OGK-1 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 "First Power Generating Company on the Wholesale Energy Market" (JCS OGK-1):

1 We have audited the accompanying combined and consolidated financial statements of JSC OGK-1 and its subsidiaries (the "Group") which comprise the combined and consolidated balance sheet as at 31 December 2006 and 31 December 2005 and the combined and consolidated statement of operations, combined and consolidated statement of changes in equity and combined and consolidated statement of cash flows for the two years then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 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

3 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.

4 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.

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

Opinion

6 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 31 December 2005, and its financial performance and its cash flows for the two years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

7 Without qualifying our opinion, we draw attention to Note 3 of the accompanying combined and consolidated financial statements. These combined and consolidated financial statements include carved out revenues and expenses related to periods from 1 January 2005 to 1 April 2005 or 1 July 2005 for electricity and heat generating divisions within OJSC Mosenergo, OJSC Orenburgenergo and OJSC Tyumenenergo, predecessor legal entities that had other business activities. Because of the various determinations used in carving out such revenues and expenses, as described in Note 3 and elsewhere in these combined and consolidated financial statements, those revenues and expenses related to the electricity and heat generation operations within predecessor legal entities 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 Group as a separate business and, as such, these combined and consolidated financial statements may not be indicative of future results of operations and trends.

8 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.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 May 2007

OGK-1 GROUP

Combined and Consolidated Balance Sheet as at 31 December 2006

(in millions of Russian Roubles)

	Notes	31 December 2006	31 December 2005
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	25,625	17,849
Other non-current assets	7	225	159
Total non-current assets		**25,850**	**18,008**
Current assets			
Cash and cash equivalents	8	549	1,275
Accounts receivable and prepayments	9	1,928	2,126
Inventories	10	2,547	1,545
Other current assets		-	85
Total current assets		**5,024**	**5,031**
TOTAL ASSETS		**30,874**	**23,039**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	44,643	16,784
Merger reserve		(25,852)	(269)
Retained earnings / (loss)		4,917	(247)
Equity attributable to shareholders of JSC OGK-1		**23,708**	**16,268**
Minority interest		-	1,483
Total equity		**23,708**	**17,751**
Non-current liabilities			
Deferred profit tax liabilities	12	3,485	1,825
Pensions liabilities	13	242	223
Other non-current liabilities		8	16
Total non-current liabilities		**3,735**	**2,064**
Current liabilities			
Current debt and current portion of non-current debt	14	1,380	790
Accounts payable and accrued charges	15	1,125	1,400
Taxes payable	16	926	1,034
Total current liabilities		**3,431**	**3,224**
Total liabilities		**7,166**	**5,288**
TOTAL EQUITY AND LIABILITIES		**30,874**	**23,039**

General Director Khlebnikov V.V.

Chief Accountant Votintseva L.N.

25 May 2007

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

OGK-1 GROUP

Combined and Consolidated Statement of Operations for the year ended 31 December 2006
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Revenues	17	30,062	20,535
Operating expenses	18	(28,309)	(19,977)
Reversal of impairment of property, plant and equipment	6	8,479	-
Impairment of property, plant and equipment	6	(1,790)	-
Operating profit		**8,442**	**558**
Finance costs	19	(75)	(92)
Profit before profit tax		**8,367**	**466**
Total profit tax charge	12	(2,537)	(346)
Profit for the period		**5,830**	**120**
Attributable to:			
Shareholders of JSC OGK-1		5,789	48
Minority interest		41	72
Earning per ordinary share for profit attributable to the shareholders of JSC OGK-1 – basic and diluted (in Russian Roubles)	20	**0.242**	**0.003**

General Director — Khlebnikov V.V.

Chief Accountant — Votintseva L.N.

25 May 2007

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before profit tax		**8,367**	**466**
Adjustments to reconcile profit before profit tax to net cash provided by operations:			
Depreciation of property plant and equipment	18	1,031	1,405
Reversal of impairment of property, plant and equipment	6	(8,479)	-
Impairment of property, plant and equipment	6	1,790	-
Loss on disposal of property plant and equipment	18	335	130
Reversal of write-down of inventories to net realisable value	18	(68)	(1)
Write-down of accounts receivable	18	70	80
(Reversal) / charge of impairment of accounts receivable	18	(98)	124
Finance costs	19	75	92
Distribution to RAO UES	3	-	(27)
Other		(24)	61
Operating cash flows before working capital changes and profit tax paid		**2,999**	**2,330**
Working capital changes:			
Decrease / (increase) in accounts receivable and prepayments		203	(1,730)
Decrease / (increase) in other current assets		85	(85)
Increase in inventories		(934)	(377)
Increase in other non-current assets		(70)	(60)
(Decrease) / increase in accounts payable and accrued charges		(155)	1,339
(Decrease)/Increase in taxes payable		(152)	247
Increase in other non-current and pensions liabilities		11	60
Profit tax paid		(833)	(98)
Net cash generated by operating activities		**1,154**	**1,626**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(1,738)	(676)
Proceeds from sales of property, plant and equipment		-	32
Proceeds from sale of subsidiaries, net of cash disposed		-	12
Interest received		34	19
Net cash used for investing activities		**(1,704)**	**(613)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt		4,142	1,901
Repayment of debt		(3,490)	(1,607)
Repayment of financial lease		-	(80)
Interest paid		(95)	(146)
Dividends paid		(733)	(95)
Proceeds from share issuance		-	49
Net cash (used for) / generated by financial activities		**(176)**	**22**
(Decrease) / increase in cash and cash equivalents		**(726)**	**1,035**
Cash and cash equivalents at the beginning of the period		**1,275**	**240**
Cash and cash equivalents at the end of the period		**549**	**1,275**

General Director — Khlebnikov V.V.

Chief Accountant — Votintseva L.N.

«ПЕРВАЯ ГЕНЕРИРУЮЩАЯ КОМПАНИЯ ОПТОВОГО РЫНКА ЭЛЕКТРОЭНЕРГИИ» ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1057200597960 ТЮМЕНЬ

25 May 2007

OGK-1 GROUP

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

(in millions of Russian Roubles)

	Attributable to the shareholders of JSC OGK-1						
	Ordinary share capital	**Unpaid share capital**	**Merger reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
As at 1 January 2005	**17,252**	**(517)**	**(269)**	**-**	**16,466**	**1,468**	**17,934**
Payments of share capital (Note 11)	-	49	-	-	**49**	-	**49**
Cancellation of shares (Note 11)	(468)	468	-	-	-	-	-
Profit for the period	-	-	-	48	**48**	72	**120**
Distribution to RAO UES (Note 3)	-	-	-	(27)	**(27)**	-	**(27)**
Dividends (Note 11)	-	-	-	(268)	**(268)**	(57)	**(325)**
As at 31 December 2005	**16,784**	**-**	**(269)**	**(247)**	**16,268**	**1,483**	**17,751**
As at 1 January 2006	**16,784**	**-**	**(269)**	**(247)**	**16,268**	**1,483**	**17,751**
Contribution from RAO UES (Note 11)	-	-	752	-	**752**	-	**752**
Payments of share capital (Note 11)	27,859	-	(26,335)	-	**1,524**	(1,524)	-
Profit for the period	-	-	-	5,789	**5,789**	41	**5,830**
Dividends (Note 11)	-	-	-	(625)	**(625)**	-	**(625)**
As at 31 December 2006	**44,643**	**-**	**(25,852)**	**4,917**	**23,708**	**-**	**23,708**

General Director Khlebnikov V.V.

Chief Accountant Votintseva L.N.

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1057200597960 * ТЮМЕНЬ * «ПЕРВАЯ ГЕНЕРИРУЮЩАЯ КОМПАНИЯ ОПТОВОГО РЫНКА ЭЛЕКТРОЭНЕРГИИ»

25 May 2007

Note 1: The Group and its operations

Open Joint-Stock Company "First Power Generating Company on the Wholesale Energy Market" (JSC OGK-1, or the "Company") was established on 23 March 2005 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The OGK-1 Group's (the "Group") primary activities are generation and sale of electricity and heat energy. The Group primarily consists of the following power stations: Permskaya GRES, Nizhnevartovskaya GRES, Urengoyskaya GRES, Iriklinskaya GRES, Kashirskaya GRES, and Verkhnetagilskaya GRES (see also *Establishment of the Group*).

The Company is registered by the District Inspectorate of the Ministry RF of Taxation No. 3 of Tyumen region. The legal address of the Company is 1/1, Odesskaya street, Tyumen, Tyumen Region, Russian Federation.

The Company's office is located at 13/17, Bolshaya Cheremushkinskaya street, 117447, Moscow, Russian Federation.

Operating environment of the Group

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

Relations with the state and current regulation

At 31 December 2006, the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") owns 91.7% of the voting ordinary shares of JSC OGK-1 (at 31 December 2005 – 100%). The Russian Government is the ultimate controlling party of the Company.

The Group's customer base includes a large number of entities controlled by the State. Furthermore, the State controls a number of the Group's fuel and other suppliers.

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

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("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 discussed in Notes 2, 22 and 23, the government's economic, social and other policies could materially effect the operations of the Group.

Sector restructuring

The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which RAO UES Group and its successor companies (including JSC "OGK-1") can raise the capital required to maintain and expand current capacity.

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

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

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.

Establishment of the Group

According to Resolution No. 1254-r which approved the structure of wholesale generating companies ("OGKs"), JSC OGK-1 is to consist of the following power stations: Permskaya GRES, Iriklinskaya GRES, Nizhnevartovskaya GRES, Kashirskaya GRES, Verkhnetagilskaya GRES and Urengoyskaya GRES.

JSC OGK-1 was founded on 23 March 2005 by RAO UES (parent company) which made the following contributions (see Note 11):

- 100% less one share of the ordinary shares of JSC Permskaya GRES;
- the property, plant and equipment of Verkhnetagilskaya GRES;
- cash funds.

On 29 September 2006 in the course of further sector restructuring, JSC OGK-1 merged with JSC Permskaya GRES (its subsidiary), JSC Nizhnevartovskaya GRES, JSC Urengoyskaya GRES, JSC Iriklinskaya GRES, JSC Kashirskaya GRES by exchanging shares of these entities for ordinary shares of JSC OGK-1 ("the Merger").

These entities had been established through a RAO UES restructuring which had spun them off from RAO UES subsidiaries.

Except for JSC Kashirskaya GRES in which RAO UES hold 50.9%, all the entities were 100% owned by RAO UES.

To effect the Merger, the Company issued shares to RAO UES and to the owners of JSC Kashirskaya GRES' shares from outside the RAO UES Group, with the result that it acquired 100% of each entity.

Note 2: Financial condition

As at 31 December 2006, the Group's current assets exceeded its current liabilities by RR 1,593 million (as at 31 December 2005 – by RR 1,807 million).

As discussed above, the Group is affected by Government policy through control of tariffs and other factors. The FTS have not always permitted tariff increases in line with the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, increases in these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognised under an IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. However, during 2006 and to date in 2007 the growing demand for electricity and capacity together with increasing the free trading sector of the wholesale electricity market have resulted in a higher rate of revenue growth (see Sector restructuring in Note1).

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

- introduction of improved financial budgeting procedures;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;
- negotiations with federal and regional governments and regulators for real increases in tariffs to support adequate long term investment into the Group's generation, transmission and distribution assets;
- raising long-term debt/equity financing for investments in new generation assets.

Note 3: Basis of preparation

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

Each 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.

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

Predecessor accounting. The establishment of the Group is described in the Note 1.

The assets of Verkhnetagilskaya GRES transferred by RAO UES as a contribution to the Company's charter capital were rented out by the Company to another subsidiary of RAO UES (TGK-9) until 1 October 2005 and the transfer included the rental agreement. Starting from 1 October 2005, the Company hired the personnel previously employed by TGK-9 at Verkhnetagilskaya GRES, purchased inventories from TGK-9, and started conducting the full operational activity at this plant. The contribution of the property, plant and equipment and related rental contracts of Verkhnetagilskaya GRES was accounted for as a business combination amongst entities under common control and accounted for under the predecessor values method as a matter of accounting policy.

In addition, in these combined and consolidated financial statements, the Group accounted for the Merger with others entities as business combinations amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entity were accounted for at the carrying value, as determined by RAO UES 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 Verkhnetagilskaya GRES, Permskaya GRES, Nizhnevartovskaya GRES, JSC Urengoyskaya GRES, Iriklinskaya GRES and Kashirskaya GRES were accounted in the Group's combined and consolidated financial statements effective from 1 January 2005.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the acquisition of a business from an entity under common control is recorded in equity, as a merger reserve.

Minority interest of the Group includes the proportional share of Kashirskaya GRES' minority shareholders (49,1%) of its equity and results of operations up to the date of merger of JSC Kashirskaya GRES with JSC OGK-1.

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

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

- IAS 39 (Amendment) – The Fair Value Option;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IAS 39 (Amendment) – Cash Flows Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment) – Financial Guarantee Contracts;

- IAS 21 (Amendment) – Net Investment in a Foreign Operation;
- IAS 19 (Amendment) – Employee Benefits;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

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

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

- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information disclosed in respected of financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements;
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IAS 23, Borrowing Cost (Amendment, applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

Going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the

(in millions of Russian Roubles)

Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

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

Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of 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 9).

Provision for impairment of other assets

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

Tax contingencies

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

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.

Carve-out methodologies

These consolidated and combined financial statements include carved out financial statement data of Nizhnevartovskaya GRES, Kashirskaya GRES, Iriklinskaya GRES, Urengoyskaya GRES for the period and from the predecessor legal entities as outlined in the table below.

Power stations	**Predecessor legal entity**	**Period requiring carve-out accounting**
Verkhnetagilskaya GRES	RAO UES	3 months ended 30 March 2005
Kashirskaya GRES	Mosenergo	3 months ended 30 March 2005
Nizhnevartovskaya GRES	Tyumenenergo	6 months ended 30 June 2005
Urengoyskaya GRES	Tyumenenergo	6 months ended 30 June 2005
Iriklinskaya GRES	Orenburgenergo	6 months ended 30 June 2005

In carving out this financial statement data, the following determinations were made:

- electricity and heat sales were based on actual electricity and heat power production volume multiplied by actual tariffs approved by RSTs for the power stations (Kashirskaya GRES, Nizhnevartovskaya GRES, Urengoyskaya GRES and Iriklinskaya GRES) after their spin-off from the predecessor legal entities for the year 2005;
- operating expenses were determined on an actual basis;
- depreciation of property, plant and equipment was calculated on IFRS predecessor values;
- general and administrative overheads were not allocated but were determined on an actual basis;
- current profit tax was determined using the effective profit tax rate of the predecessor entities;
- deferred profit tax was determined from movements in deferred tax assets/liabilities between 1 January 2005 and the date of set up of the power stations as stand-alone legal entities;
- property, plant and equipment were based on IFRS predecessor values and rolled back to 1 January 2005 taking into account additions and disposals before their spin-off;
- accounts payable, taxes payable, accounts receivable, inventories were determined on an actual basis;
- carve-out data for Kashirskaya GRES reflects the minority interest holding (49,1%) in JCS Mosenergo.

Carve-out accounting for Verkhnetagilskaya GRES is described above in *Predecessor accounting.*

Note 4: Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of JSC OGK-1 and the financial statements of those entities whose operations are controlled by JSC OGK-1. Control is presumed to exist when JSC OGK-1 controls, directly or indirectly through subsidiaries, more than 50.00 percent of voting rights.

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.

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.

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

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of operations.

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

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

(in millions of Russian Roubles)

Property, plant and equipment. In 2005 property, plant and equipment were recognised at the carrying value determined in accordance with IFRS at the date of their transfer to the Company from the Predecessor entity.

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

The amounts determined by the third party valuation represent an estimate of depreciated replacement cost. In accordance with paragraph 16 of IAS 29, the third party valuation was performed in order to determine a basis for cost, because the historical accounting records for property, plant and equipment were not readily available. Therefore, this third party valuation was not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment and a policy of revaluation on subsequent measurement had not been adopted.

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.

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

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

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997	Revised starting from 1 January 2006
Electricity and heat generation	3-50	20-50	30-50
Electricity distribution	3-40	25	30
Heating network	3-43	20	30
Other	8-24	10	10

Loan charges incurred for the financing of construction of property, plant and equipment are not capitalized within the cost of property, plant and equipment.

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

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

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. Such provision for doubtful debtors is established if there is objective evidence that the 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 carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of receivables. In practice, the entity has estimated that the nominal amount of accounts receivable approximates the fair value at inception.

Differences in tariffs between the sale and purchase of electricity through FOREM (Federal Wholesale Electricity (Power) Market) resulted in unallocated balances (tariff imbalance). These imbalances and related revenues initially recognised were reversed in the Group's accounts.

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

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

Value added tax on purchases and sales. Output VAT related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

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 selling expenses.

Profit tax.

The profit tax expense represents the sum of the tax currently payable and deferred profit tax. The tax currently payable is based on taxable profit for the year. 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 by the balance sheet date.

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

Deferred tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these financial statements.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. If accounts payable are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to the statement of operations (finance costs) as a gain on restructuring, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortised over the period of the restructuring as an interest expense.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective 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.

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

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

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

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

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

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

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

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

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

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

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's 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.

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.

(in millions of Russian Roubles)

Note 5: Related Parties

The Group's principal related parties are shareholders, directors, subsidiaries and enterprises controlled by the state.

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.

RAO UES

Balances with RAO UES were as follows:

	31 December 2006	31 December 2005
Accounts receivable	50	9
Current portion of non-current debt	-	65
Dividends payable	203	312
Other accounts payable	11	-

Transactions with RAO UES were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Other sales	28	1
Interest expenses	30	100
Other expenses	28	38

In December 2001 the Group received a loan from the Center for Assistance in Restructuring the Electricity Sector (CARES) (non-commercial partnership) in the amount of RR 1,329 million for settlement of debts to the gas suppliers (in the amount of RR 1,126 million), and for settlement of payables to the tax authorities (in the amount of RR 203 million). Subsequently, CARES assigned its rights in the loan to RAO UES.

RAO UES's loan was payable in monthly installments between 2002 and 2006. The loan was used in full for settlement of a liability to LLC "Permregiongas", a subsidiary of JSC Gazprom, and settlement of tax liabilities (see Note 14).

The fair value of that loan at the time of assignment to RAO UES was estimated using discount rate of 23.1-23.2%. For the year ended 31 December 2005 RR 22 million of the discount was amortised.

Transactions with RAO UES's subsidiaries

Transactions with subsidiaries of RAO UES were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity and heating revenues	22,278	18,839
Rent	225	137
Purchased power expenses	693	685
Repairs and maintenance	232	222
Other expenses	181	38

Balances with subsidiaries of RAO UES were as follows:

	31 December 2006	31 December 2005
Accounts receivable	360	776
Accounts payable	102	233

(in millions of Russian Roubles)

CJSC Financial Settling Center (CJSC CFR)

Starting from July 2006 one of the members of the board is combining management positions in JSC OGK-1 and CJSC CFR is therefore considered a related party.

Balances with CJSC CFR were as follows:

	31 December 2006
Accounts receivable	362
Accounts payable	375

Transactions with CJSC CFR were as follows:

	Period since 01 July 2006 to 31 December 2006
Electricity and heating revenues	4,079
Purchased power expenses	2,918

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

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

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

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity and heating revenues	266	68
Fuel expenses	10,472	8,906
Other revenues	36	20

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

	31 December 2006	31 December 2005
Accounts receivable and prepayments, gross	194	140
Provision for impairment of accounts receivable	(69)	(75)
Accounts payable and accruals	42	10
Current debt	-	202
Other non current assets	9	9

Tax balances are disclosed in the balance sheet and Notes 12 and 16. Tax transactions are disclosed in the Group's statement of operations and Notes 12 and 18.

Directors' compensation

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

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

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the year ended 31 December 2006 was RR 84 million (for the year ended 31 December 2005 – RR 49 million). The Group has no other compensation programs.

(in millions of Russian Roubles)

Note 6: Property, plant and equipment

Cost	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2005	29,440	2,182	733	3,731	6,889	42,975
Additions	602	6	-	1,791	284	2,683
Transfers	382	75	13	(689)	219	-
Disposals	(71)	(1)	(1)	(667)	(50)	(790)
Closing balance as at 31 December 2006	30,353	2,262	745	4,166	7,342	44,868
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2005	(16,929)	(1,519)	(559)	(940)	(5,179)	(25,126)
Charge for the period	(506)	(35)	(16)	-	(474)	(1,031)
Reversal of impairment loss	6,311	578	87	646	857	8,479
Impairment loss	(536)	(27)	(25)	(1,118)	(84)	(1,790)
Transfers	(102)	(23)	-	171	(46)	-
Disposals	54	1	-	123	47	225
Closing balance as at 31 December 2006	(11,708)	(1,025)	(513)	(1,118)	(4,879)	(19,243)
Net book value as at 31 December 2006	18,645	1,237	232	3,048	2,463	25,625

Cost	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2004	29,024	2,067	738	3,929	6,558	42,316
Additions	23	-	-	841	61	925
Transfers	404	117	4	(812)	287	-
Disposals	(11)	(2)	(9)	(227)	(17)	(266)
Closing balance as at 31 December 2005	29,440	2,182	733	3,731	6,889	42,975
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2004	(15,939)	(1,403)	(535)	(1,363)	(4,578)	(23,818)
Charge for the period	(890)	(46)	(29)	-	(440)	(1,405)
Transfers	(104)	(71)	(3)	354	(176)	-
Disposals	4	1	8	69	15	97
Closing balance as at 31 December 2005	(16,929)	(1,519)	(559)	(940)	(5,179)	(25,126)
Net book value as at 31 December 2004	13,085	664	203	2,566	1,980	18,498
Net book value as at 31 December 2005	12,511	663	174	2,791	1,710	17,849

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

Depreciation is charged once an asset is available for service.

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

Impairment provision for property, plant and equipment

The impairment provision included in accumulated depreciation balance as at 31 December 2005 was RR 9,736 million (as at 31 December 2006 – RR 2,376 million).

Management has concluded that at the reporting date there were indications for reversing previously recognised impairment losses based on significant changes with a favorable effect on the Group that have occurred or are expected to occur in the near future in the market and economic environment in which the Group operates. Such changes include:

1. upward revisions, based on recent trends, in the expected growth of demand for electricity and heat in the regions in which the Group operates;

(in millions of Russian Roubles)

2. higher degree of certainty about the free trading sector for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1);

These developments have resulted in a change to the assumptions that were used to determine the value in use of assets that comprise the cash generating units. An impairment review has been carried out by comparing the recoverable amount of the individual cash generating units with their net book values. For the purposes of the review, each of the Group's power plants was used as the relevant cash generating unit. The recoverable amount was generally based on value in use, which was calculated based on estimated future cash flows using various assumptions including the following:

1. Electricity tariffs in the regulated sector will be increased by 19%, 20%, 22.3% for the years ended 31 December 2008, 2009 and 2010, respectively;
2. Heat tariffs will be increased by 17%, 18.2% and 18.4% for the years ended 31 December 2008, 2009 and 2010, respectively;
3. Gas price will be increased by 25%, 27.7% and 27.7% for the years ended 31 December 2008, 2009 and 2010, respectively;
4. Growth of gas prices and other operating costs will be accounted for by the Regional Tariff Service in the course of establishing regulated electricity and heat tariffs on a "cost-plus" basis;
5. Inflation rate will not exceed 7.7% year;
6. Increase of major variable cost (except for fuel) will not exceed the inflation rate;
7. The pre-tax discount rate used to determine assets value in use is equal to 11%.

Gas price, heat tariffs and electricity tariffs (in the regulated sector) approved by respective regulators for the year ended 31 December 2007 indicates increases of 15%, 15% and 16.5%, respectively in comparison with the year ended 31 December 2006.

Management's assessment indicates that value in use of property, plant and equipment will not be lower than its net book value including effect of reversal of impairment provision for all generating units, except for Urengoyskaya GRES. Consequently, the Group has recorded a reversal of the previously recognised impairment loss in the amount of RR 8,479 million. A respective gain together with a corresponding deferred tax expense of RR 1,888 million were recognised in the statement of operations for the year ended 31 December 2006.

In respect of Urengoyskaya GRES, management believes this power plant will be unable to generate positive cash flow from the operations of its assets for the foreseeable future due to low installed capacity, a large portion of fixed costs, and limitations of the distribution market. As a consequence, the Group recognised an impairment loss of RR 1,790 million in respect of the property, plant and equipment of Urengoyskaya GRES with a corresponding deferred tax benefit of RR 430 million in the statement of operations for the year ended 31 December 2006.

Operating lease

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

Operating lease rentals of land are payable as follows:

	31 December 2006	31 December 2005
Less than one year	81	76
Between one year and five years	366	305
After five years	3,499	3,294
Total	**3,946**	**3,675**

The above lease agreements are usually concluded for 1-49 years with prolongation right. The lease payments are subject to regular review that may result in adjustment to reflect the market conditions.

In 2005 the Group has signed an agreement with RAO UES for the rent of property effective up to 31 August 2008. Annual rent payments comprise the amount of RR 9 million (including VAT).

(in millions of Russian Roubles)

Note 7: Other non-current assets

	31 December 2006	31 December 2005
Software licenses	86	68
Government bonds (effective interest rate: 8.0%, due 2008-2010)	76	-
Non-current trade receivables (effective interest rate: 10.5%, due 2015-2026)	38	41
Non-current VAT (due 2008-2010)	16	41
Other	9	9
Total	**225**	**159**

Note 8: Cash and cash equivalents

	31 December 2006	31 December 2005
Cash at bank and in hand	549	490
Cash equivalents (contractual interest rate: 7%)	-	785
Total	**549**	**1,275**

Cash equivalents held as at 31 December 2005 comprised short-term RR bank deposits of less than 3 months duration.

Note 9: Accounts receivable and prepayments

	31 December 2006	31 December 2005
Trade receivables (Net of provision for impairment of RR 39 million as at 31 December 2006 and RR 41 million as at 31 December 2005)	936	676
Advances to suppliers and prepayments (Net of provision for impairment debtors of RR 11 million as at 31 December 2006 and RR 11 million as at 31 December 2005)	511	608
Other receivables (net provision for impairment of RR 71 million as at 31 December 2006 and RR 170 million as at 31 December 2005)	414	481
Value added tax recoverable	67	361
Total	**1,928**	**2,126**

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

Certain trade 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 10: Inventory

	31 December 2006	31 December 2005
Fuel production stock	1,578	782
Materials and supplies	953	747
Other inventories	16	16
Total	**2,547**	**1,545**

The above inventory balances are recorded net of an obsolescence provision of RR 8 million and RR 76 million as at 31 December 2006 and 31 December 2005, respectively.

(in millions of Russian Roubles)

Note 11: Equity

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 of accounting (see Note 3), the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2005 as if the current Group structure had existed from 1 January 2005 (see Note 3). As the Group was formed as a result of a series of share issues completed after 1 January 2005, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued 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 additions to equity is offset by a corresponding increase in the merger reserve and reduction in minority interest.

Share capital

(Number of shares unless otherwise stated)	**Ordinary shares 31 December 2006**	**Ordinary shares 31 December 2005**
Issued shares	44,643,192,198	16,783,508,450
Par value (in RR)	1.00	1.00

As at 23 March 2005, the date that the Company was established, the number of issued ordinary shares amounted to 17,252,039,909 with a par value of RR 1.00 each.

In the year 2005 contributions to the Company's share capital were effected as follows:

- cash contributions amounted to RR 49 million;
- RR 13,523 million received by way of contribution of RAO UES' investment in JSC Permskaya GRES. The value of the investment was assessed by an independent appraiser;
- RR 3,212 million received by way of contribution of the assets of the Verkhnetagilskaya GRES, whose value was determined by an independent appraiser.

On 29 September 2006, 27,859,683,748 additional ordinary shares of JSC OGK-1 with a value of RR 1.00 each were issued and exchanged for the ordinary shares of JSC Permskaya GRES, JSC Iriklinskaya GRES, JSC Nizhnevartovskaya GRES, JSC Kashirskaya GRES, JSC Verkhnetagilskaya GRES and JSC Urengoyskaya GRES (See Note 1) as follows:

- ordinary shares with a value of RR 9,533 million were exchanged for the ordinary shares of the JSC Nizhnevartovskaya GRES;
- ordinary shares with a value of RR 663 million were exchanged for the ordinary shares of the JSC Urengoyskaya GRES;
- ordinary shares with a value of RR 10,090 million were exchanged for the ordinary shares of the JSC Iriklinskaya GRES;
- ordinary shares with a value of RR 7,573 million were exchanged for the ordinary shares of the JSC Kashirskaya GRES.

As at 31 December 2006, the number of issued ordinary shares amounted to 44,643,192,918 with a par value of RR 1.00 each.

Merger reserve

Based on the application of predecessor accounting (see Note 3), the difference of RR 25,852 million between the value of share capital issued, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity.

Distribution to RAO UES

As described in Note 3, the rental income related expenses for the first quarter of 2005 were carved out from RAO UES statements and included in the Group's financial statements. The net results of operations in the amount of RR 27 million for the first quarter of 2005 were recorded as a distribution to RAO UES in the equity statement during the year ended 31 December 2005.

Contribution from RAO UES

In 2006 before the merger, JSC Nizhnevartovskaya GRES issued 27,277,796 additional ordinary shares with a par value of RR 14.7 each fully paid by RAO UES. The IFRS value of the contributed assets in the amount of RR 752 million has been recorded to the merger reserve within equity at the date of the additional contribution.

Cancellation of shares

In 2005, RAO UES did not pay for all shares of JSC OGK-1 during the period required by the foundation documents. Therefore 468,531,459 shares of JSC OGK-1 were returned to the entity and on 21 November 2005 the Board of Directors of RAO UES approved the reduction of share capital of JSC OGK-1 by 468,531,459 shares. As the result, as at 31 December 2005 the number of issued ordinary shares amounted to 16,783,508,450 with a par value of RR 1.00 each.

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 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 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**	
	Declared dividends, in millions of RR	Dividends per share, RR	Declared dividends, in millions of RR	Dividends per share, RR
JSC OGK-1 in respect of the nine months ended 30 September 2005	-	-	24	0,001406
JSC OGK-1 in respect of the three months ended 31 March 2006	42	0,0025043	-	-
JSC OGK-1 in respect of the six months ended 30 June 2006	60	0,003571	-	-
JSC Urengoyskaya GRES in respect of the year ended 31 December 2005	14	0,051984	-	-
JSC Urengoyskaya GRES in respect of the three months ended 31 March 2006	10	0,036531	-	-
JSC Nizhnevartovskaya GRES in respect of the nine months ended 31 September 2005	-	-	140	0,511714
JSC Nizhnevartovskaya GRES in respect of the year ended 31 December 2005	9	0,032965	-	-
JSC Nizhnevartovskaya GRES in respect of the three months ended 31 March 2006	220	0,803214	-	-
JSC Nizhnevartovskaya GRES in respect of the six months ended 30 June 2006	42	0,154961	-	-
JSC Iriklinskaya GRES in respect of the nine month ended 31 December 2005	-	-	44	0,271833
JSC Iriklinskaya GRES in respect of the year ended 31 December 2005	66	0,414867	-	-
JSC Iriklinskaya GRES in respect of the three months ended 31 March 2006	104	0,648188	-	-
JSC Iriklinskaya GRES in respect of the six months ended 30 June 2006	58	0,360124	-	-
JSC Kashirskaya GRES in respect of the year ended 31 December 2006	-	-	117	0,004143
Total	**625**	x	**325**	x

(in millions of Russian Roubles)

Note 12: Profit tax

Profit tax charge

	Year ended 31 December 2006	Year ended 31 December 2005
Current profit tax charge	(877)	(563)
Deferred profit tax (charge)/ benefit	(1,660)	217
Total profit tax charge	**(2,537)**	**(346)**

During the year ended 31 December 2006 the Group entities were subject to 20-24% income tax rate on taxable profits. 20% income tax rate was applied by Permskaya GRES due to local state tax remissions of 4%.

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

A reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before profit tax	**8,367**	**466**
Theoretical profit tax charge at an average statutory tax rate of 20-24 percent	(1,830)	(111)
Tax effect of items which are not deductible or assessable for taxation purposes	(707)	(235)
Total profit tax charge	**(2,537)**	**(346)**

The not deductible expenses occurred as the result of differences between IFRS and Russian statutory taxation regulation.

Deferred profit tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at 20-24 percent, the rate expected to be applicable when the assets or liabilities will reverse.

Deferred profit tax liabilities

	31 December 2006	Movements for the year recognised in the statement of operations	31 December 2005
Deferred profit tax liabilities	**3,704**	**1,589**	**2,115**
Property, plant and equipment	3,704	1,589	2,115
Deferred profit tax assets	**(219)**	**71**	**(290)**
Trade receivables	(176)	57	(233)
Other	(43)	14	(57)
Deferred profit tax liabilities, net	***3,485***	***1,660***	***1,825***

Property, plant and equipment movement includes a deferred tax expense of RR 1,888 million in relation to the reversal of a previously recognised impairment loss and a deferred tax benefit of RR 430 million in relation to additional impairment for property, plan and equipment (see Note 6).

	31 December 2005	Movements for the year recognised in the statement of operations	31 December 2004
Deferred profit tax liabilities	**2,115**	**(116)**	**2,231**
Property, plant and equipment	2,115	(116)	2,231
Deferred profit tax assets	**(290)**	**(101)**	**(189)**
Trade receivables	(233)	(44)	(189)
Other	(57)	(57)	-
Deferred profit tax liabilities, net	***1,825***	***(217)***	***2,042***

(in millions of Russian Roubles)

Note 13: Pension benefits

The tables below provide information about the benefit obligations, plan assets and actuarial assumptions used for the year ended 31 December 2006 and 2005. Amounts recognised in the Group's Consolidated Balance Sheet:

	31 December 2006	31 December 2005
Present value of defined benefit obligations	247	228
Present value of unfunded obligations	247	228
Unrecognised actuarial gains/(losses)	(3)	(5)
Unrecognised past service cost	(2)	-
Pension obligations	**242**	**223**

Amounts recognised in the Consolidated Statement of Operations:

	31 December 2006	31 December 2005
Current service cost	6	8
Interest cost	16	15
Past service cost	2	-
Net expense recognised in income statement	**24**	**23**

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

	31 December 2006	31 December 2005
Projected Benefit Obligation (PBO) at beginning of the year	228	212
Service cost	6	8
Interest cost	16	15
Actuarial (gain)/loss	(2)	5
Past service cost	2	-
Benefits paid	(3)	(12)
Curtailment / settlement (gain) / loss	-	-
Present value of pension benefit obligations at end of the year	**247**	**228**

Principal actuarial assumptions are as follows:

	31 December 2006	31 December 2005
Nominal discount rate	6.8%	6.8%
Nominal pension entitlement increase (prior to benefit commencements)	7.1%	7.1%
Nominal increase in pensions-in-pay (after benefit commencement)	7.1%	7.1%
Rate used for annuity contracts calculation	6.0%	6.0%
Real discount rate	1.7%	1.7%
Real pension entitlement increase (prior to benefit commencements)	2.0%	2.0%
Real increase in pensions-in-pay (after benefit commencement)	2.0%	2.0%

(in millions of Russian Roubles)

Note 14: Current debt and current portion of non-current debt

	Currency	Effective interest rate	31 December 2006	31 December 2005
CJSC IMB	RR	7.3%-8.3%	808	-
CJSC Commerzbank	RR	7.7%-7.9%	572	-
OJSC Sberbank RF	RR	9.5%	-	202
JSC Promyshlenno-stroitelny bank	RR	10.5%	-	200
JSC Alpha-bank	RR	10%-11.3%	-	160
JSC CB Agroimpuls	RR	10.5%	-	55
JSC MDM-bank	RR	10.5%	-	41
Other	RR		-	60
Current portion of non-current debt				72
Total			**1,380**	**790**

Non-current debt

	Currency	Effective interest rate	31 December 2006	31 December 2005
RAO UES	RR	23%	-	10
RAO UES	RR	23%	-	55
Other	RR		-	7
Total non-current debt			**-**	**72**
Less current portion of non-current debt			-	(72)
Total non-current debt			**-**	**-**

Note 15: Accounts payable and accrued charges

	31 December 2006	31 December 2005
Trade payables	774	876
Dividends payable	204	312
Accrued liabilities and other creditors	147	212
Total	**1,125**	**1,400**

Note 16: Taxes payable

	31 December 2006	31 December 2005
Water tax	343	276
Value added tax	241	426
Profit tax	150	106
Property tax	132	154
Fines and interest	28	28
Unified social tax	14	21
Other taxes	18	23
Total	**926**	**1,034**

As at 31 December 2006 included in the payable for value added tax is RR 232 million 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 343 million).

Note 17: Revenues

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity	28,811	19,453
Heating	446	391
Rent	269	268
Other	536	423
Total	**30,062**	**20,535**

(in millions of Russian Roubles)

Note 18: Operating expenses

	Year ended 31 December 2006	Year ended 31 December 2005
Raw materials and consumables used, including	16,581	11,378
Fuel expenses	*16,434*	*11,275*
Other materials	*147*	*103*
Third parties services, including:	2,673	2,337
Repairs and maintenance	*1,678*	*1,816*
Commission fees	*520*	*65*
Rent expenses	*173*	*143*
Security expenses	*126*	*131*
Consulting, legal and information expenses	*62*	*99*
Telecommunication services	*31*	*28*
Transportation expenses	83	55
Purchased power expenses	2,546	54
Employee benefit expenses and payroll taxes	2,298	1,824
Taxes other than profit tax	1,805	1,502
Depreciation of property, plant and equipment	1,031	1,405
Loss on disposals of property, plant and equipment	335	130
Social charges	110	117
Reversal of write-down of inventories to net realisable value	(68)	1
Write-down of accounts receivable	70	80
(Reversal)/ charge of impairment of accounts receivable	(98)	124
Utilities expenses	2	32
Other expenses	1,024	993
Total	**28,309**	**19,977**

Note 19: Finance costs

	Year ended 31 December 2006	Year ended 31 December 2005
Interest expense	92	106
Interest income	(34)	(41)
Effect of discounting of long-term accounts receivable/payable	17	27
Total	**75**	**92**

Note 20: Earnings per ordinary share for profit attributable to the shareholders of JSC OGK-1 basic and diluted (in RR)

	Year ended 31 December 2006	Year ended 31 December 2005
Weighted average number of ordinary shares issued (million of shares)	23,958	16,773
Profit attributable to the shareholders of JSC OGK-1 (million of RR)	5,789	48
Weighted average earnings per share – basic and diluted (in RR)	**0.242**	**0.003**

Note 21: Commitments

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

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

Fuel commitments. Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements are purchased through short-term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 5,890 million at 31 December 2006 (at 31 December 2005 – RR 316 million).

Note 22: Contingencies

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

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

Legal proceedings. 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, which, upon final disposition, will have a material adverse effect on the position of the Group.

The Company entered into a joint and several liability agreement for the indebtness of predecessor legal entities from which the power plants Iriklinskaya GRES, Nizhnevartovskaya GRES, Kashirskaya GRES, and Urengoyskaya GRES spun off. Such agreements were concluded with JSC Mosenergo, JSC Tyumenenergo, JSC Orenburgenergo 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.

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

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

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

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

Environmental matters. 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 23: Financial instruments and financial risk 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 collectibility of receivables. The Group does not have a risk policy in order to hedge its financial exposures.

Credit risk. Financial assets which potentially subject Group entities 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 allowance for doubtful debtors already recorded.

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

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long term borrowings. The Group's significant interest bearing non-current assets are disclosed in Notes 7. The majority of these assets bear fixed interest and are thus exposed to fair value interest rate risk.

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

Note 24: Events subsequent to the balance sheet date

Investment project with JSC TNK-BP based on Nizhnevartovskaya GRES

At the meeting of February 9, 2007 RAO UES-Russia Board of Directors approved the implementation of an investment project to increase the capacity of Nizhnevartovskaya GRES owned by JSC OGK-1, using CCGT-800 technology.

In 2007, it is planned to establish an entity with JSC TNK-BP, in order to construct a third unit at the power plant. The Group will contribute the Nizhnevartovskaya GRES property in return for approximately 70% of the issued shares of the new entity. JSC TNK-BP will contribute cash to finance its share of that entity.

Capital expenditures on the construction of the power unit are estimated to be RR 17.7 billion. The Group plans that about RR 12.4 billion of investments or 70% of the project cost will be covered by loans. The final scheme of financing the construction a third unit of Nizhnevartovskaya GRES will be defined later.

The construction of the 800-MW power unit is planned for January 2008, start-up and commissioning – for December 2010.

Decrease in the Company's share capital

An Extraordinary Shareholder Meeting of JSC OGK-1 on April 4, 2007 decided to decrease the Company's share capital to RR 25,660 million by decreasing the nominal value of the placed shares.

On 22 May 2007 OJSC Central Moscow Depository has registered a conversion of the Company's ordinary shares a par value RR 1.00 to ones of the same category (type) a par value RR 0.57478