

**“FEDERAL GRID COMPANY UES” GROUP
COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2006**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company «Federal Grid Company of Unified Energy System» (JSC FGC UES):

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

2 We have not audited or reviewed the combined and consolidated balance sheet as at 31 December 2005 and the related combined and consolidated statements of operations and of cash flows for the year then ended and, accordingly, we express no opinion or assurance thereon.

Management's Responsibility for the Financial Statements

3 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

4 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.

5 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.

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

Basis for qualified opinion

7 As discussed in Note 6 to the combined and consolidated financial statements, the Group's property, plant and equipment are carried at a revalued amount. However, the management performed the last revaluation of property, plant and equipment at 31 December 2001 and since that date have not assessed if the fair values are significantly different from the carrying amounts. This practice, in our opinion, is not in compliance with International Financial Reporting Standards. The fair values of these property, plant and equipment can be significantly different from their carrying amounts as at 31 December 2006. The carrying amount of such property, plant and equipment as at 31 December 2006 is RR 173,801 million.

AUDITOR'S REPORT

- 8 As discussed in Note 6 to the combined and consolidated financial statements, the Group's property, plant and equipment are carried at a revalued amount. However, the property, plant and equipment in the carrying value of RR 56,454 million as at 31 December 2006, which relates to certain subsidiaries are carried at depreciated cost less impairment and were not subject to revaluation. This practice, in our opinion, is not in compliance with International Financial Reporting Standards. The fair values of these property, plant and equipment can be significantly different from their carrying amounts as at 31 December 2006.

Qualified opinion

- 9 In our opinion, except for the effect, if any, on the combined and consolidated financial statements of the matters noted in paragraphs 7 and 8 above, the accompanying combined and 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.

Emphasis of Matter

- 10 Without qualifying our opinion, we draw attention to the Note 2 of the accompanying combined and consolidated financial statements. These combined and consolidated financial statements include carved out revenues and expenses of electricity transmission businesses within predecessor legal entities that have other business activities. Because of the various determinations used in carving out such revenues and expenses, as described in Note 2 and elsewhere in these combined and consolidated financial statements, those revenues and expenses related to the electricity transmission 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 transmission 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.
- 11 Without qualifying our opinion, we draw 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.
- 12 Without qualifying our opinion, we draw attention to the information in Note 2 concerning the revision of the combined and consolidated financial statements for the year ended 31 December 2006 issued on 23 August 2007 and audited by us. The auditor's report was issued on 23 August 2007.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
23 October 2007

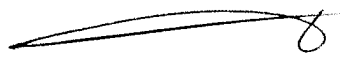
FGC UES Group

Combined and Consolidated Balance Sheet as at 31 December 2006
(in millions of Russian Roubles)

	Notes	31 December 2006 as restated	Unaudited 31 December 2005
Assets			
Non-current assets			
Property, plant and equipment	6	230,255	186,429
Intangible assets	7	2,468	1,092
Available-for-sale investments	8	3,031	1,031
Other non-current assets	9	3,242	3,604
Total non-current assets		238,996	192,156
Current assets			
Cash at bank and in hand		5,971	1,741
Accounts receivable and prepayments	10	11,505	9,280
Inventories	11	1,470	1,269
Loans issued		929	300
Other current assets		527	690
Total current assets		20,402	13,280
TOTAL ASSETS		259,398	205,436
Equity and liabilities			
Equity			
Share capital			
Ordinary shares	12	121,607	121,607
Merger reserve	12	(9,402)	20,362
Retained earnings		32,976	14,720
Equity attributable to shareholders of FGC UES		145,181	156,689
Minority interest	12	16,964	10,464
Total equity		162,145	167,153
Non-current liabilities			
Deferred profit tax liabilities	13	14,322	7,268
Non-current debt	14	25,445	19,412
Pension obligations	15	2,661	2,283
Total non-current liabilities		42,428	28,963
Current liabilities			
Accounts payable to shareholders of FGC UES	12	34,338	-
Current debt and current portion of non-current debt	16	10,255	860
Accounts payable and accrued charges	17	9,875	7,654
Taxes payable	18	357	806
Total current liabilities		54,825	9,320
Total liabilities		97,253	38,283
TOTAL EQUITY AND LIABILITIES		259,398	205,436

23 October 2007

Deputy Chairman of the Management Board



A. A. Demin

Chief Accountant



V.V. Shchukin

The accompanying notes on pages 8 to 34 are an integral part of these combined and consolidated financial statements

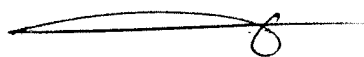
FGC UES Group

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

		Year ended 31 December 2006 as restated	Unaudited Year ended 31 December 2005
Revenues	19	55,340	37,757
Operating expenses	20	(42,349)	(24,894)
Reversal of impairment provision for property, plant and equipment	6	23,080	-
Impairment of property, plant and equipment		(522)	(1,808)
Operating profit		35,549	11,055
Interest income		332	97
Finance cost	21	(1,985)	(1,254)
Profit before profit tax		33,896	9,898
Total profit tax charge	13	(8,773)	(2,717)
Profit for the period		25,123	7,181
Attributable to:			
Shareholders of FGC UES		18,623	6,395
Minority interest		6,500	786
Earning per ordinary share for profit attributable to the shareholders of FGC UES – basic and diluted (in Russian Roubles)	22	0.08	0.03

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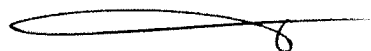
FGC UES Group

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

	Notes	Unaudited	
		Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before profit tax		33,896	9,898
<i>Adjustments to reconcile profit before profit tax to net cash provided by operations</i>			
Depreciation of property, plant and equipment	6	9,249	8,473
Amortisation	7	196	32
Reversal of impairment provision for property, plant and equipment	6	(23,080)	-
Impairment of property, plant and equipment	6	522	1,808
Loss on disposal of property, plant and equipment	20	321	215
Accrual/(reversal) of bad debt provision	20	1,345	(538)
Interest expense		1,661	1,158
Other non-cash transactions		(159)	319
Operating cash flows before working capital changes and profit tax paid		23,951	21,365
<i>Working capital changes:</i>			
Increase in accounts receivable and prepayments		(3,238)	(4,832)
Decrease in other current assets		62	136
Increase in inventories		(201)	(156)
Decrease/(increase) in ST loans given		259	(300)
Increase in other non-current assets		(527)	(419)
Increase in accounts payable and accrued charges		2,222	2,170
(Decrease)/ increase in taxes payable, other than profit tax		(341)	353
Increase in other long-term liabilities		378	360
Profit tax paid		(1,827)	(1,463)
Total cash provided by operating activities		20,738	17,214
CASH FLOW USED FOR INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(29,308)	(25,201)
Additions to intangible assets		(1,572)	(1,122)
Purchase of investments		(1,740)	(1,031)
Loans issued		-	(888)
Total cash used in investing activities		(32,620)	(28,242)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shareholders		3,044	-
Proceeds from issuance of current debt		3,450	-
Proceeds from issuance of non-current debt		16,000	14,035
Repayment of debt		(4,270)	(672)
Dividends paid		(367)	-
Interest paid		(1,745)	(819)
Total cash from financing activities		16,112	12,544
Increase in cash		4,230	1,516
Cash at the year beginning		1,741	225
Cash at the year end		5,971	1,741

23 October 2007

Deputy Chairman of the Management Board



A. A. Demin

Chief Accountant



V.V. Shchukin

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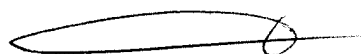
FGC UES Group

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

	Attributable to shareholders of FGC UES					Minority interest	Total equity
	Ordinary share capital	Merger reserve	Retained earnings	Total			
As at 1 January 2005 (unaudited)	121,607	20,140	8,547	150,294	9,678	159,972	
Profit for the period (unaudited)	-	-	6,395	6,395	786	7,181	
Distribution to RAO UES (unaudited)	-	222	(222)	-	-	-	
As at 31 December 2005 (unaudited)	121,607	20,362	14,720	156,689	10,464	167,153	
As at 1 January 2006	121,607	20,362	14,720	156,689	10,464	167,153	
Profit for the period as previously reported	-	-	13,058	13,058	12,065	25,123	
Change in Group structure (Note 12)	-	(29,764)	-	(29,764)	-	(29,764)	
Dividends (Note 12)	-	-	(367)	(367)	-	(367)	
As at 31 December 2006 as previously reported	121,607	(9,402)	27,411	139,616	22,529	162,145	
Correction of error (Note 2)			5,565	5,565	(5,565)	-	
Profit for the period as restated	-	-	18,623	18,623	6,500	25,123	
Change in Group structure (Note 12)	-	(29,764)	-	(29,764)	-	(29,764)	
Dividends (Note 12)	-	-	(367)	(367)	-	(367)	
As at 31 December 2006 as restated	121,607	(9,402)	32,976	145,181	16,964	162,145	

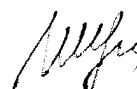
23 October 2007

Deputy Chairman of the Management Board



A. A. Demin

Chief Accountant



V.V. Shchukin

The accompanying notes on pages 8 to 34 are an integral part of these combined and consolidated financial statements

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
(in millions of Russian Roubles)

Note 1. The Group and its operations

Open Joint Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or “the Company”) was established on 25 June 2002 as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification United Energy System of Russia (“RAO UES”) as a result of implementing the decisions of the Board of Directors of RAO UES dated 25 January 2002 and 7 May 2002 in accordance with the Russian Government Resolution № 526 “Electric Utilities Reform in the Russian Federation” dated 11 July 2001.

RAO UES itself was created as the holder of certain significant electricity power generation, transmission and distribution assets during the industry privatization in 1992.

The Company was established in the course of the Russian electric utilities industry restructuring, discussed further below, to maintain and operate the high voltage electricity transmission network, received or earmarked for receipt from RAO UES and its subsidiaries, and to provide electricity transmission services using that network.

In 2002 and 2003 the assets of the transmission business (the high voltage network and related assets under construction) belonging to RAO UES were transferred to the Company by RAO UES as a contribution to the share capital of the Company.

As at 31 December 2006 the FGC UES Group (the “Group”) comprises FGC UES and its subsidiaries presented in Note 4, including 42 transmission companies (see also Sector restructuring).

The Group’s primary activity is the provision of services for the transmission of electric power via the Unified National Electrical Network (UNEN).

At 31 December 2006 the average number of employees of the Group was approximately 20 thousand (31 December 2005: approximately 14 thousand).

The registered office of the Company is located at bld. 5a, Academician Chelomey Str., Moscow 117630, Russia.

The Group is considered by management to have a single activity, the provision of electricity transmission services within the Russian Federation, and this activity comprises one industry and one geographic segment. Other activities do not result in significant revenues, assets or liabilities and do not constitute reportable segments as defined by International Accounting Standard 14 “Segment reporting”.

Relations with the state. At 31 December 2006 the state owned 52.7 per cent of RAO UES, who, in its turn, owned 100 per cent of the voting ordinary shares of the Company. The Government of the Russian Federation (“RF”) is the ultimate controlling party of the Company.

The “Concept of RAO UES’s Strategy for 2003 – 2008” and the existing legislation governing the process of power reform in the Russian Federation provide that before the end of the transitional period of reform, participation of the RF in the authorised capital of FGC UES shall be secured at the rate of at least 52%. Pursuant to the existing law, the government interest in FGC UES is expected to increase to 75% plus one voting share in the future.

The RF directly affects the Company’s operations through regulation by the Federal Tariff Service (FTS). Prior to the RF President Decree “On the System and Structure of Federal Executive Authorities” № 314 dated 9 March 2004 taking effect, tariffs were set by the Federal Energy Commission (FEC).

As discussed in Notes 23 and 24, the government’s economic, social and other policies have a material effect on the operations of the Group.

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
(in millions of Russian Roubles)

Note 1. The Group and its operations (continued)

Sector restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create market conditions to support the raising of 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 of the Russian Federation" and Federal Law № 36-FZ as 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".

The key elements of the electric utilities reform program approved by Government Resolution № 526 dated 11 July 2001 envision the incorporation by FGC UES of the transmission assets within the Unified Energy System previously owned by joint-stock electric and heat companies (AO-energос) and other entities in accordance with the law of Russian Federation.

Commencing in 2005 the transmission companies (TCs) started to be formed on the basis of the property of the trunk power grids of reorganised AO-energос. As at 31 December 2006 55 out of an expected 56 TCs were formed.

Following the scheme of consolidation of the UNEN of the AO-energo's, which was approved by the Board of Directors of RAO UES (Minutes No. 188 dated 25 February 2005) and for the purpose of the Federal Law № 36-FZ as of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period", RAO UES transferred to FGC UES the shares of 42 TCs in August 2006 (see Note 4).

The shares of the remaining TCs will be transferred as part payment for additional shares of FGC UES, as the shares become registered and necessary corporate measures are taken (see Note 25). It is expected that in course of further sector restructuring FGC UES will merge with the TCs.

The concentration of the management of trunk power grids under a single owner, FGC UES, is a matter of great significance because government policy requires that single tariffs and a single operational and development policy and coordinated technical overhaul and reconstruction of the networks have to be ensured throughout the whole UNEN area. This, in turn, will provide an opportunity to ensure the operation of a reliable technological infrastructure for the power market and guarantee equal access of the market participants to the grids, and hence to the market itself.

Note 2. Basis of preparation

Correction of error. In the financial statements for the year ended 31 December 2006 issued on 23 August 2007, the relative amounts of reported profit for the year attributable to the minority interest and to the shareholders of FGC UES were overstated and understated by RR 5,565 million, respectively. The Group originally allocated RR 12,065 million of the profit for the year to minority interest and RR 13,058 million to the shareholders of FGC UES. Following the correction of the error the restated values are RR 6,500 million and RR 18,623 million, for the minority interest and the shareholders of FGC UES respectively. The correction of the error results in the previously reported earnings per ordinary share for the shareholders of FGC UES - basic and diluted (in Russian Roubles) for the same period increasing from RR 0.05 to RR 0.08 and the equity attributable to shareholders of FGC UES increasing from RR 139,616 million to RR 145,181 million. The correction of the error had no effect on the reported profit for the year ended 31 December 2006 or on the cash flows reported for the same period, or on the assets or liabilities of the Group, or on the total equity of the Group including minority interest.

Statement of compliance. These combined and consolidated financial statements ("Financial Statements") have been prepared in accordance with, and comply 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 ("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.

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
(in millions of Russian Roubles)

Note 2. Basis of preparation (continued)

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation.

In prior periods the Group accounted for advances to construction companies and suppliers of property, plant and equipment as part of other non-current assets. Currently management considered that such advances should be disclosed as part of property, plant and equipment.

As a result of the reclassification of advances to construction companies and suppliers of property, plant and equipment, the increase of property, plant and equipment and decrease of other non-current assets as of 31 December 2005 is RR 3,301 million.

The management of the Group believes that the revised presentation provides more relevant and meaningful information about the changes in the financial position of the Group.

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble (RR), which is FGC UES's functional currency 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 changes in Group structure are described in Note 1.

In these combined and consolidated financial statements the Group accounted for the merger with TCs as transaction amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entities 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 the TCs 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 directly to equity, and reflected in merger reserve.

The results of operations of the subsidiaries for the period from 1 January 2005 up to the date of merger are recorded in equity as distribution to RAO UES.

Minority interest of the Group includes the proportional share of the subsidiaries' equity held by owners other than RAO UES and the results of operations up to the date of merger of the subsidiary with the Group.

Inflation accounting. 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.

Note 2. Basis of preparation (continued)

New accounting developments. These Financial Statements have been prepared by applying the accounting policies consistent with those of the previous financial year, except for the policies which were changed to comply with the new or amended standards and interpretations that are in force for the year beginning on 1 January 2006.

Listed below are those new or amended standards or interpretations which are in force for the year beginning on 1 January 2006:

- Amendment to IAS 19, “Actuarial gains and losses, group plans and disclosures”;
- Amendment to IAS 21, Amendment “Net investment in a foreign operation”;
- Amendment to IAS 39, Amendment to “The fair value option”;
- Amendment to IAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”;
- Amendment to IAS 39, Amendment “Financial guarantee contracts”;
- IFRIC 4, “Determining whether an arrangement contains a lease”;
- IFRIC 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”;
- IFRS 6, “Exploration for and evaluation of mineral resources”;
- IFRIC 6, “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”.

None of the above amendments to standards, new standards and interpretations had a material effect on the Group’s Financial Statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The new IFRS introduces new disclosures to improve the information disclosed about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the 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;

Note 2. Basis of preparation (continued)

- 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);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14 IAS 19, The Limit of a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008); and
- IAS 23, Borrowing Cost (amendment, effective for annual periods beginning on or after 1 January 2009). The main change from the previous version of the standard 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. Management is currently assessing the impact of the amendment to IAS 23 on the Group operations.

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

Going concern. The accompanying combined and 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 accompanying Financial Statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

Use of estimates. Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these Financial Statements in conformity with IFRS. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain 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 property, plant and equipment

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. 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.

Note 2. Basis of preparation (continued)

As a result of changes in market conditions and expectations regarding future performance in the year to 31 December 2006 the Group identified that the recoverable amount in respect of the Group's property, plant and equipment had materially changed. As a result a net reverse of RR 23,080 million of a previously recognised impairment was recognised (Note 6).

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Useful lives of property, plant and equipment

The estimation of the useful life of property, plant and equipment is a matter of management judgement 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 adjustment for future depreciation rates.

Reconsideration of useful life of property, plant and equipment by one year impacts future annual depreciation charge by approximately RR 900 million.

Pension obligations

Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuations, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially.

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 in these IFRS Financial Statements.

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 2. Basis of preparation (continued)

Carve-out methodologies

These combined and consolidated financial statements include carved out financial statement data of 41 TCs for the period as outlined in the table below.

Transmission company	Predecessor legal entity	Period requiring carve-out accounting
JSC "The Archangelsk Transmission company"	Arkhenergo	8 months ended 31 August 2005
JSC "The Astrakhan Trunk Grids"	Astrakhanenergo	8 months ended 31 August 2005
JSC "The Belgorod Transmission company"	Belgorodenergo	3 months ended 31 March 2005
JSC "The Bryansk Transmission company"	Bryanskenergo	8 months ended 31 August 2005
JSC "The Chelyabinsk Electricity Trunk Grids"	Chelyabenergo	8 months ended 31 August 2005
JSC "The Chuvashian Trunk Grids"	Chuvashenergo	8 months ended 31 August 2005
JSC "The Dagestan Trunk Grids"	Dagenergo	8 months ended 31 August 2005
JSC "The Ivanovo Trunk Grids"	Ivenergo	8 months ended 31 August 2005
JSC "The Karelian Trunk Grids"	Karelenergo	8 months ended 31 August 2005
JSC "The Kirov Electricity Trunk Grids"	Kirovenergo	8 months ended 31 August 2005
JSC "The Kola Trunk Grids"	Kolenergo	9 months ended 30 September 2005
JSC "The Kostroma Trunk Grids"	Kostromaenergo	8 months ended 31 August 2005
JSC "The Krasnoyarsk Trunk Grids"	Krasnoyarskenergo	9 months ended 30 September 2005
JSC "The Kursk Trunk Grids"	Kurskenergo	8 months ended 31 August 2005
JSC "The Khakassian Trunk Grid Company"	Khakasenergo	6 months ended 30 June 2005
JSC "The Lipetsk Trunk Grids"	Lipetskenergo	8 months ended 31 August 2005
JSC "Mosenergo Transmission company"	Mosenergo	3 months ended 31 March 2005
JSC "The Mari Trunk Grids"	Marienergo	8 months ended 31 August 2005
JSC "The Mordovian Transmission company"	Mordovenergo	8 months ended 31 August 2005
JSC "The Nizhny Novgorod Transmission company"	Nizhnovenergo	8 months ended 31 August 2005
JSC "The Orenburg Electricity Trunk Grids"	Orenburgenergo	9 months ended 30 September 2005
JSC "The Oryol Transmission company"	Oryolenergo	9 months ended 30 September 2005
JSC "The Omsk Transmission company"	Omskenergo	8 months ended 31 August 2005
JSC "The Penza Transmission company"	Penzaenergo	8 months ended 31 August 2005
JSC "The Perm Transmission company"	Permenergo	9 months ended 30 September 2005
JSC "Petersburg Trunk Grids"	Lenenergo	11 months ended 30 November 2005
JSC "Rostovenergo Transmission company"	Rostovenergo	8 months ended 31 August 2005
JSC "The Ryazan Trunk Grids"	Ryazanenergo	8 months ended 31 August 2005
JSC "The Sverdlovsk Trunk Grids"	Sverdlovenenergo	9 months ended 30 September 2005
JSC "The Smolensk Electricity Trunk Grids"	Smolenskenergo	8 months ended 31 August 2005
JSC "The Tambov Transmission company"	Tambovenergo	8 months ended 31 August 2005
JSC "The Tver Trunk Grids"	Tverenergo	8 months ended 31 August 2005
JSC "The Tomsk Trunk Grids"	Tomskenergo	3 months ended 31 March 2005
JSC "The Tula Transmission company"	Tulenergo	8 months ended 31 August 2005
JSC "The Tyumen Transmission company"	Tyumenenergo	8 months ended 31 August 2005
JSC "The Udmurtian Trunk Grids"	Udmurtenergo	8 months ended 31 August 2005
JSC "The Vladimir Trunk Grids"	Vladimirenergo	8 months ended 31 August 2005
JSC "The Volgograd Trunk Grids"	Volgogradenergo	8 months ended 31 August 2005
JSC "The Vologda Trunk Grids"	Vologdaenergo	9 months ended 30 September 2005
JSC "The Voronezh Transmission company"	Voronezhenergo	8 months ended 31 August 2005
JSC "The Yaroslavl Trunk Grids"	Yarenergo	8 months ended 31 August 2005

The main activity of the TCs after their incorporation is renting the transmission assets to JSC "ITC Center". In carving out this financial statement data, the following determinations were made:

- revenue is based on actual rental income for the period after incorporation until 31 December 2006;
- operating expenses are based on actual operating expenses for the period after carve out;
- depreciation of property, plant and equipment was calculated based on the IFRS predecessor values;

Note 2. Basis of preparation (continued)

- 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 establishment of the TC as stand-alone legal entities;
- property, plant and equipment were based on the IFRS predecessor values and rolled back to 1 January 2005 taking into account additions and disposals before the spin-off;
- accounts receivable, inventories, accounts payable, taxes payable were taken equal to their values at the spin-off date.

Note 3. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of FCG UES and the financial statements of those entities whose operations are controlled by FCG UES. Control is presumed to exist when FCG UES controls, directly or indirectly, through subsidiaries, more than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. In these circumstances, control exists on the basis of a significant shareholding combined with other factors which allow the Group to exercise control, namely: FCG UES has the majority in the Board of Directors, FCG UES is the dominant owner. The majority of the subsidiary companies described in Note 4 were formed during the reorganisation of the Energy system and were transferred to the Group by RAO UES. These transfers represent a reorganisation of assets under common control and, accordingly, have been accounted for in a manner similar to the pooling of interests method of accounting.

All inter-company balances and transactions have been eliminated. The minority interest in the Group subsidiaries has been disclosed as part of the Group's equity.

Transfers of subsidiaries between entities under common control. Transfers of businesses 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 subsidiaries 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 combined and consolidated financial statements as an adjustment to equity.

Investments. Investments intended to be held for an indefinite period of time are classified as available-for sale; these are included in 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 current assets. Management determines the appropriate categorization, current or non-current, at the time of the purchase and re-evaluates it based on maturity at each reporting date.

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed. For these investments, 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, if any.

Purchases and sales of investments are initially measured at fair value and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transactions costs. The available-for sale investments are subsequently carried at fair value. Unrealised 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. Realised 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.

The Group does not hold any investments held-to-maturity or for trading purposes.

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
(in millions of Russian Roubles)

Note 3. Summary of significant accounting policies (continued)

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 Russian Roubles 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 Russian Rouble and the US Dollar ("US\$") was 26.33: US\$1.00 (31 December 2005: RR 28.78: US\$1.00), between the Russian Rouble 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 authorised for issue.

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to the revaluation reserve in equity; the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Decreases are charged against revaluation reserve directly in equity to the extent they offset previous increases of the same asset recognised in revaluation reserve; all other decreases are charged to the income statement. The revaluation reserve in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the item is derecognised (on the retirement or disposal of the asset).

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

	Useful lives
Buildings	25-40
Electric power transmission grids	30-50
Substations	30
Other	10-20

The Group annually reviews the remaining useful lives by groups of facilities. The average remaining useful lives, in years, of assets by type of facility are as follows:

	The average remaining useful lives in years as at 1 January 2006
Buildings	23
Electric power transmission grids	22
Substations	18
Other	6

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the 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 impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Note 3. Summary of significant accounting policies (continued)

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Research costs are recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

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 tax (VAT). Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Such an allowance 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 the receivables.

Value added tax on purchases and sales. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) 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, the 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 valued 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 the 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.

Note 3. Summary of significant accounting policies (continued)

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 and liabilities are netted only within the individual companies of the Group. 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.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

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. All borrowing costs are expensed 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 statement of operations.

The Group operates defined benefit plans that cover the significant part of the Group's employees. Benefit plans define the amount of pension benefits 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 the defined benefit pension plans 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 rate of government bonds 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 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.

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. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of minority interests. The Group uses the 'economic entity' approach to the recognition of minorities, whereby minorities are treated as equity participants in the Group. As a consequence, any gains or losses resulting from the purchases and sales of the minority interests are recognised in the statement of changes in equity.

Revenue recognition. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue amounts are presented exclusive of value added tax.

FGC UES Group

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Note 3. Summary of significant accounting policies (continued)

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.

Revenue from sales of electricity is recognised on the delivery of electricity, exclusive of value added tax.

Note 4. Subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation. The subsidiaries as at 31 December 2006 and 31 December 2005 are presented below grouped by type of activity.

Transmission companies:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
JSC "The Archangelsk Transmission company"	49.00	49.00	JSC "The Omsk Transmission company"	49.00	60.39
JSC "The Astrakhan Trunk Grids"	48.66	48.66	JSC "The Orenburg Electricity Trunk Grids"	100.00	100.00
JSC "The Belgorod Transmission company"	49.00	65.29	JSC "The Oryol Transmission company"	49.00	60.35
JSC "The Bryansk Transmission company"	49.00	65.22	JSC "The Penza Transmission company"	49.00	49.00
JSC "The Chelyabinsk Electricity Trunk Grids"	49.00	58.06	JSC "The Perm Transmission company"	49.00	64.36
JSC "The Chuvashian Trunk Grids"	100.00	100.00	JSC "Petersburg Trunk Grids"	49.00	57.40
JSC "The Daghestani Trunk Grids"	51.00	51.00	JSC "Rostovenergo Transmission company"	48.43	48.43
JSC "The Ivanovo Trunk Grids"	49.66	49.66	JSC "The Ryazan Trunk Grids"	49.00	49.00
JSC "The Kaluga Transmission company"	52.25	52.25	JSC "The Smolensk Electricity Trunk Grids"	48.68	59.26
JSC "The Karelian Trunk Grids"	100.00	100.00	JSC "The Sverdlovsk Trunk Grids"	49.00	65.33
JSC "The Kirov Electricity Trunk Grids"	48.17	48.17	JSC "The Tambov Transmission company"	49.01	49.01
JSC "The Khakassian Trunk Grid Company"	100.00	100.00	JSC "The Tomsk Trunk Grids"	52.03	59.88
JSC "The Kola Trunk Grids"	49.20	65.52	JSC "The Tver Trunk Grids"	49.00	49.00
JSC "The Kostroma Trunk Grids"	49.00	49.00	JSC "The Tula Transmission company"	49.00	49.00
JSC "The Krasnoyarsk Trunk Grids"	51.75	66.33	JSC "The Tyumen Transmission company"	100.00	100.00
JSC "The Kursk Trunk Grids"	49.00	49.00	JSC "The Udmurtian Trunk Grids"	49.00	55.39
JSC "The Lipetsk Trunk Grids"	49.02	49.02	JSC "The Vladimir Trunk Grids"	49.00	49.00
JSC "The Mari Trunk Grids"	64.44	70.07	JSC "The Volgograd Trunk Grids"	48.98	61.33
JSC "The Mordovian Transmission company"	53.14	53.14	JSC "The Vologda Trunk Grids"	49.00	49.00
JSC "Mosenergo Transmission company"	50.90	50.90	JSC "The Voronezh Transmission company"	49.01	49.01
JSC "The Nizhny Novgorod Transmission company"	49.00	49.00	JSC "The Yaroslavl Trunk Grids"	47.36	47.36

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 4. Subsidiaries (continued)

Other companies:

Name	Ownership %	Voting %	Activity
JSC "The Moscow Department of Power Communications"	99.99	99.99	Communication services
JSC "Nurenergo"	77.00	77.00	Generation, distribution and sale of electricity and heat in the Republic of Chechnya

Transmission companies. The shares of all the above transmission companies (TCs), that were formed in 2005, were received by FGC UES in August 2006 as the payment of the additional issue of ordinary shares of FGC UES. These financial statements present this transaction as a transaction under common control (Note 2).

JSC "The Moscow Department of Power Communications". JSC "The Moscow Department of Power Communications" is the industry operator of the corporate communication and data transmission system of RAO UES. FGC UES purchased a 99.99 % interest in "The Moscow Department of Power Communications" from RAO UES under a purchase and sale agreement No. 79-15/KP-7 of 30 March 2005 for a total cash consideration of RR 20 million.

JSC "Nurenergo". In 2004 FGC UES purchased 61.54% of the issued shares in JSC "Nurenergo" for a total cash consideration of RR 943 million. These financial statements present this transaction as a transaction between entities under common control.

In 2005 a decision was made to increase the share capital of JSC "Nurenergo" by means of an issue of 1,029,780,921 additional ordinary shares with a nominal value of RR 1.00 per share in the total amount of RR 1,030 million. In 2006 the whole issue was purchased by FGC UES for the total consideration paid in cash of RR 1,030 million. Following this acquisition, with effect from March 2006, FGC UES's interest in JSC "Nurenergo" increased from 61.54% to 77%.

Due to the difficult operating environment in the Republic of Chechnya, JSC "Nurenergo" has negative net assets after accounting for impairment (Note 6); no minority interest in the negative net asset position of JSC "Nurenergo" is recognised.

Note 5. Related parties

Transactions with RAO UES and the RAO UES Group

In the normal course of business the Group enters into transactions with RAO UES and companies of the RAO UES Group.

The Group had the following significant transactions and balances with RAO UES and companies of the RAO UES Group:

	Year ended 31 December 2006	Unaudited
		Year ended 31 December 2005
Transmission revenue	51,653	26,346
Other revenues	312	92

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 5. Related parties (continued)

	31 December 2006	Unaudited 31 December 2005
Accounts payable to shareholders	34,338	-
Trade payables	2,333	4,374
Trade receivables (Net of allowance for doubtful debtors of RR 700 million as at 31 December 2006 and RR 42 million as at 31 December 2005)	1,528	456
Loans issued	1,004	888
Other receivables	978	532
Loans received	505	382

The Company also guaranteed obligations of certain RAO UES Group companies (Note 23).

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. Bank loans are provided at the prevailing market rates. Taxes are accrued and settled in accordance with the Russian tax legislation.

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

	Year ended 31 December 2006	Unaudited Year ended 31 December 2005
Sub-lease expenses of FGC UES paid to ITC Center	(4,647)	-
Operating lease income of TCs received from ITC Center	3,220	915
Interest income	99	22
Repair and maintenance services income	47	2,075
Interest expense	(9)	(46)

In 2005 and 2006 the JSC "ITC Center" (85% owned by Russian Federation and 15% owned by FGC UES) acted as the lessee of the TC's property, plant and equipment. In 2005 JSC "ITC Center" subcontracted FGC UES for the maintenance of this property. In 2006 JSC "ITC Center" subleased the property of TCs to FGC UES. Expenses on maintenance and depreciation of this property, plant and equipment were also borne by the Group entities.

The income received and expenses incurred during the year ended 31 December 2006 in relation to operating leases of the TCs' property, plant and equipment are presented net in these combined and consolidated financial statements based on the substance of the arrangement.

	31 December 2006	Unaudited 31 December 2005
Advances issued	1,766	1,831
Accounts receivable	561	386
Accounts payable	5	82

Tax balances are disclosed in Notes 13 and 18. Tax transactions are disclosed in the statement of operations.

Directors' compensation. Compensation is paid to the members of Management Board 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. Also, in 2006 additional medical coverage was provided to the members of Management Board and their family members. Total remuneration in the form of salary, bonuses and non-cash benefits provided to the members of the Board of Directors and Management Board for the year ended 31 December 2006 was RR 95 million (the year ended 31 December 2005 – RR 19 million).

The members of Management Board also participate in the Group's pension plan (Note 15).

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 6. Property, plant and equipment

	Industrial buildings	Power transmission grids	Substations	Construction in process	Other	Total
Appraisal value or cost						
Opening balance as at 31 December 2005 (unaudited)	8,543	155,093	66,830	39,334	23,554	293,354
Additions	2	1,114	188	28,240	1,519	31,063
Transfers	1,170	1,789	7,201	(10,655)	495	-
Disposals	(7)	(1)	(454)	(145)	(191)	(798)
Closing balance as at 31 December 2006	9,708	157,995	73,765	56,774	25,377	323,619
Accumulated depreciation and impairment						
Opening balance as at 31 December 2005 (unaudited)	(3,116)	(57,914)	(29,002)	(2,598)	(14,295)	(106,925)
Charge for the period	(259)	(4,503)	(2,727)	-	(1,760)	(9,249)
Reversal of impairment provision	932	14,030	6,285	-	1,833	23,080
Impairment loss	(1)	-	(1)	(505)	(15)	(522)
Disposals	1	-	60	-	191	252
Closing balance as at 31 December 2006	(2,443)	(48,387)	(25,385)	(3,103)	(14,046)	(93,364)
Net book value as at 31 December 2006	7,265	109,608	48,380	53,671	11,331	230,255
Appraisal value or cost						
Opening balance as at 31 December 2004 (unaudited)	7,886	149,827	63,243	25,847	21,638	268,441
Additions (unaudited)	180	1,176	1,607	21,584	726	25,273
Transfers (unaudited)	480	4,100	2,238	(8,057)	1,239	-
Disposals (unaudited)	(3)	(10)	(258)	(40)	(49)	(360)
Closing balance as at 31 December 2005 (unaudited)	8,543	155,093	66,830	39,334	23,554	293,354
Accumulated depreciation and impairment						
Opening balance as at 31 December 2004 (unaudited)	(2,891)	(53,412)	(26,801)	(838)	(12,775)	(96,717)
Charge for the period (unaudited)	(225)	(4,504)	(2,203)	-	(1,541)	(8,473)
Impairment loss (unaudited)	-	-	(28)	(1,760)	(20)	(1,808)
Disposals (unaudited)	-	2	30	-	41	73
Closing balance as at 31 December 2005 (unaudited)	(3,116)	(57,914)	(29,002)	(2,598)	(14,295)	(106,925)
Net book value as at 31 December 2004 (unaudited)	4,995	96,415	36,442	25,009	8,863	171,724
Net book value as at 31 December 2005 (unaudited)	5,427	97,179	37,828	36,736	9,259	186,429

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 6. Property, plant and equipment (continued)

The property, plant and equipment contributed to FGC UES by RAO UES have been revalued at 31 December 2001. The revaluation was performed by independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was depreciated replacement cost. The carrying amount of such property, plant and equipment as at 31 December 2006 is RR 173,801 million (as at 31 December 2005: RR 153,690 million).

The property, plant and equipment of the TCs are carried at depreciated cost less impairment and were not subject to revaluation. The carrying amount of such property, plant and equipment as at 31 December 2006 is 56,454 million (as at 31 December 2005: RR 32,739 million).

The Group is currently undertaking a periodic revaluation of property, plant and equipment. Whilst the results of the revaluation are not yet known, management believes that the carrying amount at 31 December 2006 does not differ materially from the fair value.

Construction in process represents the carrying amount of property, plant and equipment that has not yet been put into operation, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2006 such advances amounted to RR 6,916 million (as at 31 December 2005: RR 3,301 million).

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.

The Group's assets do not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registration body or to formalize the right for rent. According to Russian legislation expiry date to this option is 1 January 2008. As at 31 December 2006, the Group's companies have not filed any application to exercise the purchase option.

Impairment. The impairment loss recognised in 2006 in the amount of RR 522 million (2005: RR 1,808 million) arose in relation to property, plant and equipment of JSC "Nurenergo". As a consequence of the military, political and economic situation in Chechen Republic, the earnings of JSC "Nurenergo" from the sales of electricity purchased on wholesale electricity market do not exceed current operating expenditures. A 100% impairment loss was recognised in respect of the balance of JSC "Nurenergo" for construction in progress.

Cost and accumulated depreciation of TCs' assets including the impairment provision were recognised by the Group at the predecessor values. The impairment provision included in accumulated depreciation balance as at 31 December 2006 and as at 31 December 2005 was RR 15,282 million and RR 40,534 million, respectively.

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

- Upward revisions, based on recent trends, in the expected growth of demand for electricity in the majority of the regions of Russia, which supports growth of demand for electricity transmission services;
- Expected changes in tariff regulation from the FTS, which assume that the current cost-plus criteria for setting transmission tariff levels will be replaced by the Regulatory Asset Base system, which offers the Group a guaranteed return on its investment base.

These developments have resulted in a change to the assumptions that were used to determine the value in use of the Group's property, plant and equipment. An impairment review has been carried out by comparing the recoverable amount of property, plant and equipment with their net book values. For the purpose of the review, each of the Group's entities was taken as a separate 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:

- The Regulatory Asset Base as the tariff-setting mechanism for electricity transmission will be introduced during 2010-2012;
- The return on investment, provided by the tariff after the Regulatory Asset Base is introduced, will be 9.47%;

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 6. Property, plant and equipment (continued)

- Growth of operating costs will be fully accounted for by the FTS in the course of establishing electricity transmission tariffs;
- The inflation rate will not exceed 7.5% per year;
- The discount rate range used to determine assets value in use varied from 12.43% to 13.55%.

Management's assessment indicates that the value in use of property, plant and equipment will not be lower than its net book value including the effect of the reversal of the impairment provision for a number of cash generating units. Consequently, the Group has recorded a reversal of the previously recognised impairment loss in the amount of RR 23,080 million. A respective, gain together with a corresponding deferred tax expense of RR 5,539 million, were recognised in the statement of operations for the year ended 31 December 2006.

A change in the expected return on the investment by 1% or the delay in the introduction of the Regulatory Asset Base tariff-setting mechanism by one year would impact the recoverable amount of property, plant and equipment by approximately 15% and 11%, respectively.

Operating leases. The Group leases a number of land areas owned by the local government under operating leases. The lease payments due are determined by agreements and are payable as follows:

	31 December 2006	Unaudited 31 December 2005
Before one year	133	134
Between two and five years	454	423
After five years	1,672	1,572
Total	2,259	2,129

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

Note 7. Intangible assets

	Corporate system of managing geographically dispersed resources	Other software and licenses	Total
As at 1 January 2005 (unaudited)			
Cost	-	2	2
Accumulated amortisation	-	-	-
Net book value as at 1 January 2005 (unaudited)	-	2	2
Year ended 31 December 2005 (unaudited)			
Additions	572	550	1,122
Disposals	-	-	-
Amortisation charge	-	(32)	(32)
As at 31 December 2005 (unaudited)			
Cost	572	552	1,124
Accumulated amortisation	-	(32)	(32)
Net book value at 31 December 2005 (unaudited)	572	520	1,092
Year ended 31 December 2006			
Additions	311	1,279	1,590
Disposals	-	(18)	(18)
Amortisation charge	(20)	(176)	(196)
As at 31 December 2006			
Cost	883	1,813	2,696
Accumulated amortisation	(20)	(208)	(228)
Net book value at 31 December 2006	863	1,605	2,468

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Note 7. Intangible assets (continued)

The Corporate system of managing geographically dispersed resources is a software system for gathering, processing and storing of information on conditions in the transmission network, which is required for the effective maintenance of UNEN. The Corporate system of managing geographically dispersed resources is amortised during 5 years starting from December 2006.

Other software and licenses include cost and prepayments made in respect of implementation of SAP R-3 software, and related licenses. Amortisation of software will be started on completion of the implementation projects.

Note 8. Available-for-sale investments

Available-for-sale investments include shares in JSC "Sangtudinskaya GES-1", a company which is incorporated and operates in Tajikistan. During the reporting period the Group acquired 83,100 ordinary shares of JSC "Sangtudinskaya GES-1" for RR 2,000 million. As at 31 December 2006 the Group's interest in JSC "Sangtudinskaya GES-1" is 21.16%.

Management had assessed the level of influence that the Group has over JSC "Sangtudinskaya GES-1" and determined that this does not amount to significant influence. Consequently, the investment in JSC "Sangtudinskaya GES-1" has been classified as non-current available-for-sale investment.

Note 9. Other non-current assets

	31 December 2006	Unaudited 31 December 2005
VAT recoverable	2,674	2,424
Long-term loans issued	82	888
Rosbank promissory notes	184	165
Other non-current assets	302	127
Total	3,242	3,604

During 2005 the Group acquired non-interest bearing promissory notes of Rosbank in the amount of RR 483 million maturing in 2015. These promissory notes were initially recognised in the Financial Statements at their fair value at the acquisition date. Their fair value was determined using a 12 percent discount rate and with reference to their maturity. The discounting effect on these promissory notes was included in finance cost (Note 21).

Note 10. Accounts receivable and prepayments

	31 December 2006	Unaudited 31 December 2005
Advances to suppliers and prepayments	2,431	1,339
Trade receivables		
(Net of allowance for doubtful debtors of RR 1,327 million as at 31 December 2006 and RR 396 million as at 31 December 2005)	2,811	1,476
VAT recoverable	1,571	5,848
Other receivables	4,692	617
Total	11,505	9,280

The above other receivables balance as at 31 December 2006 includes RR 2,722 million of VAT prepayments (as at 31 December 2005: nil), which are to be settled against future VAT liabilities.

Management has determined the provision for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 12 percent have been used in the estimate of fair value of future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates their fair value.

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Note 11. Inventories

	31 December 2006	Unaudited 31 December 2005
Repair materials	895	736
Spare parts	525	489
Other inventories	50	44
Total	1,470	1,269

The cost of inventories is shown net of an obsolescence provision for RR 6 million as at 31 December 2006 and 31 December 2005. At 31 December 2006 and 31 December 2005 the Group had no inventories pledged as security under loan and other agreements.

Note 12. Equity

Basis of presentation of movements in equity. The Group was formed by the combination of electricity transmission businesses under common control. Because of the consequent use of the predecessor basis of accounting (Note 3), the majority of the net equity recognised by 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 has existed from 1 January 2005 (Note 3).

Share Capital

	Number of shares issued and fully paid	31 December 2006	Unaudited 31 December 2005
Ordinary shares	243,214,483,559	121,607	121,607

Authorised share capital is 403,214,483,559 ordinary shares with a nominal value of RR 0.5 per share.

In 2006 the Company commenced the process of issuing additional ordinary shares. As at 31 December 2006 the Company had received consideration for 68,675,855,789 shares in the total amount of RR 34,338 million. This consideration was received from RAO UES in the form of shares of TCs with a Russian statutory value of RR 29,764 million, grid assets with a Russian statutory value of RR 1,529 million and cash of RR 3,045 million. As at 31 December 2006 the issue was not registered by the Federal Financial Market Service and, consequently, the consideration received is classified as a liability to shareholders in these Financial Statements. The issue was completed and registered in May 2007 (Note 25). The Company's share capital will be increased as of this date.

Merger reserve. Based on the application of predecessor accounting (Note 2), the difference of RR 9,402 million between the statutory value of the share capital to be issued, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity.

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. Specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2006, the statutory net profit of the parent company, FGC UES, as reported in the published statutory financial statements, was RR 1,833 million (for the year ended 31 December 2005: RR 1,997 million). 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.

A dividend was declared in June 2006 in respect of the year ended 31 December 2005 of RR 0.00151016 per ordinary share for total amount of RR 367 million. No dividends were declared in 2005 in respect of the year ended 31 December 2004.

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 13. Profit tax

Profit tax charge comprises the following:

	For the year ended 31 December 2006	Unaudited For the year ended 31 December 2005
Current profit tax charge	(1,719)	(1,548)
Deferred profit tax charge	(7,054)	(1,169)
Total profit tax charge	(8,773)	(2,717)

During 2006 and 2005 the Group was subject to profit tax rate of 24 percent on taxable profit.

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

Net profit before profit tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	Year ended 31 December 2006	Unaudited Year ended 31 December 2005
Profit before profit tax	33,896	9,898
Theoretical profit tax charge at statutory tax rate of 24 percent	(8,135)	(2,375)
Tax effect of items which are not deductible or assessable for taxation purposes	(268)	337
Non-recognised deferred tax asset	(370)	(679)
Total profit tax charge	(8,773)	(2,717)

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RR 1,253 million (2005: RR 883 million) at JSC "Nurenergo". The tax loss carry forwards expire in 10 years from their origination.

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 24 percent, the rate expected to be applicable when the asset or liability will reverse.

Deferred profit tax assets and liabilities for the year ended 31 December 2006

	31 December 2006	Movements for the year recognised in the Statement of operations	Unaudited 31 December 2005
Deferred profit tax liabilities	(15,073)	(6,628)	(8,445)
Property, plant and equipment	(15,001)	(6,636)	(8,365)
Trade receivables	(72)	8	(80)
Deferred profit tax assets	751	(426)	1,177
Property, plant and equipment	273	(530)	803
Pension obligations	441	67	374
Trade receivables	37	37	0
Deferred profit tax liabilities, net	(14,322)	(7,054)	(7,268)

Property, plant and equipment movement includes a deferred tax expense of RR 5,539 million in relation to the reversal of a previously recognised impairment loss (Note 6).

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 13. Profit tax (continued)

Deferred profit tax assets and liabilities for the year ended 31 December 2005 (Unaudited)

	Movements for the year recognised in the		
	31 December 2005	Statement of operations	31 December 2004
Deferred profit tax liabilities	(8,445)	(783)	(7,662)
Property, plant and equipment	(8,365)	(701)	(7,664)
Trade receivables	(80)	(75)	(5)
Other	-	(7)	7
Deferred profit tax assets	1,177	(386)	1,563
Property, plant and equipment	803	(441)	1,244
Pension obligations	374	55	319
Deferred profit tax liabilities, net	(7,268)	(1,169)	(6,099)

Note 14. Non-current debt

	Currency	Effective interest rate	Due	31 December	Unaudited
				2006	31 December 2005
Certified interest-bearing non-convertible bearer bonds					
Issue 01	RR	8.80%	18.12.2007	5,000	5,000
Certified interest-bearing non-convertible bearer bonds					
Issue 02	RR	8.25%	22.06.2010	7,000	7,000
Certified interest-bearing non-convertible bearer bonds					
Issue 03	RR	7.10%	12.12.2008	7,000	7,000
Certified interest-bearing non-convertible bearer bonds					
Issue 04	RR	7.30%	06.10.2011	6,000	-
Certified interest-bearing non-convertible bearer bonds					
Issue 05	RR	7.20%	01.12.2009	5,000	-
Other non-current debt				445	455
Total non-current debt				30,445	19,455
Less: current portion of non-current debt				(5,000)	(43)
Total				25,445	19,412

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans and the current market rate for floating rate loans.

During 2004-2006 the Group issued Certified interest-bearing non-convertible bearer coupon bonds for the total nominal value of RR 30,000 million. The interest is defined at the time of the issue and is fixed for the maturity period. The coupon is payable semi-annually.

The bonds of Issue 01 mature in December 2007, accordingly, the bond value of RR 5,000 million is included in short-term debt.

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Note 14. Non-current debt (continued)

<i>Maturity table</i>	31 December 2006	Unaudited
		31 December 2005
Due for payment		
Between one and two years	7,455	5,000
Between two and three years	5,000	7,412
Between three and four years	7,000	-
Between five and seven years	6,000	7,000
Total	25,445	19,412

The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

As at 31 December 2006 the estimated fair value of total non-current debt (including the current portion) was RR 30,335 million (31 December 2005: RR 19,832 million), which is estimated using the market prices for quoted FGC UES bonds as at 31 December 2006.

Note 15. Pension obligations

The post employment and retirement program of the Group consists of the voluntary occupational pension plans and various post employment, long-term and jubilee benefits. The post employment and retirement program is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program carried through Non-state pension fund of electrical energy industry (NPFE) comprises the main part of the program.

According to the rules of the pension plan, employees with 10 years of service in the Group or RAO UES at the date of retirement or dismissal from the Company are eligible for a voluntary pension program.

The Group also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally, the Group provides financial support payments of a defined benefit nature to certain former employees, who have received awards from the government, industry or Company. Such benefits are paid to both those who qualify for the occupational pension plan and those who do not.

The latest independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed as at 31 December 2006 using individual member's census data as at the valuation date.

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

Amounts recognised in the Group's combined and consolidated balance sheet:

	31 December 2006	Unaudited
		31 December 2005
Present value of defined benefit obligations	3,367	3,327
Unrecognised actuarial gains / (losses)	130	(102)
Unrecognised past service cost	(836)	(942)
Net pension liabilities in balance sheet	2,661	2,283

Amounts recognised in the Group's combined and consolidated statement of operations:

	Year ended 31 December 2006	Unaudited
		Year ended 31 December 2005
Current service cost	223	229
Interest cost	225	201
Recognised past service cost	106	106
Net expense recognised in the statement of operations	554	536

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 15. Pension obligation (continued)

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

	31 December 2006	Unaudited 31 December 2005
Present value of defined benefit obligations at the beginning of the year	3,328	2,971
Service cost	223	229
Interest cost	225	201
Actuarial (gains) / losses	(233)	103
Benefits paid	(176)	(176)
Present value of defined benefit obligations as at 31 December 2006	3,367	3,328

Principal actuarial assumptions are as follows:

	31 December 2006	Unaudited 31 December 2005
Nominal discount rate at 31 December	6,75%	6,75%
Nominal pension entitlement increase (prior to benefit commencements)	7,0%	7,0%
Nominal increase in pensions-in-pay (after benefit commencement)	5,0%	5,0%
Mortality	Russian population mortality table 1998	Russian population mortality table 1998

The expected contributions under the voluntary pension program in 2007 are RR 115 million.

Note 16. Current debt and current portion of non-current debt

	Effective interest rate	31 December 2006	Unaudited 31 December 2005
Loan from European Bank for reconstruction and development	MosPrime + 2.15%	5,000	-
Current portion of non-current debt		5,000	43
Current debt	7.2-8.8%	255	817
Total		10,255	860

Current debts include a loan from European Bank for Reconstruction and Development in the amount of RR 5,000 million payable in 2013. The loan was obtained for modernisation and reconstruction of large high-voltage electric substations – the Central Substation and the Arzamas Substation. The loan interest is variable at MosPrime plus 2.15%.

As of 31 December 2006 the Group did not comply with the liquidity requirements stated in the conditions of a loan agreement with the European Bank for Reconstruction and Development due to the unaccomplished and unregistered share issue (Note 12) and the recognition of a current liability in respect of this issue in amount of RR 34,338 million. These breaches give the European Bank for Reconstruction and Development the right to demand immediate repayment of the loan. Consequently, this loan has been reclassified to current debt at the balance sheet date. Following the registration of the share issue, the liquidity of the Group will improve.

Note 17. Accounts payable and accrued charges

	31 December 2006	Unaudited 31 December 2005
Trade payables	7,650	6,563
Accrued liabilities and other creditors	1,240	1,034
Advances received	985	57
Total	9,875	7,654

FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2006
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Note 18. Taxes payable

	31 December 2006	Unaudited 31 December 2005
Value added tax	162	518
Property tax	74	66
Profit tax	64	171
Employee taxes	28	24
Other taxes	29	27
Total	357	806

The value added tax payable is recorded inclusive of deferred value added tax in the amount of RR 149 million (31 December 2005: RR 223 million), which had been incurred prior to 31 December 2005 due to the time difference between revenue recognition and cash receipt from customers. Starting from 1 January 2006 value added tax is payable to the tax authorities on an accrual basis (Note 3), while value added tax originated prior to 1 January 2006 is payable to the tax authorities based on cash receipts from customers or appropriate accounts receivable write-off, but not later than 1 January 2008.

Note 19. Revenues

	For the year ended 31 December 2006	Unaudited For the year ended 31 December 2005
Transmission fee	52,688	28,406
Electricity sales	667	306
Rental income	232	2,845
Grids repair and maintenance services	91	5,248
Other revenues	1,662	952
Total	55,340	37,757

During 2006 the Group provided electricity transmission services using transmission assets of other owners – TCs which are not subsidiaries of FGC UES as at 31 December 2006, but which should be merged with the Group in the future (Notes 1 and 25).

Note 20. Operating expenses

	For the year ended 31 December 2006	Unaudited For the year ended 31 December 2005
Purchased electricity	10,744	1,215
Depreciation of property, plant and equipment	9,249	8,473
Employee benefit expenses and payroll taxes	7,520	4,153
Repair and maintenance services	5,796	4,258
Doubtful debtor expense/ (income)	1,345	(538)
Rent	1,261	345
Insurance	827	898
Consulting, legal and auditing services	620	382
Security services	573	574
Expenses related to the purchase of other materials	466	494
Taxes, other than on income	401	407
Loss on disposal of property, plant and equipment	321	215
Business trip and field travel expenses	254	151
Transportation services	229	110
Amortisation of intangible assets	196	32
Other	2,547	3,725
Total	42,349	24,894

FGC UES Group

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Note 20. Operating expenses (continued)

During 2006 the Group provided electricity transmission services using transmission assets of other owners (Note 19). The Group also performs maintenance of the transmission assets owned by these entities.

Starting from 2006 FGC UES purchased electricity to compensate electricity losses during transportation. Prior to that date such electricity losses were a direct cost of the users of the UNEN. As a result of this change the transmission tariffs were adjusted to compensate for this additional expense.

The assets of the TCs during 2006 were rented out to JSC "ITC Center", and then subrented by JSC "ITC Center" to the Company (Note 5). After the incorporation of the TCs the Company also hired the personnel previously employed by the respective AO-energos and incurred the expenses related to the maintenance of the TCs' transmission assets.

Employee benefit expenses include voluntary pension program and long-term benefits (Note 15).

Note 21. Finance cost

	For the year ended 31 December 2006	Unaudited For the year ended 31 December 2005
Interest expense	1,960	883
Amortization of discount of gain on non-interest bearing debt	25	371
Total finance cost	1,985	1,254

The discounting of non-interest bearing debt gives rise to a gain. Subsequent to its initial recognition, the discount is amortised over the period of the debt as an expense.

Note 22. Earnings per ordinary share for profit attributable to the shareholders of FGC UES

	For the year ended 31 December 2006 as restated	Unaudited For the year ended 31 December 2005
Weighted average number of ordinary shares issued (millions of shares)	243,214	243,214
Profit attributable to the shareholders of FGC UES (millions of RR)	18,623	6,395
Weighted average earnings per share - basic and diluted (in RR)	0.08	0.03

Note 23. Contingencies, Commitments and Operating Risks

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

Insurance. The Group held 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 a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group.

Note 23. Contingencies, Commitments and Operating Risks (continued)

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

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, including the uncertainty of deductibility of certain types of costs for taxation purposes. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements.

Environmental matters. The 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, other than any amounts which have been accrued in the accompanying consolidated balance sheet.

Operating environment. 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. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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

Capital commitments. Future capital expenditures for which contracts have been signed amount to RR 61,599 million and RR 22,610 million at 31 December 2006 and 31 December 2005, respectively.

Obligations under guarantee contracts. Guarantee contracts are irrevocable assurances that the Group will make payments in the event of the other party's default on its obligations. The Group guarantees the fulfillment of JSC Kubanenergo's obligations under the loan agreement with JSC Gazprombank in the amount of RR 387 million. The date of termination of the security obligation is 20 November 2008. In addition, the Group issued a guarantee to meet JSC Promsvyazleasing obligations under a loan agreements with RF Savings Bank in the amount of RR 32 million.

Note 24. Financial instruments and financial risk factors

Financial risk factors. The Group's activities expose it to a variety of financial risks, including the collectibility of receivables and changes in interest rates. 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 of the Company 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.

FGC UES Group

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Note 24. Financial instruments and financial risk factors (continued)

Foreign exchange risk. The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles.

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 only exposed to the interest rate risk in connection with the market value of interest-bearing long-term borrowings. The largest part of long-term borrowings interest rate is fixed, although the bank loan interest rate is variable. The Group has no material interest-bearing assets.

Fair value. Management believes that the fair value of other financial assets and financial liabilities approximates their current value.

Note 25. Post-balance sheet events

Dividends. In June 2007 the Annual General Shareholders Meeting of the Company approved a dividend in respect of the year ended 31 December 2006 in the amount of RR 587.8 million or RR 0.001626664 per ordinary share.

Merger of TCs and ITCs with FGC UES. In March 2007 the Board of Directors of RAO UES took a decision to approve the merger of TCs and ITCs with FGC UES during the reorganization of RAO UES (Minutes of RAO UES Board of directors No. 248 dated 30 March 2007).

Completion of the additional issue of shares of FGC UES. In May 2007 the Federal Commission for Securities Markets (FCSM) registered the issue of additional ordinary shares of FGC UES (Note 12). The total number of shares issued was 118,167,724,361 with a nominal value of RR 0.5 per share, for the total consideration of RR 59,084 million. As a result of this issue the Russian Federation represented by the Federal Agency for Federal Property Management (FAFPM) acquired an interest of 12.44% in FGC UES. The interest of RAO UES in FGC UES dropped from 100% to 87.56%. The respective increase of share capital was registered by the tax authorities in July 2007.

Additional issue of shares of FGC UES. In August 2007 FGC commenced the process of issuing of additional ordinary shares. The number of ordinary shares to be issued is 120 000 000 000 with a nominal value per share of 0.5 Russian Roubles. This issue is to be purchased by RAO UES and the Russian Federation.

Changes in FGC Group structure. In September 2007 RAO UES partly paid the additional shares issued by FGC by controlling interest in 8 TCs and 50% share in JSC OES Gruzrosenergo, previously owned by RAO UES.

Extraordinary shareholders' meeting. In October 2007, the Board of Directors of the Company took a decision to call an extraordinary shareholders' meeting on 14 December 2007. The shareholders meeting will consider matters related to FGC's reorganization (in accordance with the scheme of RAO UES's reorganization approved by the Board of Directors of RAO UES in March 2007). It will also consider an additional ordinary shares issue of 960,000,000,000 shares with a nominal value of RR 0.5 per share for the total amount of RR 480,000 million.