

**WGC-3 GROUP
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DESEMBER 2006**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of the Open Joint Stock Company "Third Generation Company of the Wholesale Electricity Market" (JSC "WGC-3"):

We have audited the accompanying consolidated financial statements of JSC "WGC-3" and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit
Moscow, Russian Federation
30 July 2007

WGC-3 Group
Consolidated Balance Sheet as at 31 December 2006
(in thousands of Russian Roubles)

	Notes	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	6	18 392 001	12 272 288
Deferred tax assets	11	-	596 032
Other non-current assets	7	595 661	399 530
Total non-current assets		18 987 662	13 267 850
Current assets			
Inventories	8	2 292 782	1 598 953
Accounts receivable and prepayments	9	1 172 568	1 373 123
Current income tax prepayments		286 146	24 162
Cash		354 892	117 625
Total current assets		4 106 388	3 113 863
TOTAL ASSETS		23 094 050	16 381 713
EQUITY AND LIABILITIES			
Equity			
Share capital	10	29 487 999	27 608 088
Share premium		450 818	450 818
Other reserves		(8 357 873)	(8 357 873)
Fair value reserve		25 642	-
Retained earnings		(6 350 801)	(9 485 548)
Equity attributable to shareholders of OJSC WGC-3		15 255 785	10 215 485
Minority interest		-	618 475
Total equity		15 255 785	10 833 960
Non-current liabilities			
Deferred tax liabilities	11	1 545 753	777 496
Non-current debt		-	50 000
Restructured tax and penalty liability	21	-	101 480
Pension liabilities	12	240 545	98 947
Other non-current liabilities		33 342	7 300
Total non-current liabilities		1 819 640	1 035 223
Current liabilities			
Current debt and current portion of non-current debt	13	3 704 008	1 695 921
Accounts payable and accruals	14	1 702 122	1 610 370
Provision for liabilities and charges	15	233 343	313 442
Taxes payable	16	379 152	892 797
Total current liabilities		6 018 625	4 512 530
Total liabilities		7 838 265	5 547 753
TOTAL EQUITY AND LIABILITIES		23 094 050	16 381 713

General Director

Ivan Blagodyr'

Chief Accountant

Margarita Komarova



30 July 2007

WGC-3 Group

Consolidated Income Statement for the year ended 31 December 2006

(in thousands of Russian Roubles, except for earning/(loss) per ordinary share information)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Revenues			
Electricity		22 344 941	16 074 918
Heat		509 110	499 332
Other		216 137	205 079
Total revenue		23 070 188	16 779 329
Operating expenses	18	(23 455 828)	(17 513 692)
Impairment loss reversed during the year	6	6 400 021	-
Impairment loss recognized during the year	6	(49 693)	-
Other operating income	17	221 818	397 598
Operating profit/(loss)		6 186 506	(336 765)
Finance costs	19	(170 728)	(228 278)
Profit/(loss) before income tax		6 015 778	(565 043)
Income tax	11	(1 615 065)	(332 702)
Profit/(loss) for the year		4 400 713	(897 745)
Attributable to:			
Shareholders of OJSC WGC-3		4 400 713	(672 080)
Minority shareholders		-	(225 665)
Earning/(loss) per ordinary share for profit/(loss) attributable to the shareholders of OJSC WGC-3 – basic and diluted (in Russian Roubles)	20	0.152	(0.037)

General Director

Ivan Blagodyr

Chief Accountant

Margarita Komarova

30 July 2007



WGC-3 Group
Consolidated Cash Flow Statement for the Year ended 31 December 2006
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		6 015 778	(565 043)
Adjustments for non-cash items:			
Depreciation	6	1 093 393	1 184 747
Provision for impairment of accounts receivable		147 240	405 440
Finance cost, net	19	170 728	228 278
Forgiveness of tax penalties		(134 137)	(181 193)
Impairment loss reversed during the year	6	(6 400 021)	-
Impairment loss recognized during the year	6	49 693	-
Other non-cash items		79 479	358 268
Operating cash flows before working capital changes and income tax paid		1 022 153	1 430 497
Working capital changes:			
Increase in accounts receivable and prepayments		39 465	(107 619)
Increase in inventories		(771 072)	(319 932)
Increase in other assets		(170 726)	(200 546)
Increase in accounts payable and accruals		307 013	304 694
(Decrease)/Increase in taxes payable, other than income tax		(276 692)	328 722
Increase/(decrease) in other non-current liabilities		200 297	(112 424)
Income tax paid in cash		(519 509)	(542 325)
Net cash generated from operating activities		(169 071)	781 067
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(1 264 970)	(740 295)
Proceeds from sale of property, plant and equipment and other non-current assets		18 391	21 253
Interest received		13 850	5 544
Net cash used in investing activities		(1 232 729)	(713 498)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		9 678 548	2 915 420
Repayment of debt		(7 654 557)	(2 568 425)
Interest paid		(130 798)	(176 941)
Dividend paid to shareholders of OJSC WGC-3		(240 282)	(104 990)
Dividend paid to minority interest shareholders		(13 845)	(181 515)
Settlement of previously unpaid share capital		-	15 000
Net cash generated from financing activities		1 639 066	(101 451)
Net increase in cash		237 267	(33 882)
Cash at the beginning of the year		117 625	151 507
Cash at the end of the year		354 892	117 625

General Director

Ivan Blagodyr'

Chief Accountant

Margarita Komarova



30 July 2007

WGC-3 Group
Consolidated Statement of Changes in Equity for the Year ended 31 December 2006
(in thousands of Russian Roubles)

Attributable to the shareholders of OJSC WGC-3

	Share capital	Unpaid share capital	Share Premium	Other reserves	Retained earnings	Fair value reserve	Minority interest	Total equity
At 1 January 2005	17 614 702	(15 000)	40 443	(8 357 873)	(429 987)	-	3 272 632	12 124 917
Profit/(loss) for the year	-	-	-	-	(672 079)	-	(225 665)	(897 744)
Payment of share capital (Note 10)	-	15 000	-	-	-	-	-	15 000
Transactions with minorities (Note 10)	9 993 386	-	410 375	-	(8 146 271)	-	(2 257 490)	-
Dividends	-	-	-	-	(237 211)	-	(171 002)	(408 213)
At 31 December 2005	27 608 088	-	450 818	(8 357 873)	(9 485 548)	-	618 475	10 833 960
Profit for the year	-	-	-	-	4 400 713	-	-	4 400 713
Transactions with minorities (Note 10)	1 879 911	-	-	-	(1 261 436)	-	(618 475)	-
Available-for-sale investments:								
Change in fair value of available-for-sale investments	-	-	-	-	-	33 739	-	33 739
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	-	(8 097)	-	(8 097)
Dividends	-	-	-	-	(4 530)	-	-	(4 530)
At 31 December 2006	29 487 999	-	450 818	(8 357 873)	(6 350 801)	25 642	-	15 255 785



General Director: Ivan Blagodyr
Chief Accountant: Margarita Komarova
30 July 2007

WGC-3 Group**Notes to Consolidated Financial Statements for the Year ended 31 December 2006**

(in thousands of Russian Roubles)

Note 1. The Group and its operations

Open Joint-Stock Company WGC-3 (OJSC "WGC-3", or the "Company") was established on 23 November 2004 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 WGC-3 Group (the "Group") operates 6 power plants and its principal activity is electricity and heat generation. The Group consists of OJSC WGC-3 and its subsidiaries. The Group's principal subsidiaries as at 31 March 2005 were six State-District Power Plants (the "SDPP"):

	Ownership till 31.03.2006, %		
	Total	Transferred from RAO UES	Acquired from minority shareholders
OJSC Kostromskaya SDPP (Kostromskaya SDPP)	92.63	51.00	41.63
OJSC Cherepetskaya SDPP (Cherepetskaya SDPP)	98.53	55.79	42.74
OJSC Pechorskaya SDPP (Pechorskaya SDPP)	97.58	51.00	46.58
OJSC Kharanorskaya SDPP (Kharanorskaya SDPP)	99.99	99.99	-
OJSC Yuzhnouralskaya SDPP (Yuzhnouralskaya SDPP)	73.74	49.00	24.74
OJSC Gusinooserskaya SDPP (Gusinooserskaya SDPP)	99.99	99.99	-

In November 2005 the shareholders of OJSC WGC-3, Kostromskaya SDPP, Cherepetskaya SDPP, Pechorskaya SDPP, Kharanorskaya SDPP, Yuzhnouralskaya SDPP and Gusinooserskaya SDPP approved the merger of these companies through conversion the shares of the Company's subsidiaries into the ordinary shares of OJSC WGC-3. On 1 April, 2006 the above merger was completed resulting in affiliation of the Company's six subsidiaries.

Starting from 1 April, 2006 the Company has six power generating stations, incorporated as production branches. There are no other significant subsidiaries in the corporate structure of the Company.

Starting from 1 April, 2006 any further reference to the terms "Group" and "Subsidiary" relates to the Company and its branches.

The Company is registered by the District Inspectorate of the RF Ministry of Taxation of Republic of Buryatiya. The Company's office is located at bld. 165, Mozhaiskoe shosse, 121596, Moscow, Russia.

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

Relations with the state and current regulation. As at 31 December 2006 the Russian Federation owned 52.70% of RAO UES of Russia (the "Parent"), which in its turn owned 59.72 % of OJSC WGC-3. The Russian government was the ultimate controlling party of the Group until March 2007(see Note 25).

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

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales. Tariffs which the Group entities 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.

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

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 the Parent can raise the capital required to maintain and expand current capacity.

- The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities" and Federal Law No. 36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".
- In June 2003 the government issued Resolution No. 1254-r "On formation of generation companies of the wholesale electricity market" which approved composition of wholesale generating companies of the wholesale electricity market, including a list of the six power plants to be contributed into the Group.
- In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity Market (FOREM): regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers will be able to sell electricity generated with the use of facilities and equipment accounting for 15.00% of the working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity market during the transition period, has been holding electricity bidding in the free trading sector. The Group participates in this free trading scheme. According to the laws underlying the electric utilities reform, subsequently free trading would be extended over the whole volume of trading.
- As at 1 September 2006 a new liberalized model of the wholesale and retail electricity (power) markets has been launched according to the Russian Government's Resolution No. 529 "On Improvement of the Procedure for Functioning of Wholesale Electricity (Power) Market" and No. 530 "On Rules for the Functioning of Retail Electricity Markets". 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 95.00% 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.
- As at 29 May 2003, the Board of Directors of RAO UES of Russia approved a "Concept of RAO UES of Russia strategy for the period from 2003 through 2008". In February 2006 the Board of Directors approved an Appendix to the Concept of RAO UES Strategy: "Generating companies of the Wholesale Electricity Market (WGCs)". This document provides a detailed description of the major changes that are planned to take place in respect of wholesale generation companies during

WGC-3 Group

Notes to Consolidated Financial Statements for the Year ended 31 December 2006

(in thousands of Russian Roubles)

the electric utilities reform program. In accordance with this Concept, RAO UES of Russia is developing the first stage of its own reorganization which assumes a spin-off of 2-3 generating companies (including OJSC WGC-3) with proportional distribution of shares of the separated companies between the shareholders of RAO UES of Russia. It also assumes a disposal of 40.29% of OJSC WGC-3 to take its holding from 59.70% to 19.41%.

Note 2. Financial condition

At 31 December 2006, the Group's current liabilities exceeded its current assets by RR 1 912 237 thousand (at 31 December 2005: current liabilities exceeded its current assets RR 1 398 667 thousands). As discussed above the Group is affected by government policy through the control of tariffs and other factors. The FST does not always permit tariff increases in excess of increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognized under an IFRS basis of accounting.

However, the growing demand for electricity and capacity together with increasing free trading sector of the wholesale electricity market result in a higher rate of revenue growth during 2006 to date. Management considered recent favorable changes in operation of the Russian electricity market. According to new liberalized model of the wholesale and retail electricity (power) markets (see also Note1) the share of free market activity in all operations of the Group increased in 2007 and it will increase in near future. These assumptions were used in determining the need for impairment of property, plant and equipment reversal (see Note 6).

Management in recent years has improved the absolute level of settlements for current sales. Currently substantially all settlements of accounts receivable are made in cash.

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

- introduction of improved financial budgeting procedures;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;
- raising financing for investments in new generating assets.

Note 3. Basis of preparation

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

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

Predecessor Accounting. In January 2005 the Parent transferred to the Company 99.90%, 99.90%, 51.00%, 51.00% and 55.80% of the outstanding ordinary shares of Kharanorskaya SDPP, Gusinozerskaya SDPP, Pechorskaya SDPP, Kostromskaya SDPP and Cherepetskaya SDPP respectively. In December 2005 the Parent additionally transferred to the Company 49.00% of the outstanding ordinary shares of Yuzhnouralskaya SDPP. In the 2005 combined and consolidated financial statements, OJSC OGK-3 accounted for this business combination amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the transferred entities were accounted for at the carrying value, as determined by the Parent in its IFRS consolidated financial statements. Information in respect of 2004 was restated as if the business combination took place at the beginning of 2004.

Therefore Kharanorskaya SDPP, Gusinozerskaya SDPP, Pechorskaya SDPP, Kostromskaya SDPP, Cherepetskaya SDPP and Yuzhnouralskaya SDPP were consolidated into the Group combined and consolidated financial statements starting 1 January 2004.

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

Inflation accounting. Prior to 1 January 2003 non-monetary assets acquired and non-monetary liabilities incurred or assumed have been adjusted for the changes in the general purchasing power of the RR in accordance with International Accounting Standards 29 ("IAS") ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these Financial Statements.

New accounting developments. During the period December 2003 to June 2007, the International Accounting Standards Board ("IASB") made 26 revisions to its standards and issued 8 new standards. In addition, the International Financial Reporting Interpretations Committee ("IFRIC") issued 12 new interpretations, one of which was subsequently withdrawn. Certain new IFRSs are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" ("IFRS 6"), IFRS 7 "Financial instruments: disclosures" ("IFRS 7") and IFRS 8 "Operating segments" ("IFRS 8"), which are effective for periods commencing on or after 1 January 2006 and 1 January 2007 respectively, but may be adopted early.

With effect from 1 January 2006, the Group adopted all of those IFRS, which are relevant to its operations and are in force as at 31 December 2006.

Certain new IFRSs became effective from 1 January 2006:

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.
- IFRS 6 "Exploration for and evaluation of mineral resources", which is effective for annual periods beginning on or after 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.
- Amendment to IAS 19 "Employee Benefits", which is effective for annual periods beginning on or after 1 January 2006. The amendment to IAS 19 introduces an additional option to recognize actuarial gains and losses arising in post-employment 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 employees.
- Amendment to IAS 21 "Net Investment in a Foreign Operation", which is effective for annual periods beginning on or after 1 January 2006. This amendment requires foreign exchange gains and losses on 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. Currently, such exchange differences are required to be recognized in consolidated profit or loss. It also extends the definition of net investment in a foreign operation to include loans between sister companies.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee contract", which is effective for annual periods beginning on or after 1 January 2006. Issued financial guarantees, other than those previously asserted by the entity to be insurance

contracts, will have to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognizing of financial assets or result in continuing involvement accounting.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – The Fair Value Option", which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".
- IFRIC 4 "Determining whether an Arrangement Contains a Lease", which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds", which is effective for annual periods beginning on or after 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.
- IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment", which is effective for periods beginning on or after 1 December 2005, 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 recognized because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these Financial Statements:

- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure about the Group's financial instruments.
- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2007. Management is currently assessing the impact of IFRS 8 on the disclosures of segment information. The Group will apply IFRS 8 from annual periods beginning 1 January 2007.
- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's capital.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions", is effective for annual periods beginning on or after 1 January 2006. The amendment allows hedge accounting for the foreign currency risk of a highly probable forecast intragroup transaction which is denominated in a currency other than the functional currency of the entities entering into that transaction if the foreign currency risk will affect consolidated profit or loss.
- 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.
- IFRIC 7 "Applying the Restatement Approach under IAS 29", which is effective for periods beginning on or after 1 March 2006, that is from 1 January 2007. The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that

IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

- IFRIC 8, Scope of IFRS 2, which is effective for periods beginning on or after 1 May 2006, that is from 1 January 2007. The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- IFRIC 9 "Reassessment of Embedded Derivatives", which is effective for annual periods beginning on or after 1 June 2006. The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contract. Only if the contract subsequently is significantly modified the entity reassesses whether to separate or not.
- IFRIC 10 "Interim Financial Reporting and Impairment" which is effective for periods beginning on or after 1 November 2006, that is from 1 January 2007. The interpretation clarifies that an entity should not reverse an impairment loss recognized in a previous interim periods in respect of goodwill or an investment in a financial asset carried at cost.
- IFRIC 11 IFRS 2 "Group and Treasury Shares Transactions" which is effective for periods beginning on or after 1 March 2007. This Interpretation addresses how to apply IFRS 2 "Share-based Payment" to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (eg. equity instruments of its parent).
- IFRIC 12 "Service Concession Arrangements", which is effective for annual periods beginning on or after 1 January 2008.
- IFRIC 13 "Customer Loyalty Programmes", which is effective for annual periods beginning on or after 1 January 2008.
- IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which is effective for annual periods beginning on or after 1 January 2008.

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

Going concern. The Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The 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 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:

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 worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

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

Critical assumptions that were made for the purposes of impairment test of property, plant and equipment are described in the Note 6.

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

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of OJSC WGC-3 and the financial statements of those entities whose operations are controlled by OJSC WGC-3. Control is presumed to exist when OJSC WGC-3 controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

A) Subsidiaries

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

B) Transactions eliminated on consolidation

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

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 recognized in the income statement.

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 26.3311: USD 1.00 (31 December 2005: RR 28.7825: USD 1.00), between the RR and EURO RR 34.6965: EURO 1.00 (31 December 2005: RR 34.1850: EURO 1.00).

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

For these investments, which comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at each balance sheet date. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

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Regular way purchases and sales of investments are initially measured at fair value and recognized on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Gains and losses arising from changes in the fair value of these investments are included in the fair value reserve in shareholders' equity in the period in which they arise. Realized gains and losses from the disposal of available-for-sale investments are included in the statement of operations in the period in which they arise.

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

Property, plant and equipment. In 2004 property, plant and equipment were recognized at the carrying value determined in accordance with the IFRS at the date of their transfer to the Company by the Predecessor.

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. For the property, plant and equipment which were subject to an independent valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives.

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
Electricity and heat generation	4-63	25 -50
Electricity distribution	6-30	30
Heating networks	4-22	25
Other	8	10

Loan charges received for the financing of construction of property, plant and equipment are not capitalized within the cost of property, plant and equipment object during the period needed for the finalization of construction works and preparation for planned use.

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. Cash comprises cash in hand and cash deposited on demand at banks.

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

Value added tax on purchases and sales. Before 1 January 2006 value added tax ("VAT") related to sales was payable to tax authorities upon collection of receivables from customers. Input VAT was reclaimable against sales VAT upon payment for purchases. The tax authorities permitted the settlement of VAT on a net basis. VAT related to sales and purchases which had not been settled at the balance sheet date (deferred VAT) was recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision was made for impairment of receivables, the

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Notes to Consolidated Financial Statements for the Year ended 31 December 2006

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impairment loss was recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability was maintained until the debtor was written off for tax purposes.

In 2006 VAT related to sales is payable to tax authorities upon dispatch of goods and provision of services, input VAT is reclaimable against sales VAT upon purchase of goods and services on accrual basis.

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

Income tax

The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 income tax. Deferred tax is provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as per the consolidated financial statements. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. 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 utilized.

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 recognized in these financial statements.

Accounts payable and accrual charges. Accounts payable are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If accounts payable are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, 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 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 amortized over the period of the restructuring as an interest expense.

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

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

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

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

The Group also operates defined benefit plans. In respect of some of these plans the Group has contract with non-governmental pension fund, the other plans are operated by the Group without engaging pension funds. The liability recognized in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustment for unrecognized actuarial gains and 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 associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from changes in actuarial estimations and exceeding 10.00% of the defined benefit obligations are charged or credited to the statement of operations over the average remaining service lives of employees starting from the next reporting period.

Provisions. Provisions are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Revenue recognition. Revenue is recognized on the delivery of electricity and heat during the period. Revenue amounts are represented exclusive of value added tax.

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

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

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

Interest. Interest income and expense are recognized in the income statement for all debt instruments on an accrual basis using the effective rate of interest method. Interest income includes nominal interest and amortized discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

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

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(in thousands of Russian Roubles)

Seasonality. Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, although less intense, 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.

Note 5. Related Parties

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.

Parent

Sales of electricity to the Parent for the year ended 31 December 2006 were 0 thousand (year ended 31 December 2005: RR 330 910 thousand); accounts receivable from the Parent at 31 December 2006 is settled. (31 December 2005: RR 34 206 thousand).

Transactions with the Parent's subsidiaries

Sales of electricity to the Parent's subsidiaries for the year ended 31 December 2006 were RR 14 158 955 thousand (year ended 31 December 2005: RR 10 227 546 thousand).

Balances with other related parties at the end of the period were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Accounts receivable, gross	570 937	395 716
Provision for impairment of accounts receivable	-	(18 000)
Accounts payable	17 588	104 627

The company did not make provision for impairment of accounts receivable during the year ended 31 December 2006. (31 December 2005: RR 18 000 thousand).

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 FST and RST. 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 state-controlled entities:

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity and heat sales	104 300	220 043
Purchases of fuel	5 693 515	4 437 153
Interest on credit	-	1 524

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

	31 December 2006	31 December 2005
Accounts receivable and prepayments	409 188	256 793
Accounts payable and accruals	41 983	11 426
Current debt and current portion of non-current debt	-	421 600

Tax balances (other than deferred income tax) are disclosed in the balance sheet and Note 16. Tax transactions (other than deferred income tax) are disclosed in the income statement and Note 18.

WGC-3 Group

Notes to Consolidated Financial Statements for the Year ended 31 December 2006

(in thousands of Russian Roubles)

Transactions with key management and close family members

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

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 53 687 thousand (for the year ended 31 December 2005 – RR 143 406 thousand).

Note 6. Property, plant and equipment

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2005	29 034 800	3 768 420	866 936	2 038 502	6 466 371	42 175 029
Additions	38 140	1 263	49 830	841 715	104 981	1 035 929
Transfer	446 832	80 318	6 756	(769 065)	235 159	-
Disposals	(46 829)	(4 234)	-	(132 475)	(221 138)	(404 676)
Closing balance as at 31 December 2006	29 472 943	3 845 767	923 522	1 978 677	6 585 373	42 806 282
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2005	(20 510 038)	(3 196 542)	(690 359)	(138 122)	(5 367 679)	(29 902 741)
Charge for the period	(552 586)	(56 128)	(29 924)	(2 627)	(454 756)	(1 096 021)
Impairment transferred from CIP	(2 733)	(2 886)	-	10 641	(5 022)	-
Disposals	31 827	3 929	-	-	198 396	234 152
Reversal of impairment	5 678 145	453 424	56 881	(820)	162 698	6 350 328
Closing balance as at 31 December 2006	(15 355 385)	(2 798 203)	(663 402)	(130 928)	(5 466 363)	(24 414 281)
Net book value as at 31 December 2006	14 117 558	1 047 564	260 120	1 847 749	1 119 010	18 392 001

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2004 (Unaudited)	28 268 673	3 725 687	862 791	2 640 473	6 547 027	42 044 651
Additions	79 480	-	-	738 580	26 868	844 928
Transfer	808 920	52 777	4 145	(1 047 074)	181 232	-
Disposals	(122 273)	(10 044)	-	(293 477)	(288 756)	(714 550)
Closing balance as at 31 December 2005	29 034 800	3 768 420	866 936	2 038 502	6 466 371	42 175 029
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2004	(20 084 058)	(3 073 977)	(672 620)	(157 430)	(5 028 252)	(29 016 337)
Charge for the period	(500 792)	(130 402)	(17 740)	-	(535 813)	(1 184 747)
Impairment transferred from CIP	(5 398)	(2 165)	-	16 872	(9 309)	-
Disposals	80 210	10 002	-	2 436	205 695	298 343
Closing balance as at 31 December 2005	(20 510 038)	(3 196 542)	(690 359)	(138 122)	(5 367 679)	(29 902 741)
Net book value as at 31 December 2005	8 524 762	571 878	176 576	1 900 380	1 098 692	12 272 288
Net book value as at 31 December 2004	8 184 615	651 710	190 171	2 483 043	1 518 775	13 028 314

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The Group has the right to purchase this land (except for the land at

Moscow) upon application to the state registration body or to formalize the right for rent after the right expiry date, which is 1 January 2008.

Impairment

The impairment provision included in accumulated depreciation balance as at 31 December 2006 and 31 December 2005 was RR 4 836 185 thousand and RR 12 149 788 thousand, accordingly.

Management has concluded that at the reporting date there were indications for reversing previously recognized 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;
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 19.00%, 20.00%, 22.30% for the years ended 31 December 2008, 2009 and 2010, respectively;
2. Heat tariffs will be increased by 17.00%, 18.20%, 18.40% for the years ended 31 December 2008, 2009 and 2010, respectively;
3. Gas price will be increased by 25.00%, 27.70%, 27.70% 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 7.00% 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 13.13% until 2009 year and 14.02% after 2009 year.

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 15.00%, 15.00% and 16.50%, respectively in comparison with the year ended 31 December 2006.

Management's assessment indicates that fair value of property, plant and equipment will not be lower than its net book value for all generating units, except for Pechorskaya SDPP. Consequently, the Group has recorded a reversal of the previously recognized impairment loss in the amount of RR 6 400 million. A respective gain together with a corresponding deferred tax expense of RR 1 536 million were recognized in the statement of operations for the year ended 31 December 2006.

In respect of Pechorskaya SDPP, 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 recognized an impairment loss of RR 50 million in respect of the property, plant and equipment of Pechorskaya SDPP with a corresponding deferred tax benefit of RR 12 million in the statement of operations for the year ended 31 December 2006.

During the 12 months ended 31 December 2006 the Group recognised the disposal loss of 162 million in respect of certain non-operating fixed assets and construction in progress (in 12 months ended 31 December 2005 recognised the disposal loss : RR 290 million).

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Operating leases

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

Non-cancelable operating lease rentals are payable as follows:

	31 December 2006	31 December 2005
not later than one year	35 379	27 023
later than one year and not later than five years	122 025	114 818
later than five years	18 691	63 995
Total	176 095	205 836

The land areas leased by the Group are the territories on which the Group' electric power stations, heating stations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

Note 7. Other non-current assets

	31 December 2006	31 December 2005
Advances for Property, plant and equipment	332 757	217 573
Long-term available for sale investments	142 696	117 292
Long-term receivables	116 519	31 497
Long-term Value added tax	1 607	25 802
Other non-current assets	2 082	7 366
Total	595 661	399 530

Note 8. Inventories

	31 December 2006	31 December 2005
Fuel supplies	1 625 529	782 193
Materials and supplies	232 410	327 058
Other inventories	434 843	489 702
Total	2 292 782	1 598 953

Inventories balances as at 31 December 2006 included nill thousand and as at 31 December 2005 RR 546 424 thousand, of inventory pledged as collateral according to loan agreements.

Note 9. Accounts receivable and prepayments

	31 December 2006	31 December 2005
Trade receivables (net of provision for impairment of accounts receivable of RR 562 451 thousand as at 31 December 2006 and RR 520 107 thousand as at 31 December 2005)	657 994	818 169
Value added tax recoverable	71 572	220 984
Advances to suppliers (net of provision for impairment of advances to suppliers of RR 71 447 thousand as at 31 December 2006 and RR 7 648 thousand as at 31 December 2005)	240 344	137 458
Other receivables (net of provision for impairment of other receivables of RR 410 238 thousand as at 31 December r 2006 and RR 860 124 thousand as at 31 December 2005)	202 658	196 512
Total	1 172 568	1 373 123

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

Note 10. Equity

<i>Share capital</i> (Number of shares unless otherwise stated)	Ordinary shares 31 December 2006	Ordinary shares 31 December 2005
Issued shares	29 487 999 252	27 608 088 279
Par value (in RR)	1.00	1.00

Contributions to the Company's share capital were effected as follows.

Cash contributions amounted to RR 20 500 thousand, of which RR 5 500 thousand were paid in 2004 and RR 15 000 thousand – in 2005.

Ordinary shares for total amount of RR 27 587 588 thousand were paid in 2005 in kind of shares in the Company's subsidiaries, where values determined by independent appraisers were equal to RR 28 038 406 thousand. Share premium of RR 450 818 thousand equaled to difference between the appraisers' value of the contributions to the share capital and nominal value of the shares issued.

Contributions in kind of shares of the subsidiaries were made by the Parent group and the minority shareholders.

Transfer of shares of Company's subsidiaries from RAO UES to the Company. In January 2005, the Parent transferred to the Company 99.90%, 99.90%, 51.00%, 51.00% and 55.80% of the outstanding ordinary shares of Kharanorskaya SDPP, Gusinoozerskaya SDPP, Pechorskaya SDPP, Kostromskaya SDPP and Cherepetskaya SDPP respectively. In December 2005 the Parent additionally transferred to the Company 49.00% of the outstanding ordinary shares of Yuzhnouralskaya SDPP.

Transactions with minorities. In December 2005, the Company exchanged its unpaid shares to the minority shareholders' shares in the Company's subsidiaries.

Because of application of predecessor accounting, IFRS carrying value of the contributed assets were RR 10 403 761 thousand, of which RR 2 257 490 thousand were attributable to minority interest. The difference of RR 8 146 271 thousand between the nominal value of share capital paid, the IFRS carrying value of the contributed assets and the minority interest has been recorded as a merger reserve within equity attributable to the Company's shareholders.

In 2006 additional ordinary shares for RR 1 879 911 thousand were issued in order to finalize conversion of the Company's subsidiaries shares into shares of OJSC WGC-3.

On 1 April, 2006 all the shares of the Company's subsidiaries (which were held both by the Company and by minority shareholders) were exchanged into the Company's ordinary shares.

As the result, Kostromskaya SDPP, Cherepetskaya SDPP, Pechorskaya SDPP, Kharanorskaya SDPP, Yuzhnouralskaya SDPP and Gusinooserskaya SDPP were affiliated into OJSC WGC-3, and OJSC WGC-3 became an integrated operating company.

WGC-3 Group**Notes to Consolidated Financial Statements for the Year ended 31 December 2006**

(in thousands of Russian Roubles)

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

In 2005 the Company declared dividends for 9 months of 2005 ended 30 September 2005 of RR 0.013 per share for the total to RR 221 002 thousand. These dividends were recognized in these consolidated financial statements.

In 2006 the Company declared additional dividends for the year ended 31 December 2005 of RR 0.0132895 per share for the total to RR 4 530 thousand. These dividends were recognized in these consolidated financial statements.

The other amounts of dividends recognized in the consolidated financial statements represented dividends paid by the Group subsidiaries to the minority shareholders.

On 8 May 2007 the Annual General Meeting has approved the proposal to pay dividends in respect of the year ended 31 December 2006 in the amount of RR 0.023738 per ordinary share. The dividends in the amount of RR 700,000 thousand were paid by the Company in 2007.

Note 11. Income tax

<i>Income tax charge</i>	12 months ended 31 December 2006	12 months ended 31 December 2005
Current income tax charge	(258 873)	(454 977)
Deferred income tax charge/(benefit)	(1 356 192)	122 275
Total income tax charge	(1 615 065)	(332 702)

During the year ended 31 December 2006 the Group entities were subject to a 24.00% income tax rate on taxable profits.

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

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

	12 months ended 31 December 2006	12 months ended 31 December 2005
Profit / (loss) before tax	6 015 778	(565 043)
Theoretical tax charge / (benefit) at the statutory tax rate of 24%	(1 443 787)	135 610
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of changes in WEM imbalance	-	(245 039)
Effect of changes in provisions for liabilities and charges	19 224	(9 820)
Effect of changes in Pensions liabilities	(33 983)	(1 248)
Non-deductible loss (written-off assets)	(11 576)	(112 019)
Tax interest and penalties forgiven	(89 385)	43 486
Dividends received in 2006	(62 400)	-
Other non-deductible and non-taxable items, net	6 842	(143 672)
Total income tax charge	(1 615 065)	(332 702)

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured at 24.00%, the rate applicable when the temporary differences will reverse.

WGC-3 Group

Notes to Consolidated Financial Statements for the Year ended 31 December 2006

(in thousands of Russian Roubles)

Deferred tax liabilities

	31 December 2005	Movement for the year recognized in the income statement	Movement for the year recognized in the Statement of Changes in Equity	31 December 2006
Property, plant and equipment	(777 151)	(1 136 642)	-	(1 913 793)
Accounts payable	-	(9 423)	-	(9 423)
Other	(345)	(4 470)	(8 097)	(12 912)
Total	(777 496)	(1 150 535)	(8 097)	(1 936 128)

Deferred tax assets

	31 December 2005	Movement for the year recognized in the income statement	Movement for the year recognized in the Statement of Changes in Equity	31 December 2006
Property, plant and equipment	388 503	(388 503)	-	-
Accounts receivable including provision for impairment	183 829	(2 069)	-	181 760
Accounts payable	21 561	126 106	-	147 667
Inventories	255	60 693	-	60 948
Other	1 884	(1 884)	-	-
Total	596 032	(205 657)	-	390 375

Net deferred tax liabilities

	(181 464)	(1 356 192)	(8 097)	(1 545 753)
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Deferred tax liabilities

	31 December 2004	Movement for the year recognized in the income statement	31 December 2005
Property, plant and equipment	(814 305)	37 154	(777 151)
Accounts payable	(1 555)	1 555	-
Other	(15 834)	15 489	(345)
Total	(831 694)	54 198	(777 496)

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Notes to Consolidated Financial Statements for the Year ended 31 December 2006

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Deferred tax assets

	31 December 2004	Movement for the year recognized in the income statement	31 December 2005
Property, plant and equipment	307 786	80 717	388 503
Accounts receivable including provision for impairment	214 171	(30 342)	183 829
Accounts payable	5 371	16 190	21 561
Inventories	627	(372)	255
Other	-	1 884	1 884
Total	527 955	68 077	596 032
Net deferred tax liabilities	(303 739)	122 275	(181 464)

Note 12. Pension liabilities

The tables below provide information about the benefit obligation, plan assets and actuarial estimations used for the year ended 31 December 2006 and for the year ended 31 December 2005.

Amounts recognized in the Consolidated Balance Sheet:

	31 December 2006	31 December 2005
Defined benefit obligations	416 721	136 673
Fair value of plan assets	-	-
Funded status	416 721	136 673
Unrecognized net actuarial gain/(loss)	(126 603)	(961)
Unrecognized past service cost	(49 573)	(36 765)
Net liability in balance sheet	240 545	98 947

Amounts recognized in the Consolidated Statement of Operations:

	12 months ended 31 December 2006	12 months ended 31 December 2005
Current service cost	5 673	2 551
Interest cost	8 895	6 904
Recognized actuarial (gain)/loss	-	-
Recognized past service cost	4 846	965
Settlement (gain)/loss	-	-
Other	148 673	-
Total	168 087	10 420

Other category includes the result of changing estimation of prior year pension liabilities. During the year more detailed information about the group's pension plans was obtained. As a result the group's liability increased and an additional charge of RR148 673 thousand was recorded. The management has treated this as a change in estimate rather than an actuarial loss, which would be deferred, because this allows the financial statements to better reflect the position at 31 December 2006.

WGC-3 Group

Notes to Consolidated Financial Statements for the Year ended 31 December 2006

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

	31 December 2006	31 December 2005
Benefit obligations		
Benefit obligations as at 1 January 2006 (1 January 2005)	136 673	102 819
Current service cost	5 673	2 551
Interest cost	8 895	6 904
Actuarial loss/(gain)	125 642	156
Past service cost	17 654	29 463
Benefits paid	(26 489)	(5 220)
Other	148 673	-
Benefit obligations as at 31 December 2006 (31 December 2005)	416 721	136 673

Principal actuarial estimations are as follows:

	31 December 2006	31 December 2005
Discount rate	6.60	6.89
Salary increase	9.20	7.10
Pension increase (for "qualified pension")	6.60	-
Pension increase (for other benefits)	9.20	7.10
Inflation	5.00	5.00

Reconciliation of the balance sheet:

Rbl '000 (rounded)	31 December 2006	31 December 2005
Net liability at start of year	98 947	93 747
Net expense recognised in the income statement	168 087	10 420
Employer contributions	(26 489)	(5 220)
Net liability at end of year	240 545	98 947

Experience adjustments:

Rbl '000 (rounded)	31 December 2006	31 December 2005
Present value of defined benefit obligations (DBO)	416 721	136 673
Fair value of plan assets	-	-
(Surplus)/deficit in plan	416 721	136 673
Gains/(losses) arising of experience adjustments on plan liabilities	(54 445)	(961)
Gains/(losses) arising of experience adjustments on plan assets	-	-

Sensitivity of Defined Benefit Obligation to changes in assumptions:

	Increase	effect on DBO 2006
Discount	+1.00%	-11.00%
Salary growth	+1.00%	+ 8.00%

WGC-3 Group

Notes to Consolidated Financial Statements for the Year ended 31 December 2006

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Note 13. Current debt and current portion of non-current debt

Name of creditor	Currency	Effective interest rate, %	31 December 2006	31 December 2005
Corporate bonds	RR	6.75-7	3 000 000	-
Alfabank	RR	8.1-13	700 000	301 959
Petrocommerts Bank	RR	10-11	-	317 000
Sberbank of RF	RR	9.8-11.8	-	421 600
Eurofinance	RR	10-12.5	-	380 000
Gazprombank	RR	10	-	20 000
Vneshtorgbank	RR	11	-	120 000
Ukhtabank	RR	8.5-10	4 008	134 879
Other	RR	-	-	483
Total			3 704 008	1 695 921

On October 24, 2006 the Board of Directors approved the issuance of non-convertible interest bearing bonds. A notional quantity of 3,000,000 of such bonds were issued on December 15, 2006 at par. Each individual bond has a face value of RR 1000 and was issued for a 5 year term. Interest on the bonds is payable every 6 months. The interest rate is set at the discretion of the board of directors of the company at least 10 days in advance of the coupon period. The initial coupon rate was set at 7.00% per annum. Holders of the bonds can demand repayment at each coupon date.

Bonds are secured by the guarantee of ZAO "Business-Effect", which is to discharge the Group's obligation for holders in case the Group's disclaimer of liability or exceeding of the time limit to pay.

Short term loans issued to the Group were unsecured as at 31.12.2006 (at 31.12.2005 – RR 546 424 thousand) of inventories were used as collateral.

Note 14. Accounts payable and accruals

	31 December 2006	31 December 2005
Trade payables	922 259	882 334
Accrued liabilities and other payables	778 235	478 622
Dividends payable	1 628	249 414
Total	1 702 122	1 610 370

Note 15. Provision for liabilities and charges

Movements in provision for liability and charges are as follows:

<i>In thousands of Russian Roubles</i>	Note	Tax Risks	Legal claims	Total
Carrying amount at 31 January 2005		165 000	148 442	313 442
Additions charged to profit or loss	18	102 761	(53 674)	49 087
Reversal of provision		(103 000)	(26 186)	(129 186)
Carrying amount at 31 December 2006		164 761	68 582	233 343

All of the above provisions were classified as current liabilities because the Group does not have any rights to defer settlements beyond one year. Expected timing of the cash outflows is indicated below.

Tax risks. Management assessed, based on their interpretation of the relevant tax legislation, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, Group created provisions for the associated not assessed taxes and the related penalties and interest. The balance at 31 December 2006 is expected to be either fully utilised or released within one year (2005: within two years).

Legal claims. Provision for legal claims relates to the claims brought against the Group by fuel suppliers and services providers. The balance at 31 December 2006 is expected to be utilised by the end of 2007 (31 December 2005: by end of 2006). In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

WGC-3 Group**Notes to Consolidated Financial Statements for the Year ended 31 December 2006**

(in thousands of Russian Roubles)

Note 16. Taxes payable

	31 December 2006	31 December 2005
Water usage tax	157 346	144 552
Property tax	84 885	39 236
Value added tax	39 221	487 832
Employee taxes	26 130	26 211
Fines and interest	16 929	8 432
Income tax	15 380	89 400
Land tax	12 985	1 159
Dividend tax	-	22 851
Other taxes	26 276	46 085
Current portion of taxes restructured to long-term liabilities	-	27 039
Total	379 152	892 797

VAT payable is recorded inclusive of deferred VAT on the amount of RR 3 392 thousand, which had arisen prior to 31 December 2005 due to time difference between revenue recognition and cash receipt from customers. Starting from 1 January 2006 VAT is payable to tax authorities on accrual basis, while VAT originated prior to 1 January 2006 is payable to tax authorities as far as cash receipt from customers or appropriate accounts receivable write-off but not later than 1 January 2008.

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinance rate of the Central Bank of the Russian Federation. As at 31 December 2006 and 31 December 2005 the refinance rate was 11.00 and 12.00 % respectively. Interest does not accrue on tax fines and interest.

Note 17. Other operating income

	31 December 2006	31 December 2005
Forgiveness of tax penalties	134 137	181 193
Dividends	-	425
Other operating income	87 681	215 980
Total	221 818	397 598

WGC-3 Group

Notes to Consolidated Financial Statements for the Year ended 31 December 2006

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Note 18. Operating expenses

	Notes	12 months ended 31 December 2006	12 months ended 31 December 2005
Fuel		(12 533 733)	(10 011 602)
Employee benefits		(2 617 160)	(2 241 569)
Purchased electricity		(2 469 577)	-
Depreciation	6	(1 093 393)	(1 184 747)
Taxes other than income tax		(1 009 339)	(989 129)
Repairs and maintenance		(884 012)	(652 563)
Raw materials and supplies		(483 156)	(430 064)
Transmission fees		(358 344)	(28 858)
Transportation of gas		(283 333)	(227 730)
Write-down of inventories		(175 675)	(55 543)
Loss on disposal of fixed assets		(162 743)	(290 319)
Impairment of accounts receivable		(147 240)	(405 440)
Consulting, legal and audit services		(145 419)	(64 966)
Insurance cost		(119 876)	(127 146)
Security services		(107 053)	(34 958)
Rent		(75 006)	(43 775)
Loss related to restructuring process		(47 427)	62 946
Transportation services		(44 183)	(64 224)
Social overhead costs		(26 636)	(51 197)
Water usage expenses		(26 202)	(5 619)
Telecommunication services		(19 877)	(16 950)
Charity expenses		(19 519)	(21 617)
Fire protection		(9 942)	(9 572)
Writing off of non-core assets		(1 681)	(85 856)
Loss on disposal of material assets		7 500	(7 627)
Change in provision for liabilities and charges	15	80 099	(12 946)
Other expenses		(682 901)	(512 621)
Total operating expenses		(23 455 828)	(17 513 692)

Employee benefits expenses comprise the following:

	12 months ended 31 December 2006	12 months ended 31 December 2005
Salaries and wages, payroll taxes	(2 350 501)	(2 149 091)
Financial aid to employees and pensioners	(79 016)	(82 058)
Non-governmental pension fund expenses	(187 643)	(10 420)
Employee benefits	(2 617 160)	(2 241 569)

Note 19. Finance costs

	12 months ended 31 December 2006	12 months ended 31 December 2005
Interest expense, net	(198 343)	(171 397)
Effect of discount	27 615	(56 881)
Total finance cost, net	(170 728)	(228 278)

Note 20. Earning / (loss) per ordinary share for profit/(loss) attributable to the shareholders of OJSC WGC-3 – basic and diluted (in RR)

	12 months ended 31 December 2006	12 months ended 31 December 2005
Profit/(loss) attributable to the shareholders of OJSC WGC-3 (thousands of RR)	4 400 713	(672 080)
Weighted average number of ordinary shares issued (thousands of shares)	29 024 459	18 107 527
Earning/Loss/per ordinary share for profit/(loss) attributable to the shareholders of OJSC WGC-3 – basic and diluted (in RR)	0.152	(0.037)

Note 21. Restructured taxes and penalties liability.

In accordance with Government Resolutions No. 1002 dated 3 September 1999 and No. 699 dated 1 October 2001 the Group subsidiaries had restructured taxes including penalties and fines to be repaid over a period of up to 12 years. Discounting rate of 24.00 % has been used in the estimates of fair value of tax liabilities at the date of restructuring. The discounting of the restructured tax payable amount initially gave rise to a gain.

In 2006, the Group fulfilled all the conditions for restructuring. Based on the RF Government resolution the restructured debt for penalties and fines in the amount of RR 327 427 thousand in 2006, representing nominal amount before discounting, were forgiven and written off the balance sheet. (in 2005: RR 628 218 thousand).

The net amount of RR 134 137 thousand in 2006 (in 2005: RR 181 193 thousand), which represents the difference between the nominal amount of gain from forgiveness of restructured tax liability and the unamortized discount of RR 193 290 thousand (in 2005: RR 447 025 thousand), was recognized as other operating income in the income statement.

Note 22. Commitments

Sales commitments. The Group's entities sell electricity 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, CJSC INTER RAO UES, retail companies and large industrial customers.

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

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 1 781 256 thousand at 31 December 2006 (at 31 December 2005: RR 352 512 thousand).

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.

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 legal and tax risks not currently recognised.

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

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

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 Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term borrowings; this information is disclosed in Note 13. The Group has no material interest-bearing assets.

Interest rate risk is monitored by the Board of Directors who approve the maximum acceptable level of weighted average borrowing cost for a certain period (usually a quarter).

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

Note 25. Post balance sheet events

Purchase of shares issued

On December 19, 2006 the Board of Directors of OJSK WGC-3 has approved the additional emission of 18 000 000 000 ordinary shares, with nominal value of RR 1.00 each and total amount of 000'RR 18 000 000.

On March 10, 2007 the Board of Directors of OJSK WGC-3 has approved the offering price of ordinary registered share of OJSK WGC-3 in amount of RR 4.54. Shareholders of OJSK WGC-3 bought

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Notes to Consolidated Financial Statements for the Year ended 31 December 2006

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163 656 899 ordinary registered shares at the above price taking advantage of the preemptive right. During public offering the Group "MMC "Norilsk Nickel" has acquired 17 836 343 101 of ordinary registered shares. Thus, the stake of the Group "MMC "Norilsk Nickel" in share capital of OJSK WGC-3 increased to 46.60%. OJSK WGC-3 raised RR 81 720 000 000 from the additional public offering. As a result of the above the stake of RAO UES has decreased from 59.70% to 37.10%. OJSK WGC-3 as at the date of issue of these financial statements has no ultimate controlling shareholder.

Partial redemption of bonds in June 2007

In June 2007, the conditions of early redemption of bonds took place. Some holders used their right for early redemption with following conditions: par value: RR 1 250 000 thousand; value of realization: RR 1 251 388 thousand. Difference RR 1 388 thousand is coupon interest for 6 days (from starting of 2nd coupon period and date of redemption).