JSC OGK-4
COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER, 2006

JSC OGK-4
Combined and Consolidated Balance Sheet as at 31 December 2006
(in thousands of Russian Roubles)

	Note	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	6	24,186,643	18,403,282
Intangible assets		211,257	77,258
Investments in associates		36	36
Deferred income tax assets	16	118,309	176,430
Other non-current assets		16,887	52,194
Total non-current assets		**24,533,132**	**18,709,200**
Current assets			
Cash		778,079	1,613,850
Accounts receivables and prepayments	8	1,262,107	1,621,283
Inventories	7	1,736,032	1,059,337
Current income tax prepayments		265,694	32,703
Short-term financial assets	9	600,000	100,988
Total current assets		**4,641,912**	**4,428,161**
TOTAL ASSETS		**29,175,044**	**23,137,361**
EQUITY AND LIABILITIES			
Equity			
Ordinary shares (nominal value RR 49 130 626 thousand)	10	49,130,626	8,210,831
Merger reserve	10	(31,406,171)	7,626,804
Retained earnings		4,711,197	(39,406)
Equity attributable to shareholders of JSC OGK-4		**22,435,652**	**15,798,228**
Minority interest		**-**	1,915,851
Total equity		**22,435,652**	**17,714,080**
Non-current liabilities			
Deferred income tax liabilities	16	3,769,722	2,351,859
Non-current debt	11	60	74,044
Pension liabilities	12	326,810	257,722
Other non-current liabilities		1,124	-
Total non-current liabilities		**4,097,716**	**2,683,625**
Current liabilities			
Current debt and current portion of non-current debt	13	635,002	235,079
Accounts payable and accruals	14	1,775,935	1,860,325
Current income tax liabilities		-	85,730
Other taxes payable	15	230,739	558,522
Total current liabilities		**2,641,676**	**2,739,656**
Total liabilities		**6,739,392**	**5,423,281**
TOTAL EQUITY AND LIABILITIES		**29,175,044**	**23,137,361**

General Director — A.V. Kitashev

Chief Accountant — V.S. Chiruhin

15 June, 2007

The combined and consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 and 34

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

(in thousands of Russian Roubles)

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Revenues	17	26,110,479	21,669,127
Operating expenses (excluding reversal of impairment of property, plant and equipment)	18	(25,445,333)	(21,374,107)
Reversal of impairment of property, plant and equipment	6	7,166,561	-
Impairment of property, plant and equipment	6	(553,204)	-
Operating expenses		(18,831,976)	(21,374,107)
Other operating income		96,551	96,208
Operating profit		**7,375,054**	**391,228**
Finance income		59,855	-
Finance expense	19	(164,507)	(59,861)
Profit before income tax		**7,270,402**	**331,367**
Total income tax charge	16	(1,939,841)	(168,437)
Profit for the year		**5,330,561**	**162,930**
Attributable to:			
Shareholders of JSC OGK-4		5,314,024	(17,737)
Minority interest		16,537	180,667
Earnings/(loss) per ordinary share for profit/(loss) attributable to the shareholders of JSC OGK-4 – basic and diluted (in Russian Roubles)	20	0.185	(0.002)

General Director A.V. Kitashev

Chief Accountant V.S. Chiruhin

15 June, 2007

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before income tax		**7,270,402**	**331,367**
Adjustments for non-cash items**:**			
Depreciation	6	1,409,167	1,414,060
Reversal of impairment of property, plant and equipment	6	(7,166,561)	-
Impairment of property, plant and equipment	6	553,204	
Provision for impairment of accounts receivable	18	253,625	263,978
Forgiveness of tax penalties		-	(33,521)
Interest income		(59,855)	-
Interest expense and effect of discounting	19	164,507	59,861
Loss on disposal of property, plant and equipment	18	101,888	46,408
Contribution from shareholders	10	-	44,336
Other non-cash items		(36,183)	(127,630)
Operating cash flows before working capital changes and income tax paid		**2,490,194**	**1,998,859**
Working capital changes:			
(Increase) / decrease in accounts receivable and prepayments		140,859	(1,231,887)
(Increase) / decrease in inventories		(676,697)	132,034
Increase / (decrease) in accounts payable and accruals		(130,924)	1,176,386
Increase / (decrease) in pension liabilities		17,302	(15,675)
Increase / (decrease) taxes payable other than profits tax		(327,783)	326,470
Income tax paid		(782,577)	(99,665)
Net cash generated from operating activities		**730,374**	**2,286,522**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(1,091,573)	(664,203)
Proceeds from sale of property, plant and equipment and other non-current assets		48,136	24,104
Change in short-term financial assets	9	(499,012)	(100,887)
Interest received		47,305	-
Net cash used in investing activities		**(1,495,144)**	**(740,986)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowing		2,695,157	813,466
Proceeds from long -term borrowing		147,281	45,083
Repayment of debt		(2,340,148)	(762,590)
Repayment of financial lease		(1,149)	(905)
Interest paid		(35,116)	(20,479)
Dividend paid to shareholders of JSC OGK-4		(424,361)	(35,313)
Dividend paid to minority interest shareholders		(112,665)	(20,417)
Proceeds from share issuance		-	20,500
Net cash generated from/ (used in) financing activities		**(71,001)**	**39,345**
Net (decrease)/increase in cash		**(835,771)**	**1,584,881**
Cash at the beginning of the year		1,613,850	28,969
Cash at the end of the year		778,079	1,613,850

General Director A.V. Kitashev

Chief Accountant V.S. Chiruhin

15 June, 2007

(in thousands of Russian Roubles)

	Attributable to the shareholders of JSC OGK-4						
	Ordinary share capital	**Unpaid share capital**	**Merger reserve**	**Retained Earnings**	**Total**	**Minority interest**	**Total equity**
At 1 January 2005	8,210,831	(20,500)	7,626,804	-	15,817,135	1,878,868	17,696,003
Payment of share capital (Note 10)	-	20,500	-	-	20,500	-	20,500
Contribution from / (distribution) to shareholders (Note 10)	-	-	-	85,882	85,882	(41,546)	44,336
Profit/(loss) for the year*	-	-	-	(17,737)	(17,737)	180,667	162,930
Dividends	-	-	-	(107,551)	(107,551)	(102,138)	(209,689)
At 31 December 2005	**8,210,831**	**-**	**7,626,804**	**(39,406)**	**15,798,229**	**1,915,851**	**17,714,080**
Payment of share capital (Note 10)	40,919,795	-	(39,032,975)	-	1,886,820	(1,886,820)	**-**
Profit for the year*	-	-	-	5,314,024	5,314,024	16,537	5,330,561
Dividends	-	-	-	(563,421)	(563,421)	(45,568)	(608,989)
At 31 December 2006	**49,130,626**	**-**	**(31,406,171)**	**4,711,197**	**22,435,652**	**-**	**22,435,652**

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

General Director A.V. Kitashev

Chief Accountant V.S. Chiruhin

15 June, 2007

(in thousands of Russian Roubles)

Note 1. The Company and its operations

Open Joint-Stock Company “Fourth Power Generating Company on the Wholesale Energy Market” (JSC OGK-4 or the “Company”) was established on 04 March 2005 within the framework of the restructuring of the Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The JSC OGK-4 primary activities are generation and sale of electricity and heat energy. The Group primary consists of the following power stations: JSC Berezovskaya GRES-1, JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya GRES and JSC Surgutskaya GRES-2. (see also Establishment of the Group).

Prior to 1 July 2006 the Company operated as a Group which consisted of JSC OGK-4, its subsidiary JSC Berezovskaya GRES-1 and subsidiaries of JSC Berezovskaya GRES-1.

Since 1 July 2006 the Company operates 5 power plants as branches and does not have other material subsidiaries. All the references to “Group” for any time after 1 July 2006 refers to the “Company” and its “branches”.

The structure of the Group including all consolidated and combined entities is presented in the table below:

	Principal activity	Ownership, %	
		31 December 2006	**31 December 2005**
Subsidiary of JSC OGK-4			
JSC Berezovskaya GRES-1	electricity and heat generation	-	100% less one share
Subsidiaries of JSC Berezovskaya GRES-1			
JSC "Transavto"	Transportation services	99.9	99.9
JSC "SMU"	Construction and assembling services	99.9	99.9
JSC "KATEKenergoremont"	Repairs services	-	99.9
Entities under common control			
JSC Shaturskaya GRES-5	electricity and heat generation	-	50.9
JSC Yajvinskaya GRES	electricity and heat generation	-	49.0
JSC Smolenskaya GRES	electricity and heat generation	-	49.0
JSC Surgutskaya GRES-2	electricity and heat generation	-	100

The Company is registered by the District Inspectorate of the RF Ministry of Taxation of Surgut, Khanty-Mansiysk Autonomous Area - Yugra, Tyumen region. The Company’s office is located at bld. 40 - 4, Bolshaya Ordynka St., 119017, Moscow, Russia.

Operating environment

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

Relations with the state and current regulation

At 31 December 2006 the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (“RAO UES” or the "Parent") owns 89.6% of the voting ordinary shares of JSC OGK-4 (at 31 December 2005 - 100%). Government is the ultimate controlling party of the Company.

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

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

Tariffs which the Company may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases.

As described in Notes 2, 22 and 23, the government's economic, social and other policies could materially effect the operations of the Company.

Sector restructuring

The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which RAO UES Group and its successor companies (including JSC "OGK-4") can raise the capital required to maintain and expand current capacity.

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

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

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

Establishment of the Group

According to Resolution No. 1254-r which approved the structure of wholesale generating companies ("OGKs"), JSC OGK-4 is to consist of the following power stations: JSC Berezovskaya GRES-1, JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya GRES and JSC Surgutskaya GRES-2.

JSC OGK-4 was founded on 4 March 2005 by RAO UES (parent company) which made the following contributions (see Note 10):

- 100% less one share of the ordinary and preference shares of JSC Berezovskaya GRES-1,
- cash funds.

On 1 July 2006 in the course of further sector restructuring, JSC OGK-4 merged with JSC Berezovskaya GRES-1 (its subsidiary), JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya GRES, JSC Surgutskaya GRES-2 by exchanging shares of these entities for ordinary shares of JSC OGK-4 ("the Merger").

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

JSC Surgutskaya GRES-2 was 100% owned by RAO UES, in JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES RAO UES hold 50.9%, 49% and 49%.

To effect the Merger, the Company issued shares to RAO UES and to the owners of JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES' shares from outside the RAO UES Group, with the result that it acquired 100% of each entity.

Note 2. Financial condition

As at 31 December 2006, the Company's current assets exceeded its current liabilities by RR 2,000,236 thousand (as at 31 December 2005 – by RR 1,688,505 thousand).

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

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

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

Note 3. Basis of preparation

Statement of compliance

These combined and consolidated financial statements ("Financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

Functional and presentation currency

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

Predecessor accounting

In these combined and consolidated financial statements, the Group accounted for the Merger with others entities as business combinations amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entity were accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2005 has been restated as if the business combination took place at the beginning of the earliest period presented. Therefore JSC Smolenskaya GRES, JSC Yajvinskaya GRES, JSC Berezovskaya GRES-1, JSC Shaturskaya GRES-5 and JSC Surgutskaya GRES-2 were accounted in the Group's combined and consolidated financial statements effective from 1 January 2005.

The difference between the statutory nominal value (see Note 10) and the predecessor carrying values of the net assets relating to the transfer of a business from an entity under common control is recorded in equity, as a merger reserve.

Minority interest of the Group includes the proportional shares of JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES' minority shareholders (49.1%, 51% and 51%) of their equity and results of operations up to the date of merger of JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES with JSC OGK-4.

Accounting for the effects of hyperinflation.

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

New accounting developments.

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

- IAS 39 (Amendment) – The Fair Value Option;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment) – Financial Guarantee Contracts;
- IAS 21 (Amendment) – Net Investment in a Foreign Operation;
- IAS 19 (Amendment) – Employee Benefits;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).

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

Other new standards or interpretations

The Company has not early adopted the following other new standards or interpretations:

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

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

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

Critical accounting estimates and assumptions. The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Company's assessment of whether the collectibility of specific customer accounts deteriorated compared to prior estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Note 8).

Provision for impairment of other assets

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

Tax contingencies

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

Useful lives of property, plant and equipment

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

Carve-out methodologies

These consolidated and combined financial statements include the carved out financial statements of Smolenskaya GRES, Yajvinskaya GRES, Shaturskaya GRES-5 and Surgutskaya GRES-2 for the period and from the predecessor legal entities as outlined in the table below.

Power stations	**Predecessor legal entity**	**Period requiring carve-out accounting**
Shaturskaya GRES-5	Mosenergo	3 months ended 30 March 2005
Yajvinskaya GRES	Permenergo	3 months ended 30 March 2005
Smolenskaya GRES	Smolenskenergo	1 month ended 31 January 2005
Surgutskaya GRES-2	Tyumenenergo	6 months ended 30 June 2005

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

- electricity and heat sales were based on actual electricity and heat power production volume multiplied by actual tariffs approved by RSTs for the power stations (Smolenskaya GRES, Yajvinskaya GRES, Shaturskaya GRES-5 and Surgutskaya GRES-2) after their spin-off from the predecessor legal entities for the year 2005;
- operating expenses were determined on an actual basis for each power station;
- depreciation of property, plant and equipment was calculated on IFRS predecessor values;
- general and administrative overheads were not allocated but were determined on an actual basis, i.e. only those expenses that can be directly attributed to assets/liabilities belonging to generation were carved out;
- 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 as at 1 January 2005 and the date of set up power stations as a stand-alone legal entities;
- property, plant and equipment were based on IFRS predecessor values and rolled back to 1 January 2005 taking into account additions and disposals in the stations before their spin-off;
- accounts payable, taxes payable, accounts receivable, inventories were determined on an actual basis for each power station;
- carve-out data for JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES and JSC Smolenskaya GRES reflects the minority interest holding (49.1%, 51% and 51%)) in JCS Mosenergo, JCS Permenergo and JCS Smolenskenergo.

Note 4. Summary of significant accounting policies

Principles of consolidation

The Financial Statements comprise the financial statements of JSC OGK-4 and the financial statements of those entities whose operations are controlled by JSC OGK-4. Control is presumed to exist when JSC OGK-4 controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights.

Subsidiaries

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

Transactions eliminated on consolidation

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

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

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

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

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

The amounts determined by the third party valuation represent an estimate of depreciated replacement cost. In accordance with paragraph 16 of IAS 29, the third party valuation was performed in order to determine a basis for cost, because the historical accounting records for property, plant and equipment were not readily available. Therefore, this third party valuation was not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment and the Group had not adopted a policy of revaluation on subsequent measurement (see Note 24).

(in thousands of Russian Roubles)

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. For the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date. The remaining useful lives are reviewed annually. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	7-50	15-50
Electricity distribution	6-32	8-25
Heating network	4-20	12-20
Other	2-8	3-10

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

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

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

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

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

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

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

All other financial assets are included in the available-for-sale category.

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

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

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

Income tax.

The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

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

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

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

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

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

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

Pension and post-employment benefits. In the normal course of business the Company 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.

Group entities operate a number of defined benefit plans and define contribution plan. Define benefits plans except old-age life pensions are paid on pay-as-you-go basis. For old-age life pensions payment the Group has contracted with non-state pension fund. The Group settles its obligation in relation to former employees in case of their retirement from one of the Group's entities by purchasing annuity policies in the fund. All define benefits plans are considered to be fully unfunded. When the pension obligation is settled via a non-state pension fund, the employer buys an annuity with the amount of contributions allocated to individual accounts held by the non-state pension fund and any additional contributions that may be required from the employer to meet the cost of the benefit promise. The other defined benefit plans provided by OGK – 4 are unfunded and the cost is met directly by the employer when due.

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

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

Finance leases. Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

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

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

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

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

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

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

(in thousands of Russian Roubles)

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

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

Note 5. Related parties

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

RAO UES

Accounts receivable from RAO UES at 31 December 2006 were RR 30 thousand (2005: RR 98,014 thousand), accounts payable to RAO UES at 31 December 2006 were nil (2005: RR 93,946 thousand).

As at 31 December 2006 the Company had a liability to RAO UES for dividends declared but not paid – in the amount of RR 196,587 thousand (2005: RR 82,449 thousand).

As at 31 December 2006 the Company had an outstanding balance on a loan received from the RAO UES of RR 30, 438 thousand (2005: RR 57,721 thousand) (see Note 11).

Transactions with RAO UES's subsidiaries

Transactions with subsidiaries of RAO UES were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity and heating revenues	21,937,513	19,499,667
Other sales	15,365	324,775
Purchase of electricity	154,502	10,186

Balances with subsidiaries of RAO UES were as follows:

	31 December 2006	31 December 2005
Accounts receivable, gross	456,155	1,305,867
Provision for impairment of accounts receivable	(289,570)	(197,874)
Accounts receivable, net	166,585	1,107,993
Accounts payable	115,254	143,209

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

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

(in thousands of Russian Roubles)

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

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity and heating revenues	88,456	82,698
Purchase of fuel	620,536	517,568
Interest expense	17,849	17,758

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

	31 December 2006	31 December 2005
Accounts receivable and prepayments	80,240	83,473
Accounts payable and accruals	26,233	23,608

Tax balances are disclosed in the balance sheet and Notes 8 and 15. Tax transactions are disclosed in the income statement and Note 16.

Directors' compensation

Compensation is paid to members of the Management Board of the Group for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors.

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

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the year ended 31 December 2006 was RR 44,613 thousand (the year ended 31 December 2005 – RR 26,960 thousand).

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Cost						
Opening balance as at 31 December 2005	26,074,336	1,791,920	550,275	1,402,450	9,670,076	39,489,057
Additions	5,627	59	80,681	648,871	87,716	822,954
Transfers	447,002	13,014	23,915	(551,633)	67,702	-
Disposals	(332,468)	(2,082)	(11,109)	(65,856)	(108,599)	(520,114)
Closing balance as at 31 December 2006	26,194,497	1,802,911	643,762	1,433,832	9,716,895	39,791,897
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2005.	13,559,727	1,071,969	238,512	-	6,215,567	21,085,775
Charge for the period	805,817	76,372	25,426	-	501,552	1,409,167
Reversal of impairment loss	(6,438,884)	-	(17,900)	-	(709,777)	(7,166,561)
Impairment loss	-	203,358	-	349,846	-	553,204
Disposals	(175,268)	(1,610)	(4,300)	-	(95,153)	(276,331)
Closing balance as at 31 December 2006	7,751,392	1,350,089	241,738	349,846	5,912,189	15,605,254
Net book value as at 31 December 2005	12,514,609	719,951	311,763	1,402,450	3,454,509	18,403,282
Net book value as at 31 December 2006	18,443,105	452,822	402,024	1,083,986	3,804,706	24,186,643

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment (continued)

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Cost						
Opening balance as at 31 December 2004	25,524,155	1,726,229	529,000	1,433,670	9,028,740	38,241,794
Additions	3,250	771	1,073	1,256,613	149,711	1,411,418
Transfers	567,404	65,047	20,202	(1,280,399)	627,746	-
Disposals	(20,473)	(127)	-	(7,434)	(136,121)	(164,155)
Closing balance as at 31 December 2005	26,074,336	1,791,920	550,275	1,402,450	9,670,076	39,489,057
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2004	12,809,873	997,029	215,000	-	5,788,742	19,810,644
Charge for the period	759,038	75,036	23,512	-	556,474	1,414,060
Disposals	(9,184)	(96)	-	-	(129,649)	(138,929)
Closing balance as at 31 December 2005	13,559,727	1,071,969	238,512	-	6,215,567	21,085,775
Net book value as at 31 December 2004	12,714,282	729,200	314,000	1,433,670	3,239,998	18,431,150
Net book value as at 31 December 2005	12,514,609	719,951	311,763	1,402,450	3,454,509	18,403,282

(in thousands of Russian Roubles)

Note 6. Property, plant and equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been available for use in production, including generating stations under construction.

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

Property, plant and equipment balances as at 31 December 2005 included RR 168,600 thousand of assets which were pledged as collateral according to loan agreements (see Note 11).

Operating lease

The JSC OGK-4 leases a number of land areas owned by local governments under operating leases. Land lease payments are determined by lease agreements.

Non-cancelable operating lease rentals are payable as follows:

	As at 31 December 2006	As at 31 December 2005
Less than one year	29,721	44,757
Between one and five years	35,861	49,764
More than five years	95,595	89,557
Total	**161,177**	**184,078**

The land areas leased by the JSC OGK-4 are the territories on which the Company's electric power stations, heating stations and other assets are located. The leases typically run for an initial period of 11-49 years with an option to renew the lease after that date. The lease payments are subject to regular review that may result in adjustment to reflect the market conditions.

Impairment provision for property, plat and equipment

The impairment provision included in accumulated depreciation balance as at 31 December 2005 was RR 7,830,277 thousand (as at 31 December 2006 – RR 669,239 thousand).

As at 31 December 2006, the Company assessed whether there is any indication that an impairment loss recognised in prior periods for property, plant and equipment may no longer exist. Management has concluded that at the reporting date there were indications for reversing previously recognised impairment losses based on significant changes with a favourable effect on the Company that have occurred or are expected to occur in the near future in the market and economic environment in which the Company operates. Such changes include:

1. upward revisions, based on recent trends, in the expected growth of demand for electricity and heat in the regions in which the Company operates;
2. higher degree of certainty about the free trading sector for electricity, which has been enacted by the government of the Russian Federation as of August 2006 (see Note 1).

These developments have resulted in a change to the assumptions that were used to determine the value in use of the assets that comprise the power generation cash generating units and a reversal of the previously recognised impairment loss to the extent of RR 7,166,561 thousand at 31 December 2006. A respective gain together with a corresponding deferred tax expense of RR 1,719,975 thousand was recognised in the income statement for the year ended 31 December 2006.

As from 1 January 2007 the Company intends to change its accounting policy from historic cost to revaluation for its property, plant and equipment (see Note 24); any change in the carrying values as a result of the revaluation will be recognised in the financial statements for 2007. However, based on the estimate of the fair value of the Company's property, plant and equipment prepared by the independent appraisers as part of the revaluation process, management concluded that an additional impairment loss in respect of two groups of the property, plant and equipment ("Electricity distribution" and "Construction in progress") should be recognised as at 31 December 2006. As a consequence, the Company recognised an impairment loss of RR 553,204 thousand with a corresponding deferred tax benefit of RR 132,769 thousand in the income statement for the year ended 31 December 2006.

(in thousands of Russian Roubles)

Note 7. Inventories

	31 December 2006	31 December 2005
Fuel production supplies	1,093,904	516,144
Materials and supplies	397,279	315,430
Other inventories	244,849	227,763
Total	**1,736,032**	**1,059,337**

Inventories balances as at 31 December 2005 included RR 3,789 thousand of inventories which were pledged as collateral according to loan agreements (see Note 13).

Note 8. Accounts receivable and prepayments

	31 December 2006	31 December 2005
Trade receivables (Net of provision for impairment of accounts receivable of RR 294,250 thousand as at 31 December 2006 and RR 77,357 thousand as at 31 December 2005)	478,582	950,118
Advances to suppliers and prepayments (Net of provision for impairment of accounts receivable of RR 1,282 thousand as at 31 December 2006 and RR 7,421 thousand as at 31 December 2005)	537,053	256,874
Value added tax recoverable	159,780	351,777
Due from budget (excluding VAT)	7,152	2,940
Other receivables (Net of provision for impairment of accounts receivable of RR 5,417 thousand as at 31 December 2006 and RR 117 490 thousand as at 31 December 2005)	79,540	59,574
Total	**1,262,107**	**1,621,283**

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

In the year ended 31 December 2006 RR 151,785 thousand of the Company's total accounts receivable was settled via non-cash settlements (2005: RR 60,194 thousand).

The above accounts receivable and prepayments included balances due from related parties (see Note 5).

(in thousands of Russian Roubles)

Note 9. Short-term financial assets

Loans and receivables:

Name	Currency	Effective interest rate, %	31 December 2006	31 December 2005
Short-term deposits:				
JSC "KB Agroimpuls"	RR	8%	200,000	-
JSC "KB Agroimpuls"	RR	8%	150,000	-
JSC “KB Kamabank”	RR	8%	200,000	-
JSC “AKB Strategia”	RR	11%	50,000	-
Promissory note:				
JSC “KB Sobinbank”	RR	-	-	100,988
Total			**600,000**	**100,988**

These assets bear fixed interest and are thus exposed to fair value interest rate risk.

Note 10. Equity

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (see Note 3), the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2005 as if the current Group structure had existed from 1 January 2005 (see Note 3). As the Group was formed as a result of a series of share issues completed after 1 January 2005, the equity statement reflects additions to share capital in the amount equal to the statutory nominal value of the shares issued which is based on the fair value of the net assets of the businesses contributed. In accordance with the predecessor basis of accounting, the effect of such additions to equity is offset by a corresponding increase in the merger reserve. In addition, the equity statement also reflects the impact of distributing the minority interest to the parent company of the Group.

Share capital

(Number of shares unless otherwise stated)	Ordinary shares 31 December 2006	Ordinary shares 31 December 2005
Issued shares	49,130,625,974	8,210,830,760
Par value (in RR)	1.00	1.00

As at 31 December 2006 number of issued ordinary shares is 49,130,625,974 with a par value of RR 1.00 each. The authorized and not yet issued number of ordinary shares is 4,092,943,086 with a par value of RR 1 each.

As at 4 March 2005, the date that the Company was established, the number of issued ordinary shares amounted to 8,210,830,760 with a par value of RR 1.00 each.

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

- cash contributions amounted to RR 20,500 thousand;

- RR 8,190,331 thousand received by way of contribution of RAO UES' investment in JSC Berezovskaya GRES-1. The value of the investment was assessed by an independent appraiser.

On 1 July 2006, 40,919,795,214 additional ordinary shares of JSC OGK-4 with a value of RR 1.00 each were issued and exchanged for the ordinary and preference shares of JSC Smolenskaya GRES and JSC Yajvinskaya GRES, and ordinary shares of JSC Berezovskaya GRES-1, JSC Shaturskaya GRES-5 and JSC Surgutskaya GRES-2 (See Note 1) as follows:

- ordinary shares with a value of RR 3,118,284 thousand were exchanged for the ordinary shares of the JSC Smolenskaya GRES;
- ordinary shares with a value of RR 3,040,151 thousand were exchanged for the ordinary shares of the JSC Yajvinskaya GRES;
- ordinary shares with a value of RR 4,101,004 thousand were exchanged for the ordinary shares of the JSC Shaturskaya GRES-5;
- ordinary shares with a value of RR 30,660,356 thousand were exchanged for the ordinary shares of the JSC Surgutskaya GRES-2.

Merger reserve

Based on the application of predecessor accounting (see Note 3), the difference of RR 31,406,171 thousand between the value of share capital issued, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity.

Contribution from shareholders

As described in Note 3, the income and related expenses for the 1st quarter 2005 for JSC Shaturskaya GRES-5 and JSC Yajvinskaya GRES, for the 1st month 2005 for JSC Smolenskaya GRES and for the 1st half 2005 for JSC Surgutskaya GRES-2 were carved out from RAO UES statements and included in the Group's financial statements. The net results of operations in the amount of RR 44,336 thousand were recorded as a contribution from shareholders in the equity statement during the year ended 31 December 2005.

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

In April 2006 a dividend was declared by JSC OGK-4 in respect of 2005 year of RR 0.01123 per share for total amount of RR 92,208 thousand.

In May 2006 a dividend was declared by JSC Surgutskaya GRES-2 in respect of 2005 of RR 0.844162 per share for total amount of RR 231,080 thousand and in respect of the three months ended 31 March 2006 of RR 0.718155 per share for total amount of RR 196,587 thousand.

In June 2006 a dividend was declared by JSC Smolenskaya GRES in respect of the three months ended 31 March 2006 of RR 0.082416 per share for total amount of RR 20,000 thousand.

In June 2006 a dividend was declared by JSC Yajvinskaya GRES in respect of the three months ended 31 March 2006 of RR 1.450663 per share for total amount of RR 69,114 thousand.

These dividends were recognized as a liability and deducted from equity at 31 December 2006.

(in thousands of Russian Roubles)

Note 11. Non-current debt

Name	Currency	Effective interest rate, %	Maturity	31 December 2006	31 December 2005
Vostochno–Sibirsky branch of Sberbank of the Russian Federation	RR	14.5-15%	2007-2008	-	68,825
Moscow branch of OAO KB Agroimpuls	RR	11.5%	2006	-	45,000
RAO UES of Russia	RR	25%	2006-2007	30,438	57,721
Finance lease	RR	13%	2006-2008	3,919	16,397
Total non-current debt				**34,357**	**187,943**
Less: current portion of non-current debt				(30,438)	(101,379)
Less: current portion of non-current finance lease				(3,859)	(12,520)
Total				**60**	**74,044**

In 2006 the loan from Vostochno–Sibirsky branch of Sberbank of the Russian Federation was repaid early.

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

The following was pledged as collateral for long-term loans issued to the Company:

	31 December 2006	31 December 2005
Equipment	-	168,600
Cash from sale of electric power	-	137,600
Total	**-**	**306,200**

Note 12. Pension liabilities

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

	31 December 2006	31 December 2005
Present value of defined benefit obligations (DBO)	1,056,910	778,353
Fair value of plan assets	-	-
Present value of unfunded obligations	1,056,910	778,353
Unrecognised actuarial losses	(291,342)	(8,747)
Unrecognised past service cost	(438,758)	(511,884)
Net liability in balance sheet	**326,810**	**257,722**
Employees' average remaining working life (years)	12	12

Amounts recognized in the Combined and Consolidated Income Statement:

	31 December 2006	31 December 2005
Current service cost	72,086	34,872
Interest cost	51,786	21,849
Expected return on plan assets	-	-
Net actuarial losses recognised in year	2,867	4,713
Amortisation of past service cost	73,126	12,188
Settlement (gain)/loss	-	-
Immediate recognition of vested prior service cost	-	-
Net expense recognised in the income statement	**199,865**	**73,622**

(in thousands of Russian Roubles)

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

	31 December 2006	31 December 2005
Present value of defined benefit obligations (DBO) at beginning of year	778,353	251,547
Service cost	72,086	34,872
Interest cost	51,786	21,849
Plan participants' contributions	-	-
Actuarial (gain)/loss	285,462	13,460
Past service cost	-	524,072
Benefits paid	(130,777)	(67,447)
Settlement and curtailment (gain)/loss	-	-
Present value of defined benefit obligations (DBO) at the end of year	**1,056,910**	**778,353**

Principal actuarial assumptions are as follows:

	31 December 2006	31 December 2005
Nominal discount rate	6,60%	6,60%
Nominal expected return on plan assets	n/a	n/a
Nominal pension entitlement increase (prior to benefit commencement)	9,20%	9,20%
Nominal increase in pensions-in-pay (after benefit commencement)	6,60%	6,60%
Nominal increase in financial support benefits	5,00%	5,00%
Staff turnover	2,50%	2,50%

There were no changes in actuarial assumptions during 2005 - 2006. Thus actuarial gains and losses arising during this period correspond to experience adjustments in full.

	31 December 2006	31 December 2005
Present value of defined benefit obligations (DBO)	1,056,910	778,353
Fair value of plan assets	-	-
(Surplus)/deficit in plan	1,056,910	778,353
Gains/(losses) arising from experience adjustments on plan liabilities	(285,462)	(13,460)
Gains/(losses) arising from experience adjustments on plan assets	-	-

The Group introduced new pension benefits as at 1 November 2005 for certain employees. According to IAS 19 past service cost should be recognized as an expense on a straight-line basis over the average period until the benefits become vested. In the table below we summarize the schedule for the initial past service cost and its amortisation during 2005 - 2006.

Amortisation plan

Benefit	**Effective date**	**Initial past service cost**	**Initial amortisation period, years**	**Amortisation to be recognised during 2005**	**Unrecognised amount at 31 December 2005**	**Amortisation to be recognised during 2006**	**Unrecognised amount at 31 December 2006**
Regular old age pension via NPF	1 November 2005	524,072	7,17	12,188	511,884	73,126	438,758

Expected payments under the schemes in 2007 are RR 154,048 thousand.

(in thousands of Russian Roubles)

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

Name	Currency	Effective interest rate, %	31 December 2006	31 December 2005
AKB Kamabank	RR	11%	-	84,780
Moscow branch of OAO KB Agroimpuls	RR	11.5%	-	36,400
AB Gazprombank	RR	7.5%	400,308	-
ZAO MMB	RR	7.25%	200,397	-
Current portion of non-current debt	RR		34,297	113,899
- debt	RR	15 %	30,438	101,379
- finance lease	RR	-	3,859	12,520
Total			**635,002**	**235,079**

The Company is only exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates.

The following was pledged as collateral for short-term loans issued to the Company:

	31 December 2006	31 December 2005
Inventories	-	3,789
Cash from sale of electric power	-	89,700
Total	**-**	**93,489**

Note 14. Accounts payable and accruals

	31 December 2006	31 December 2005
Trade payables	1,270,056	1,227,221
Accrued liabilities and other creditors	301,026	423,444
Provision for tax claims	-	48,976
Dividends payable	204,853	160,684
Total	**1,775,935**	**1,860,325**

Note 15. Taxes payable

	31 December 2006	31 December 2005
Value added tax	12,866	315,692
Fines and interest	-	20
Property tax	152,155	130,741
Employee taxes	30,566	51,711
Other taxes	35,152	43,902
Current portion of taxes restructured to long-term liabilities	-	16,456
Total	**230,739**	**558,522**

(in thousands of Russian Roubles)

As at 31 December 2006 included in the payable for value added tax is RR 12,866 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (31 December 2005: RR 220,490 thousand).

Note 16. Income tax

Income tax charge

	Year ended 31 December 2006	Year ended 31 December 2005
Current income tax charge	(463,857)	(479,443)
Deferred income tax (charge)/benefit	(1,475,984)	311,006
Total	**(1,939,841)**	**(168,437)**

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

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

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

	Year ended 1 December 2006	Year ended 31 December 2005
Profit before income tax	**7,270,402**	**331,367**
Theoretical tax charge at the statutory tax rate of 24%	(1,744,897)	(79,528)
Tax effect of items which are not deductible or assessable for taxation purposes	(194,944)	(88,909)
Total income tax charge	**(1,939,841)**	**(168,437)**

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

Deferred tax assets	**31 December 2006**	**Movement for the year recognized in the income statement**	**31 December 2005**
Trade receivables	7,873	2,013	5,860
Inventories	3,153	(1,224)	4,377
Property, plant and equipment	-	(45,285)	45,285
Other assets	15	(4,255)	4,270
Pension liabilities	78,434	16,581	61,853
Accounts payable and other accruals	28,834	(25,951)	54,785
Deferred tax assets as at year end	**118,309**	**(58,121)**	**176,430**

(in thousands of Russian Roubles)

Deferred tax assets	31 December 2005	Movement for the year recognized in the income statement	31 December 2004
Trade receivables	5,860	5,860	-
Inventories	4,377	4,377	-
Property, plant and equipment	45,285	5,507	39,778
Other assets	4,270	4,270	-
Pension liabilities	61,853	1,482	60,371
Accounts payable and other accruals	54,785	50,473	4,312
Deferred tax assets as at year end	**176,430**	**71,969**	**104,461**

Deferred tax liabilities	31 December 2006	Movement for the year recognized in the income statement	31 December 2005
Property, plant and equipment	3,769,722	1,432,261	2,337,461
Other		(14,398)	14,398
Deferred tax liabilities as at year end	**3,769,722**	**1,417,863**	**2,351,859**

Property, plant and equipment movement includes a deferred tax expense of RR 1,719,975 thousand in relation to the reversal of impairment loss and a deferred tax benefit of RR 132,769 thousand in relation to additional impairment for property, plan and equipment (see Note 6).

Deferred tax liabilities	31 December 2005	Movement for the year recognized in the income statement	31 December 2004
Property, plant and equipment	2,337,461	(191,754)	2,529,215
Other	14,398	(47,283)	61,681
Deferred tax liabilities as at year end	**2,351,859**	**(239,037)**	**2,590,896**

Note 17. Revenues

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity	25,157,777	20,699,734
Heating	564,601	509,333
Other	388,101	460,060
Total	**26,110,479**	**21,669,127**

(in thousands of Russian Roubles)

Note 18. Operating expenses

	Year ended 31 December 2006	Year ended 31 December 2005
Fuel	14,743,861	13,192,643
Repairs and maintenance	2,830,927	2,385,435
Employee benefits	2,411,312	1,880,319
Depreciation	1,409,167	1,414,060
Purchased power and electricity	787,371	22,201
Taxes other than income tax	411,643	458,251
Bank services	274,015	61,922
Provision for impairment of accounts receivable	253,625	263,978
Raw materials and supplies	222,963	236,070
Operational dispatch management	375,018	-
Water usage expenses	179,605	134,100
Transportation expenses	143,689	135,663
Guarding expenses	133,326	102,237
Rent expenses	130,482	81,606
Loss on disposals of property, plant and equipment	101,888	46,408
Insurance cost	86,640	71,434
Social expenses	34,297	8,962
Other expenses	915, 504	878,818
Total	**25,445,333**	**21,374,107**

Employee benefits expenses comprise the following:

	Year ended 31 December 2006	Year ended 31 December 2005
Salaries and wages, payroll taxes	2,266,100	1,833,260
Non-governmental pension fund expenses	145,212	47,059
Employee benefits	**2,411,312**	**1,880,319**

Note 19. Finance expense

	Year ended 31 December 2006	Year ended 31 December 2005
Effect of liability discounting	6,173	20,986
Interest expense (borrowings and restructured liability)	158,334	38,875
Total	**164,507**	**59,861**

(in thousands of Russian Roubles)

Note 20. Basic and diluted earnings per share

	For the year ended 31 December 2006	For the year ended 31 December 2005
Profit/(loss) attributable to the shareholders of JSC OGK-4 (thousands of RR)	5,314,024	(17,737)
Weighted average number of ordinary shares issued	28,670,728,367	8,210,830,759
Earnings/(loss) per ordinary share for profit/(loss) attributable to the shareholders of JSC OGK-4 – basic and diluted (in RR)	**0.185**	**(0.002)**

Note 21. Commitments

Sales commitments. The Company sell electricity on the two wholesale market sectors: free trading sector and regulated trading sector.

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

Fuel commitments

The Company concluded a number of contracts for fuel supply. The principal suppliers of fuel are: JSC Surgutneftegaz, JSC Novatek, Promenergoholding LLC, JSC Severregiongaz, Mezhregiongaz LLC and JSC Siberian Coal and Energy Company. Prices under the Company's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 831,662 thousand at 31 December 2006.

Note 22. Contingencies

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

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

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. In general those legal proceedings relate to unreasonable application of tariffs. In the opinion of management, current legal proceedings and claims, listed below, upon their final disposition, may have a material effect on the financial position of the Company.

The Company entered into joint liability agreements for potential claims related to predecessor legal entities from which the power plants Smolenskaya GRES, Yajvinskaya GRES, Shaturskaya GRES-5 and Surgutskaya GRES-2 spun-off. Such agreements were finalised with JSC Mosenergo, JSC Tyumenenergo, JSC Smolenskenergo, JSC Permenergo and their spin-offs. These agreements stipulate joint liability over the claims of those entities which were not shown in the separation balance sheets during their reorganization. There are likely risks connected with possible liability over the claims of the aforementioned companies.

Currently, on the basis of signed agreements, the claim of JSC Mosenergosbyt (where the Company acts as one of the defendants) in the amount of RR 28,866 thousand and the claim of JSC Mosenergo in the amount of RR 11,736 thousand, claim from JSC Moscow Regional Grid Company in the amount of RR 5,115 thousand were filed against the Company.

The Company expects the following court claims to be introduced on the basis of signed joint liability agreement: claim from JSC Mosenergosbyt in the amount of RR 7,389 thousand, claim from JSC Mosenergo in the amount of RR 5,149 thousand.

As of the date of issuing these combined and consolidated financial statements management believes that it has adequately provided for all significant potential losses that may result from any such claims being asserted and contested.

Tax contingencies.

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

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

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

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

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

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

Note 23. Financial instruments and financial risk factors

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

Credit risk. Financial assets which potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision for impairment of accounts receivable already recorded.

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Interest rate risk. The Company's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company is only exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates. The Company's significant interest bearing assets are disclosed in Note 9. These assets bear fixed interest and are thus exposed to fair value interest rate risk.

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

Note 24. Events subsequent to the balance sheet date

Decrease in the company's share capital

An Extraordinary Shareholder Meeting of JSC OGK-4 on 2 March 2007 decided to decrease the company's share capital to RR 19,652,250 thousand by decreasing the nominal value of the placed shares. Corresponding changes to the company's foundation documents were registered on 10 May 2007.

The nominal value of ordinary shares after the decrease is RR 0.4per share. The placement is done via conversion of the shares to ones of the same category (type) with a lower nominal value.

The company's share capital was decreased following the Russian law.

Increase in the company's share capital

An Extraordinary Shareholder Meeting of JSC OGK-4 on 23 April 2007 decided to increase the company's share capital to RR 28,852,250 thousand by an issuing of an additional 23,000 million of ordinary shares with nominal value of RR 0.4 per share.

Revaluation of property, plant and equipment

The Company changed its accounting policy to revaluing its property, plant and equipment from 1 January 2007. Independent appraisers engaged by the Company have estimated fair value of the Company's property, plant and equipment at RR 53,755 million as at 1 January 2007.

Dividends declared

On 25 May 2007 an Annual General Meeting of Shareholders declared a dividend on ordinary shares of RR 200,011 thousand (RR 0.004071 per ordinary share) in respect of 2006 year and a dividend on ordinary shares of RR 150,000 thousand (RR 0.0030531 per ordinary share) in respect of three months ended 31 March 2007.