, legal environment;
- damage to an asset or group of assets;
- decrease in market prices for specific types of property, plant and equipment, etc.

The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The carrying amount is reduced to recoverable amount and the difference is accounted for as an expense (impairment loss) in the income statement. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

(i) Subsequent expenditure

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

(ii) Depreciation

Depreciation of property, plant and equipment is charged to the income statement on a straight-line basis over the estimated useful life of the individual assets. For the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date.

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

Type of facility	Acquired subsequent to 31 December 1997	Acquired prior to 31 December 1997
Electricity and heat generation	20-50	11-77
Electricity distribution	25	8-27
Heating networks	20	5-20
Other	10	8-10

c) Classification, recognition and measurement of financial assets

Financial assets are recognised initially at the settlement date at their fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Financial assets are classified as follows:

- held-to-maturity investments;
- a financial asset at fair value through profit or loss;
- available-for-sale investments;
- loans and receivables.

Held-to-maturity investments are non-derivative financial assets with fixed maturity quoted in an active market that an entity has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised costs using the effective interest method, net of a provision for impairment. Amortization of a discount or premium with regard to held-to-maturity securities is included in interest income over the period to maturity. Held-to-maturity securities are recorded within non-current assets except for maturities within 12 months of the balance sheet date.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as financial assets at fair value through profit or loss category and are included in current assets.

Any other investments except for loans issued and accounts receivable are classified as available-for-sale investments. Available-for-sale investments are included in current assets, if the Group's management intends to sell them within 12 months of the reporting date.

Available-for-sale securities and trading securities are recorded at fair value based on quoted market prices at the balance sheet date. Income and losses arising from changes in the fair value of investments are recorded in the income statement in the respective period except for available-for-sale investments, for which income and losses are recognised directly in equity.

Interest income, foreign exchange differences and dividends on available-for-sale securities are recognised in the income statement. If the market value cannot be determined the fair value is determined based on the Group's management estimates using appropriate valuation techniques.

Classification, recognition and measurement of loans and receivables are described in Note 2 f).

d) Inventories

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

e) Value added tax on purchases and sales

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) transfers of ownership for the goods 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.

f) Accounts receivables and prepayments

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

g) 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.

h) Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared (approved by the 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 authorised for issue.

i) Lease

Finance lease

If the Group acts as a lessee under a finance lease contract, the object of lease is included in the property, plant and equipment on the balance sheet at the lowest of two values – the fair value of the object of lease or the discounted amount of minimal lease payments. In estimation of the present value of minimal lease payments, the interest rate implied in the lease contract or, if it cannot be determined, the estimated market borrowings interest rate will be used as a discounting factor.

Where there is a transfer of ownership rights for the object of lease after the end of lease period, the asset is depreciated during its useful life, otherwise the asset is depreciated during the shortest of two periods – the lease period or the useful life period.

Operating lease

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

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

j) Borrowings

Borrowings are recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of operations as an interest expense over the period of the debt obligation.

The Group applies the bechmark treatment of IAS 23 “Borrowing costs” and recognised all borrowing costs as an expense in the period in which they are incurred.

k) Pensions and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred

(i) Post-employment benefit obligations

The Group also operates defined benefit plans. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. In respect of some of these plans the Group has the contract with a non-governmental pension fund, the other plans are operated by the Group without engaging pension funds.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of defined benefit obligations at the balance sheet date less the fair value of plan assets.The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality rouble government bonds with terms to maturity approximating the terms of the related pension liability, as well as other actuarial assumptions. The obligations are valued annually by the Group.

Actuarial gains and losses are charged or credited to the income statement immediately. Past service costs related to these benefits are recognized on a straight-line basis over the average period until the benefits are fully vested.

(ii) Other benefit obligations

The Group provides other benefits to employees under the Collective agreements made with employees. These are being jubilee benefits that are paid when employees reach a certain number of years service. In the case of death of an employee the benefits are paid to close relatives. The Group also provides welfare to relatives of its employees in case of death employees and pensioners. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains or losses are charged or credited to the income statement immediately. Past service costs related to these benefits are recognized immediately. The obligations are valued annually by the Group.

(iii) The main assumptions used to calculate the retirement benefit obligations are the following:

- discount rate;
- expected benefit increases;
- expected growth of average wages;
- mortality rates for plan participants;
- withdrawal and retirement rates for employees.

l) Accounts payable and accrued charges

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

If accounts payable are restructured and the discounted present value of the cash flows under restructured terms discounted using the original effective interest rate differs by more than ten percent from the the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms.

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

m) Income tax

Income tax expense for the period represent the sum of the tax currently payable and deferred income tax.

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.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. 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 assets and liabilities are netted only within the individual entities of the Company.

n) Revenue recognition

Revenue is recognised on the delivery of electricity and heat and on the dispatch of non-utility goods and services. Revenue amounts are presented exclusive of value added taxes.

o) Segment reporting

The Group operates predominantly in a single geographical area and industry. 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.

p) Earnings per share

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

q) 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 as loss directly in equity.

r) Seasonality

Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

s) Financial guarantee contracts

In accordance with IAS 39 "Financial instruments: Recognition and Measurement" the financial guarantee contracts are recognised at fair value. After initial recognition subsequent measurement of financial guarantee contracts is done at the higher of the amount determined in accordance with IAS 37

Provisions, Contingent Liabilities and Contingent Assets; and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Note 4. 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. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(i) Provision for impairment of accounts receivable

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

(ii) 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 combined and consolidated income statement in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment provision will be fully or partially reversed.

(iii) 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.

(iv) Useful lives of property, plant and equipment

The estimation of the useful lives of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Note 5. Related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include shareholders, directors, subsidiaries and enterprises controlled by the state.

RAO UES is the main shareholder of TGC-5 and has a substantial control over the Company's activity.

(in thousands of Russian Roubles, unless otherwise stated)

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

5.1. RAO UES

Transactions with RAO UES were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Other expenses	54	64

Balances with RAO UES were as follows:

	31 December 2005	31 December 2005 (unaudited)
Accounts receivable	64	64
Dividends payable	35,633	40,400
Borrowings	119,375	119,581

5.2. Transactions with RAO UES subsidiaries and associates

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Sales of electricity and heat	7,807,760	6,393,278
Rent income	182,433	39,601
Commission fee for selling of electricity	-	107,879
Other revenues	22,878	173,755
Repairs and maintenance services	(585,806)	(276,485)
Electricity purchases	-	(14,587)
Electricity dispatching services (Note 1)	(185,885)	-
Transportation services purchased	(117,068)	(93,568)
Rent	(72,201)	(55,312)
Other	(21,096)	(52,825)

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

	31 December 2005	31 December 2005 (unaudited)
Accounts receivable	638,636	392,111
Accounts payable	54,929	170,287
Current borrowings	-	21,442
Non-current borrowings	66,379	-

5.3. State controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. The prices for natural gas, electricity and heat are based on tariffs established by FTS and RST. Bank loans are obtained under market rates. Taxes are charged and paid under the Russian tax legislation.

(in thousands of Russian Roubles, unless otherwise stated)

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

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Fuel purchases	(3,651,423)	(3,319,148)
Sales of electricity and heat	211,647	1,741,271
Interest expense	(13,460)	(28,431)

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

	31 December 2006	31 December 2005 (unaudited)
Cash	122,419	112,302
Non-current restructured trade and other receivables	175,848	42,510
Current accounts receivable and prepayments (Net of provision for impairment of receivables of RR 201,745 thousand as at 31 December 2006 and RR 578,279 thousand as at 31 December 2005)	276,141	443,474
Borrowings	477,000	225,750
Accounts payable and accrued liabilities	27,590	29,349

Tax balances are disclosed in the balance sheet and Notes 8 and 18. Tax transactions are disclosed in Group's combined and consolidated income statement and Notes 8 and 19.

5.4. Transactions with Board of Directors and key management personnel

Compensation is paid to the TGC-5 Management Board for performing their functions and comprised their contractual salaries and performance bonuses depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors. Deiscretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board According to his perception of the value of their contribution.

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

Total remuneration paid in the form of salary and bonuses paid to the members of the Board of Directors, Management Board and key management personnel for the year ended 31 December 2006 and 31 December 2005 as follows:

	Year ended 31 December 2006		Year ended 31 December 2005 (unaudited)	
	Members of the Management Board and Board of Directors	Key management personnel	Members of the Management Board and Board of Directors	Key management personnel
Short - term employee benefits	61,879	50,438	40,258	36,744
Total short-term employee benefits	**61,879**	**50,438**	**40,258**	**36,744**

The Group has no other compensation programs.

(in thousands of Russian Roubles, unless otherwise stated)

Note 6. Property, plant and equipment

	Electricity and heat generation	Electricity distribution	Heat networks	Construction in progress	Other	Total
Cost						
Opening balance as at 1 January 2006	**12,522,316**	**901,029**	**4,115,257**	**743,201**	**5,729,258**	**24,011,061**
Additions	39,720	-	22,537	531,151	41,254	**634,662**
Transfers	110,515	12,381	114,165	(448,576)	211,515	**-**
Disposals	(155)	(66)	-	(30,657)	(20,327)	**(51,205)**
Closing balance as at 31 December 2006	**12,672,396**	**913,344**	**4,251,959**	**795,119**	**5,961,700**	**24,594,518**
Accumulated depreciation (including impairment)						
Opening balance as at 1 January 2006	**(8,421,336)**	**(655,388)**	**(3,552,296)**	**-**	**(5,119,916)**	**(17,748,936)**
Charge for the period	(186,537)	(39,906)	(32,294)	-	(116,023)	**(374,760)**
Disposals	39	54	-	-	18,630	**18,723**
Release of impairment loss	3,792,736	179,829	272,647	-	234,955	**4,480,167**
Impairment losses recognised	(278,648)	(4,624)	(6,916)	-	(8,635)	**(298,823)**
Closing balance as at 31 December 2006	**(5,093,746)**	**(520,035)**	**(3,318,859)**	**-**	**(4,990,989)**	**(13,923,629)**
Net book value as at 1 January 2006	**4,100,980**	**245,641**	**562,961**	**743,201**	**609,342**	**6,262,125**
Net book value as at 31 December 2006	**7,578,650**	**393,309**	**933,101**	**795,119**	**970,710**	**10,670,889**

(in thousands of Russian Roubles, unless otherwise stated)

	Electricity and heat generation	Electricity distribution	Heat networks	Construction in progress	Other	Total
Cost						
Opening balance as at 1 January 2005 (unaudited)	**12,356,890**	**884,533**	**4,053,991**	**789,734**	**5,527,885**	**23,613,033**
Additions	3,119	121	273	406,313	76,166	**485,992**
Transfers	166,937	29,586	60,993	(431,001)	173,485	**-**
Disposals	(4,630)	(13,211)	-	(21,845)	(48,278)	**(87,964)**
Closing balance as at 31 December 2005 (unaudited)	**12,522,316**	**901,029**	**4,115,257**	**743,201**	**5,729,258**	**24,011,061**
Accumulated depreciation (including impairment)						
Opening balance as at 1 January 2005 (unaudited)	**(8,239,081)**	**(614,771)**	**(3,477,715)**	**-**	**(4,752,217)**	**(17,083,784)**
Charge for the period	(184,941)	(50,539)	(74,581)		(414,983)	**(725,044)**
Disposals	2,686	9,922	-		47,284	**59,892**
Closing balance as at 31 December 2005 (unaudited)	**(8,421,336)**	**(655,388)**	**(3,552,296)**	**-**	**(5,119,916)**	**(17,748,936)**
Net book value as at 1 January 2005 (unaudited)	**4,117,809**	**269,762**	**576,276**	**789,734**	**775,668**	**6,529,249**

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation.

Depreciation is charged once an asset is available for use.

Property, plant and equipment balances as at 31 December 2006 included RR 7,520,076 thousand of assets which were fully amortized (at 31 December 2005: RR 7,299,151 thousand).

Other property, plant and equipment include motor vehicles, computers, office furniture and other equipment.

Impairment

Management considered recent favorable changes in operation of the Russian electricity market (see also Note 1, section "Regulatory issues and sector restructuring") and reassessed recoverable amount of the Company's property, plant and equipment as at 31 December 2006 to it's value in use. As a result, management believes that provision for impairment of property, plant and equipment recorded by the Company as at 1 January 2005 and 31 December 2005 in respect of electricity and heat generating assets using the predecessor accounting basis of the Parent should be particially reversed as at 31 December 2006. The amount of reversal is estimated by management as RR 4,480,167 thousand. On the other hand, management considered further obsolescence of the Mari branch and recognised further impairment loss in respect of the property, plant and equipment of these cash generating units in the amount of RR 298,823 thousand.

Management applied the following significant assumptions when estimating value in use of the property, plant and equipment as at 31 December 2006 and determining the levels of impairment provisions as at 31 December 2006:

- annual increase in electricity tariffs is estimated by the management as 20%-26% p.a. in 2008-2011 and 3% p.a. in 2012 and onwards;
- annual increase in heat tariffs is estimated by the management as 17%-18% p.a. in 2008-2011; 6% p.a. in 2012 and onwards;
- annual growth of gas prices is estimated by the management as 23%-26% p.a. in 2008-2011; 4% p.a. in 2012 and onwards;
- annual growth of coal prices is estimated by the management as 5%-10% p.a. in 2008-2011; 3% p.a. in 2012 and onwards;
- growth of mazut prices set for the Company were on average 5-6% in 2008-2011 and 5% p.a. in 2012 and onwards;
- growth of peat prices set for the Company were on average 5-7% in 2008-2011 and 4% p.a. in 2012 and onwards;
- the assumption was made that production volumes of electricity and heat will remain at the current level for the whole impairment test period (investment programme is not included);
- increase of major cost (except of fuel) willl not exceed the inflation rate;
- weighted average cost of capital of 14.63 % was applied for discounting future operating cash flows generated by the Company for all cash generating units;
- the Company's restructuring did not change the manner of recovery of the assets – the regulator allocated previously single tariffs for electricity and heat set for a vertically integrated power companies among newly created generating businesses.

Operating lease

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

(in thousands of Russian Roubles, unless otherwise stated)

Operating lease rentals under non-cancelable leases are payable as follows:

	31 December 2006	31 December 2005 (unaudited)
not later than one year	191,658	204,311
later than one year and not later than five years	256,009	241,585
later than five years	2,533,339	1,493,117
Total	**2,981,006**	**1,939,013**

Property, plant and equipment of the Group did not include the land on which the Group's buildings and facilities are situated. The Group 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. At 31 December 2006 the Group did not submit any applications for purchase of the land as the land is used by the Group as long-term rent.

The land areas leased by the Group are the territories on which the Group' electric power stations, heating stations and other assets are located. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. Lease payments are reviewed regularly to reflect market rentals.

Rent revenue under subleases contract is the following:

	31 December 2006	31 December 2005 (unaudited)
Total rent revenue	**14 984**	**6 454**

Finance lease

As at 31 December assets under finance lease which are included in the "Other" category within property, plant and equipment were as follows:

	31 December 2006	31 December 2005 (unaudited)
Cost of finance leased assets	2,638	955
Accumulated depreciation	(257)	(110)
Net book value	**2,381**	**845**

The maturity table and information about minimum lease payments of finance lease liability as follows:

	31 December 2006	31 December 2005 (unaudited)
not later than one year	1,086	597
later than one year and not later than five years	835	218
later than five years		
Minimum lease payments	**1,921**	**815**
Less future finance charge	(496)	(162)
Present value of minimum lease payments	**1,425**	**653**

Assets under the financial lease agreements were received from LLC «United Leasing Company», LLC «Lisingovaya company «Sozidanie».

(in thousands of Russian Roubles, unless otherwise stated)

Note 7. Other non-current assets

	Effective interest rate	31 December 2006	Effective interest rate	31 December 2005 (unaudited)
Non-current trade and other receivables (due 2008-2019)	14.89 – 15.62 %	204,082	15.00 – 15.62 %	42,510
Non-current input VAT (to be recovered more than one year after reporting date)	-	25,530	-	25,924
Other	-	4,552	-	3,590
Other non-current assets	**-**	**234,164**	**-**	**72,024**

The restructured trade and other receivables as at 31 December 2006 includes the followings significant amounts:

1) Receivables from MUzH of town Kirov for heat supplied

28 April 2006 the Group has been registered the agreement with MUzH of town Kirov on rent of town heat facilities for the next 49 years which is effective from the date of registration. Receivables from MUzH of town Kirov are expected to be offsetted by the liabilities for the future rent payments. Receivables in the amount of RR 107,857 thousand are expected to be redeemed over the next 12 years.
Based on cash collection schedule the management of the company believes that the remaining part of trade and other receivables from MUzH of town Kirov RR 40,631 thousand are expected to be received within the four next years.

2) Receivables from ChMUPP Teploset for heat supplied

The receivables in the amount of RR 27,360 thousand as at 31 December 2006 (RR 42,510 thousand as at 31 December 2005) will be redeemed to the end of 2008 in accordance with the schedule of payments singed.

The amounts have been discounted to it’s fair value and respective effect of discounting has been recognised as a component of finance costs in the amount of RR 144,894 thousand for the year ended 31 December 2006 (RR 25,820 thousand for the year ended 31 December 2005), see also Note 20.

Note 8. Income tax

Income tax charge

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Current income tax charge	121,347	266,001
Deferred income tax charge/ (benefit)	1,065,510	(118,990)
Income tax charge	**1,186,857**	**147,011**

In 2006 and 2005 the Group companies were subject to a 24% income tax rate on taxable profits.

(in thousands of Russian Roubles, unless otherwise stated)

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

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Profit before tax	**4,671,360**	**217,246**
Theoretical tax charge at the statutory tax rate of 24%	**(1,121,126)**	**(52,139)**
Tax effect of items which are not deductible or assessable for taxation purpose:	**(65,731)**	**(94,872)**
- maintenance of property, plant and equipment	(38,233)	(42,641)
- wages	(7,217)	(24,826)
- material aid and other payments to the employees	(9,851)	(6,662)
- energy savings fund	(1,046)	(1,104)
- disposal of other assets	(5,483)	(16,638)
- provisions for liabilities and charges	(3,979)	-
- recalculation of income tax for the previous period	3,777	(68)
- other	(3,699)	(2,933)
Total income tax charge	**(1,186,857)**	**(147,011)**

Deferred tax assets and liabilities

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 the rate of 24% which is expected to be applied to the period when the assets are realized and liabilities are settled.

In the context of the Company's current structure, tax losses and current tax assets of different consolidated entities may not be offset against current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

As at 31 December 2005, deferred tax assets and liabilities related to different entities within TGC-5, therefore the assets and liabilities were offset within these different entities, resulting in net liabilities of RR 330,847 thousand and net assets RR 295,867 thousand; as at 31 December 2006, deferred tax assets and liabilities were offset within TGC-5 as a single entity, resulting in a net liability of RR 1,100,490 thousand.

	31 December 2006	Movement for the year recognized in Income Statement	31 December 2005 (unaudited)
Trade receivables and prepayments	98,833	(44,077)	142,910
Other non-current assets	58,192	50,520	7,672
Inventories	43,409	3,290	40,119
Accounts payable and accrued liabilities	37,617	3,069	34,548
Pension liabilities	21,887	1,948	19,939
Property, plant and equipment	4,088	(42,226)	46,314
Other	4,459	94	4,365
Deferred tax assets	**268,485**	**(27,382)**	**295,867**
Property, plant and equipment	(1,332,712)	(1,005,410)	(327,302)
Trade receivables and prepayments	(14,920)	(14,920)	-
Non-current borrowings	(17,742)	(17,742)	-
Other	(3,601)	(56)	(3,545)
Deferred tax liabilities	**(1,368,975)**	**(1,038,128)**	**(330,847)**
Net deferred tax liabilities	**(1,100,490)**	**(1,065,510)**	**(34,980)**

(in thousands of Russian Roubles, unless otherwise stated)

	31 December 2005 (unaudited)	Movement for the year recognized in Income Statement (unaudited)	31 December 2004 (unaudited)
Trade receivables and prepayments	142,910	6,754	136,156
Other non-current assets	7,672	7,672	-
Inventories	40,119	40,119	-
Property, plant and equipment	46,314	46,314	-
Accounts payable and accrued liabilities	34,548	34,548	-
Pension liabilities	19,939	904	19,035
Other	4,365	4,365	-
Total deferred tax assets	**295,867**	**140,676**	**155,191**
Property, plant and equipment	(327,302)	(43,015)	(284,287)
Other	(3,545)	21,328	(24,873)
Total deferred tax liabilities	**(330,847)**	**(21,687)**	**(309,160)**
Net deferred tax liabilities	**(34,980)**	**118,990**	**(153,969)**

The Group has not recorded a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

Note 9. Cash and cash equivalents

	31 December 2006	31 December 2005 (unaudited)
Cash in bank and in hand	131,713	152,439
Cash equivalents	-	3,100
Total	**131,713**	**155,539**

All cash and cash equivalents are Russian Rouble denominated.

Cash equivalents represent bank notes with original maturities of three month or less.

Note 10. Accounts receivable and prepayments

	31 December 2006	31 December 2005 (unaudited)
Trade receivables (Net of provision for impairment of receivables of RR 360,143 thousand as at 31 December 2006 and 581,873 thousand as at 31 December 2005)	597,566	672,728
Value Added Tax recoverable	43,150	308,647
Advances to suppliers and prepayments (Net of provision for impairment of receivables of RR 5,390 thousand as at 31 December 2006 and 157 thousand as at 31 December 2005)	173,103	130,929
Other receivables (Net of provision for impairment of receivables of RR 20,414 thousand as at 31 December 2006 and 153,903 thousand as at 31 December 2005)	331,759	402,800
Other tax overpayment	31,006	10,670
Total accounts receivables and prepayments	**1,176,584**	**1,525,774**

(in thousands of Russian Roubles, unless otherwise stated)

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

Certain trade and other receivables have been restructured and as a result are due to be realized more than one year from the balance sheet date (see Note 7).

Note 11. Inventories

	31 December 2006	31 December 2005 (unaudited)
Fuel	745,743	505,701
Raw materials and other supplies	336,685	239,718
Spare parts	155,869	155,065
Total inventories	**1,238,297**	**900,484**

Raw materials are presented net of provision for obsolescence of RR 37,986 thousand at 31 December 2006 (31 December 2005 – RR 58,833 thousand). Carrying value of raw materials and other supplies carried at net realizable value is RR 143,538 thousand and RR 164,116 thousand at 31 December 2006 and 2005, respectively.

As at 31 December 2006 and 31 December 2005, the inventory balance included RR 358,699 thousand and RR 163,488 thousand, respectively, of inventory pledged as collateral under loan agreements (see Note 14).

Note 12. Other current assets

	31 December 2006	31 December 2005 (unaudited)
Bank promissory notes	-	11,739
Total other current assets	**-**	**11,739**

Other current assets represent bank promissory notes with original maturities of three month or more.

Note 13. Equity

13.1. Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis (see Note 3 (a)), the principal component of the net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. As the Group was formed as a result of share issue completed after 01 January 2005, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting, the effect of such addition to equity is offset by a corresponding increase in the merger reserve and reduction in minority interest.

(in thousands of Russian Roubles, unless otherwise stated)

13.2. Share capital

	31 December 2006	31 December 2005 (unaudited)
Number of ordinary shares authorised, issued and fully paid	900,519,628,026	1,000,000,000
Par value (in RR)	0.01	0.01
Total share capital	**9,005,196**	**10,000**

As at 22 March 2005, the date that the Company was established, the number of issued ordinary shares amounted to 1,000,000,000 with a par value of RR 0.01 each.

Contributions to the Company's share capital in amount of RR 10,000 thousand were paid in cash in the year 2005.

As of 31 March 2006 the Company increased it's share capital by RR 8,995,196 thousand by convertion of ordinary and preference shares of Vyatskaya Electricity and Heat Company, Mari Regional Generation Company, Udmurdskaya Generation Company and Chuvash Generation Company (for the last company the ordinary shares only) into the ordinary shares of TGC-5.

The shares of the four RGCs were converted to the shares of JSC TGC-5 using the following ratios:

into the one additional ordinary share of TGC-5, with par value of RR 0.01 each, were converted:

- 1/0.007853 ordinary registered shares of Vyatskaya Electricity and Heat Company with the par value of RR 1.10;
- 1/0.008571 preference shares of Vyatskaya Electricity and Heat Company with the par value of RR 1.10;
- 1/0.001724 ordinary registered shares of Mari Regional Generation Company with the par value of RR 9.90;
- 1/0.001882 preference shares of Mari Regional Generation Company with the par value of RR 9.90;
- 1/0.000871 ordinary registered shares of Udmurt Regional Generation Company with the par value of RR 12.40;
- 1/0.000951 preference shares of Udmurt Regional Generation Company with the par value of RR 12.40;
- 1/0.002935 ordinary registered shares of Chuvash Generation Company with the par value of RR 3.20.

As a result, RAO UES shareholdings (48 % of Vyatskaya Electricity and Heat Company, 64 % of Mari Regional Generation Company, 49 % of Udmurdskaya Generation Company and 100 % of Chuvash Generation Company) and minorities' shareholdings (52%, 36%, 51% and 0% respectively) were exchanged for the shares of TGC-5. 31 March 2006 the Federal Tax Service Inspectorate for the Leninsky District of the city of Cheboksary registered cease of the generating companies merged.

As at 31 December 2006 number of issued ordinary shares amounted to 900,519,628,026 with a par value of RR 0.01 each.

13.3. Merger reserve

Merger reserve of RR 4,785,083 thousand as at the opening date represents the difference between IFRS carrying value of the contributed net assets merged into the Company, totaling RR 7,080,031 thousand, and the minority interest of RR 2,294,948 thousand.

Merger reserve of RR (1,929,703) thousand as at 31 December 2006 includes merger reserve of RR 4,785,083 thousand as at 31 December 2005 and share issued in the course of merging into the united

(in thousands of Russian Roubles, unless otherwise stated)

TGC-5 of RR 8,995,196 thousand decreased by minority interest in the amount of RR 2,280,410 thousand.

13.4. Dividends

In accordance with Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports are the basis for the annual profit distribution and other appropriations. 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.

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

	Year ended 31 December 2006		**Year ended 31 December 2005 (unaudited)**	
	Declared dividends, in thousand of RR	Dividends per share, RR	Declared dividends, in thousand of RR	Dividends per share, RR
JSC Chuvash Generation Company in respect of the nine month ended 30 September 2005	-	-	27,651	0.03737
JSC Mari Regional Generation Company in respect of six month ended 30 June 2005	-	-	3,803	0.0287
JSC Udmurtskaya Generation Company in respect of six month ended 30 June 2005	-	-	31,080	0.16408
JSC Vyatskaya Electricity and Heat Company in respect of the year ended 31 December 2005	127,366	0.0446524	-	-
JSC TGC-5 in respect of nine month ended 30 September 2006	54,965	0.000061037	-	-
Total dividends	**182,331**	-	**62,534**	-

Note 14. Borrowings

Non-current borrowings

Name	**Currency**	**Effective interest rate, %**	**Maturity date**	**31 December 2006**	**31 December 2005 (unaudited)**
Non-current borrowings					
JSC Chuvashskaya energosbytovaya company	RR	11.25%	2013	66,379	-
Finance lease liability	RR	-	-	1,425	653
Total non-current borrowing		**-**	**-**	**67,804**	**653**
less: current portion of finance lease		**-**	-	(723)	(452)
Total non-current borrowings less current portion of finance lease		-	-	**67,081**	**201**

(in thousands of Russian Roubles, unless otherwise stated)

The fair value of non-current borrowings was estimated by management on the basis of future contracted cash flows and marketable interest rate on similar instruments applicable to the Company as at 31 December 2006.

Current borrowings and current portion of non-current borrowings

Name of lender	Currency	Effective interest rate, %	31 December 2006	31 December 2005 (unaudited)
Current borrowings				
OJSC Sberbank*	RR	7,5%-13%	212,000	115,750
OJSC Promstroybank*	RR	8,5%-11%	200,000	50,000
OJSC Alfa-bank	RR	7,8%-12,5%	157,500	72,000
CJSC Gazprombank*	RR	6,6%	65,000	-
OJSC Vneshtorgbank	RR	15,5%	-	30,000
OJSC Ak Bars	RR	13%	-	30,000
LLC Realinvest	RR	0.1%	16,539	25,257
LLC Treidlux	RR	0.1%	13,235	13,235
LLC Megatel	RR	0.1%	10,431	14,931
LLC Torgalyans	RR	0.1%	2,977	2,977
Kirovskiyi domostroitel	RR	0.1%	1,732	-
RAO UES	RR		119,375	119,581
Tsentr sodeystviya reformam energetiki	RR		-	21,442
Current portion of finance lease liability	RR		723	452
Other	RR		975	659
Total current borrowings			**800,487**	**496,284**

* - inventory pledged as collateral under loan agreements (see Note 11).

Compliance with covenants. In accordance with the current borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants. The most significant and important covenants are maintenance the certain level of turnovers on current accounts, certain level of credit balance as a percentage of average liabilities.

Note 15. Other non-current liabilities

15.1. Other non-current liabilities

	31 December 2006	31 December 2005 (unaudited)
Restructured trade accounts payable	23,244	-
Net of current portion of non-current restructured trade accounts payable	(4,452)	-
Other non-current liabilities	**18,792**	**-**

The restructured accounts payable are the liability of TGC-5 (as successor of Vyatskaya Electricity and Heat Company) to OJSC Avtotransportnoe predpriyatie which were restructured in accordance with agreement dated 18 December 2006.

The maturity of other non-current liabilities is as follows:

	31 December 2006	31 December 2005 (unaudited)
not later than one year	5,291	-
later than one year and not later than five years	12,666	-
later than five years	835	-
Total	**18,792**	**-**

(in thousands of Russian Roubles, unless otherwise stated)

15.2. Pension liabilities

The tables below provide information about the benefit obligations, plan assets and actuarial estimations used for the years ended 31 December 2006 and 2005. Amounts recognized in the Group's combined and consolidated Balance Sheet:

	31 December 2006			31 December 2005 (unaudited)		
	Pension benefit obligation	**Other benefit obligation**	**Total liability**	**Pension benefit obligation**	**Other benefit obligation**	**Total liability**
Present value of defined benefit obligations	139,736	25,075	164,811	90,479	20,028	110,507
Fair value of plan assets	-	-	-	-	-	-
Deficit in plan	139,736	25,075	164,811	90,479	20,028	110,507
Unrecognised net actuarial gain/(loss)	-	-	-	-	-	-
Unrecognised prior service cost	(63,562)	-	(63,562)	(27,426)	-	(27,426)
Net pension liabilities in balance sheet	**76,173**	**25,075**	**101,249**	**63,053**	**20,028**	**83,081**

Amounts recognized in the combined and consolidated Income Statement:

	Year ended 31 December 2006			Year ended 31 December 2005 (unaudited)		
	Pension benefit obligation	**Other benefit obligation**	**Total liability**	**Pension benefit obligation**	**Other benefit obligation**	**Total liability**
Current service cost	7,680	2,024	9,704	2,672	809	3,480
Interest cost	6,107	1,352	7,459	5,996	1,269	7,265
Recognised actuarial (gain)/loss	(314)	1,938	1,624	(6,008)	(455)	(6,463)
Amortisation of prior service cost	730	-	730	894	-	894
Net expense recognised in profit and loss	**14,203**	**5,313**	**19,517**	**3,554**	**1,623**	**5,176**

(in thousands of Russian Roubles, unless otherwise stated)

Changes in the present value of the Group's pension benefit obligations are as follows:

	31 December 2006			31 December 2005 (unaudited)		
	Pension benefit obligation	**Other benefit obligation**	**Total liability**	**Pension benefit obligation**	**Other benefit obligation**	**Total liability**
Present value of defined benefit obligations as at 1 January	**90,479**	**20,028**	**110,507**	**88,835**	**18,800**	**107,635**
Current service cost	7,680	2,024	9,704	2,672	809	3,480
Interest cost	6,107	1,352	7,459	5,996	1,269	7,265
Actuarial loss/(gain)	(314)	1,938	1,624	(6,008)	(455)	(6,463)
Prior service cost	36,867	-	36,867	-	-	-
Benefits paid	(1,083)	(266)	(1,349)	(1,016)	(394)	(1,410)
Present value of defined benefit obligations as at 31 December	**139,736**	**25,075**	**164,811**	**90,479**	**20,028**	**110,507**

The experience adjustment arising on the plan liabilities are as follows:

	31 December 2006	**31 December 2005 (unaudited)**
Present value of defined benefit obligation	164,811	110,507
Fair value of plan assets	-	-
Deficit in plan	164,811	110,507
Experience adjustments on plan liabilities	1,624	(6,463)
Experience adjustments on plan assets	-	-

The Group's best estimate of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date is equal to RR 7,055 thousand as at 31 December 2006 (RR 2,701 thousand as at 31 December 2005).

Principal actuarial assumptions are as follows:

	31 December 2006	**31 December 2005 (unaudited)**
Discount rate	6.75%	6.75%
Future salary increase	7%	7%
Future pensions increase and Inflation rate	5%	5%

Mortality rates for pension plan members were assumed in accordance with a life table based on official mortality data for the Russia's towns citizen during 1986-87 (life expectancion at birth are: 65.8 for males, 74.3 for females).
Withdrawal and retirement rates were evaluated basing on the data about the Company's employees withdrawals and retirements during the years 2005 – 2006.

(in thousands of Russian Roubles, unless otherwise stated)

Note 16. Accounts payable and accrued liabilities

	31 December 2006	31 December 2005 (unaudited)
Trade payables	(293,510)	(252,455)
Payables to employees	(188,237)	(133,473)
Accrued liabilities and other payables	(91,110)	(174,071)
Dividends payable	(55,947)	(41,714)
Current portion of restructured trade accounts payable	(4,452)	-
Total accounts payable and accrued liabilities	**(633,256)**	**(601,713)**

Note 17. Provision for liabilities and charges

	31 December 2006	31 December 2005 (unaudited)
Provisions for liabilities and charges	**61,572**	**-**

As a result of JSC Kirovenergo tax audit (Kirov tax inspectorate Decisions № 17-13924 dated 28 December 2006 and № 444 dated 07 July 2005) the Company accrued provision in the amount of RR 3,750 thousand and RR 57,822 thousand, respectively. These accrued liabilities relates to joint-responsibility agreement, see Note 23 “Joint responsibility”.

Note 18. Taxes other than income payable

	31 December 2006	31 December 2005 (unaudited)
Value added tax	144,442	473,168
Property tax	51,055	40,543
Unified social tax	27,873	18,341
Personal income tax	15,201	8,507
Water tax	4,940	4,463
Land tax	1,022	436
Other	17,347	17,074
Total taxes other than income payable	**261,880**	**562,532**

As at 31 December 2006 included in the payable for value added tax is RR 126,251 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (as at 31 December 2005: RR 405,662 thousand).

(in thousands of Russian Roubles, unless otherwise stated)

Note 19. Operation expenses

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Fuel expenses	6,000,991	5,369,169
Employee benefit expenses and payroll taxes	1,544,517	1,452,573
Repairs and maintenance	654,568	664,227
Services provided for maintenance of rented equipment	585,806	507,670
Gas transportation services	375,079	321,964
Depreciation of property, plant and equipment	374,760	725,044
Other materials	360,850	422,158
Electricity purchases	293,052	14,587
Rent expenses	230,559	247,822
Electricity dispatching services	185,885	-
Tax other than income tax	171,681	177,155
Transportation services	139,927	122,104
Consulting, legal and audit services	57,504	45,741
Security services	38,403	37,058
Other third parties services	35,681	40,638
Water usage services	32,893	20,017
Insurance cost	29,161	30,003
Loss on disposal of property, plant and equipment	498	(10,448)
Heat purchases	249	79,866
(Reversal) / charge of impairment of accounts receivable	(327,382)	135,467
(Reversal of write-down) / write-down of inventories to net realisable value	(20,847)	58,834
Other expenses	317,308	455,466
Total operating expenses	**11,081,143**	**10,917,115**

Employee benefit expenses and payroll taxes

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Wages and salaries	1,496,359	1,398,049
Pension costs – defined benefit plans (Note 15)	8,096	(2,443)
Other post employment benefits cost (Note 15)	3,962	354
Others	36,100	56,613
Total employee benefit expenses and payroll taxes	**1,544,517**	**1,452,573**

Note 20. Finance costs, net

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Effect of discounting, net	56,483	19,838
including		
- discounting of non-current accounts receivable	144,894	25,820
- discounting of restructured accounts payable	(10,052)	-
- discounting of current borrowings from RAO UES	(206)	(14,343)
- discounting of non-current borrowings from Chuvashskaya energosbytovaya company	(73,621)	-
- others	(4,532)	8,361
Interest expense	35,780	62,425
Interest expense (leasing)	146	200
Other	(4,659)	(3,443)
Total finance costs, net	**87,750**	**79,020**

(in thousands of Russian Roubles, unless otherwise stated)

Interest expenses include interest accrued on current borrowings in the amount of RR 28,321 thousand for the year ended 31 December 2006 (RR 55,160 thousand for the year ended 31 December 2005) and interest cost recognised for the year for pension obligation (Note 15) in amount of RR 7,459 thousand for the year ended 31 December 2006 (RR 7,265 thousand for the year ended 31 December 2005).

Note 21. Earning / (loss) per share

	Year ended 31 December 2006	Year ended 31 December 2005 (unaudited)
Weighed average number of ordinary shares issued (thousands)	678,720,267,691	778,082,192
Profit/(loss) attributable to the shareholders of parent company	3,532,436	(46,374)
Earning/(loss) per ordinary share – basic and diluted (RR per share)	**0.005205**	**(0.059600)**

Note 22. Commitments

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

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

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

Note 23. Contingencies

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

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

Legal proceedings. The Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding and not provided for which, upon final disposition, will have a material adverse effect on the financial position of the Group.

Joint responsibility. In the year 2006 the Company entered into a joint and several liability agreements for the indebtness of predecessor legal entities from which the generating companies merged in TGC-5 (see Note 1) spun off. Such agreements were concluded with JSC Kirovenergo, JSC Chuvashenergo, JSC Udmurtenergo, JSC Marienergo and their spin-offs. These agreements stipulate joint and several liability over the debts of those entities which were not shown in the separation balance sheets during the their reorganization. There are risks connected with possible liability over the debts of the aforementioned companies.

The amount of liability is allocated between the companies according to the terms of the above mentioned agreements The agreements are effective till 31 December 2008. JSC Kirovenergo and JSC Chuvashenergo are currently involved in the court process on additional tax accruals as a results of tax audits for the years 2004-2005 and 2003-2004 respectively. Depends on results, significant additional taxes, penalties and interest may be assessed and shared with TGC-5 based on joint and several liability agreements. The Company estimates that it has potential obligations from exposure to other than remote tax risks within the framework of joint respoinsibility agreements of approximately RR 105,818 thousand.

(in thousands of Russian Roubles, unless otherwise stated)

The Company estimates that it has probable obligations from exposure to risks based on joint and several liability agreement and provision for potential liabilities had been recorded (see Note 17).

Guarantees. The Group has entered in number of agreements under which the Group is guarantor to third parties in case of default of principal debtor or inability of guarantees to supply electricity. The amount of guarantees given as at 31 December 2006 is RR 1,800 million (31 December 2005 – RR 0 million):

	At 31 December 2006	At 31 December 2005 (unaudited)
JSC Chuvashskaya energosbytovaya company	800,000	-
JSC Marienergosbyt	600,000	-
JSC Kirovenergosbyt	400,000	-
Total guarantees	**1,800,000**	**-**

The fair value of these guarantees have been estimated and have been included within accounts payable and accrued liabilities.

Provisions for impairment of inventories, receivables and liabilities and charges. Movements in provision for impairment of receivables, inventories and liabilities and charges are as follows:

	Total obsolescence inventory provision (Notes 11, 19)	Provision for impairment of receivables (Notes 10, 19)	Provision for liabilities and charges (Notes 17, 19)
Balance as at 1 January 2005 (unaudited)	**-**	**(608,400)**	**-**
Write-down of inventories to net realisable value / Charge of impairment of accounts receivable	(58,833)	(127,532)	-
Bad debts write - off which was not initially provided	-	*(7,935)*	-
Balance as at 31 December 2005 (unaudited)	**(58,833)**	**(735,932)**	**-**
Consumed	-	22,604	-
Reversal of write-down of inventories to net realisable value / Reversal of impairment of accounts receivable / Accrual of provision for liabilities and charges	20,847	327,382	(61,573)
Balance as at 31 December 2006	**(37,986)**	**(385,946)**	**(61,573)**

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

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

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,

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. Accordingly, at 31 December 2006 no provision for potential tax liabilities had been recorded (31 December 2005: no provision).

Environmental matters. Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

Note 24. Financial instruments and financial risks factors

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

Credit risk. Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the 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 majority of interest rates on current borrowings are fixed; this information is disclosed in Note 14. The Group has no material interest-bearing assets.

Fair values. The estimated fair value of financial assets carried at amortized cost is determined by discounting estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates available to the Group for similar financial instruments.

The carrying amounts of financial assets and liabilities with maturity of less than one year are assumed to approximate their fair values.

Note 25. Events after balance sheet date

Company restructuring

As at the reporting date TGC-5 was in process of forming. The Group's restructuring is describe in details in Note 1.

06 December 2006 the RAO UES's shareholders extraordinary meeting approved creation of TGC-5 Holding. The stake of RAO UES in TGC-5 Group will be transferred into this newly created entity.

The meeting also approved increase of the TGC-5's share capital through issue of 1,000,000 ordinary shares with a par value of RR 0.01 each. These shares will be converted into the shares of TGC-5 Holding in accordance with the terms of the merger agreement. Ultimately, as a result of the anticipated restructuring steps TGC-5 Group will be spin-off from RAO UES Group.

Revaluation of property plan of equipment

In 2006 the Group engaged CJSC Ernst&Young as an independent appraiser for revaluation of the Group fixed assets as at 1 January 2007. Results of the fixed assets revaluation will be reflected in the financial statements for the year ended 31 December 2007.

Additional share issue

The extraordinary meeting of the Company's shareholders held on 18 January 2007 (minutes No 5) approved increase of the Company's share capital through additional issue of 329,734,150,582 ordinary shares with a par value of RR 0.01 each. The nominal value of the additional issue is equal to RR 3,297,342 thousand.

The extraordinary meeting of the Company's shareholders held on 19 April 2007 (minutes No 6) approved increase of the Company's share capital through additional issue of 1,000,000 ordinary shares with a par value of RR 0.01 each. The nominal value of the additional issue is equal to RR 10,000 thousand.

On 28 May 2007 the Board of Directors of TGC-5 approved the decision to satisfy the offer of LLC KES – Holding to buy 260,512,857,721 of additional ordinary shares with a par value of RR 0.01 each (21% of the TGC-5's share capital including the additional issue).

69,221,292,861 of the additional shares were acquired by the Company's shareholders in accordance with the preemptive right. After placement of the additional issued shares registered 26 June 2007 RAO UES's share in TGC-5 decreased from 64.83% to 47.45%. As at the day of signing these combined and consolidated financial statements TGC-5 remains a subsidiary of RAO UES Group.

Dividends

09 June 2007 the general meeting of the shareholders of TGC-5 declared annual dividends for the year 2006 in the total amount of RR 265,035 thousand.

Guarantees

The meeting of the TGC-5 Board of Directors, held on 08 May 2007 (minutes No 54), approved the conclusion of guarantees agreements on obligations of JSC "Kirovenergosbyt", JSC "Marienergosbyt" JSC "Chuvashkaya energosbytovaya company". According to terms of the agreements the assessed liability should not exceed RR 2,416,985 thousand.

Issue of promissory notes

According to the agreement with RAO UES signed 27 March 2007, TGC-5 issued interest-free promissory notes for total amount of RR 133,925 thousand, with maturity date till 1 January 2013.