Open Joint-Stock Company
Interregional Distribution Grid
Company of the Central and
Northern Caucausus Regions

Financial Statements for the year ended 31 December 2006

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Independent Auditors' Report

To the Shareholders of Open joint-stock company Interregional Distribution Grid Company of the Central and Northern Caucasus Regions

Report on the Financial Statements

We have audited the accompanying financial statements of Open joint-stock company Interregional Distribution Grid Company of the Central and Northern Caucasus Regions (the "Company"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

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

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31 May 2007

	Note	2006 '000 RUR	2005 '000 RUR
Revenue		**748 484**	**348 538**
Operating expenses			
Personnel costs		(452 767)	(188 315)
Depreciation of fixed assets		(4 529)	(402)
Lease payments		(86 508)	(21 379)
Expenses on acquisition of other materials		(5 011)	(2 722)
Accounting and treasury services		(7 363)	(4 285)
Telecommunications services		(16 951)	(2 916)
Advisory, legal and information services		(80 436)	(114 927)
Agency services		(11 437)	-
Other expenses	4	(47 082)	(10 103)
Results from operating activities		**36 400**	**3 489**
Financial income	5	40	63
Profit before income tax		**36 440**	**3 552**
Income tax expense	6	(22 159)	(3 496)
Profit for the year		**14 281**	**56**

These financial statements were approved by management on 31 May 2007 and were signed on its behalf by:

Director of Economics ~~and Finance (by power~~ of attorney)
E.A.Bronnikov

Chief Accountant
S.Yu.Puzenko

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

	Note	2006 '000 RUR	2005 '000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	7	27 982	11 085
Deferred tax assets	8	17 280	8 815
Total non-current assets		**45 262**	**19 900**
Current assets			
Inventories		804	370
Trade and other receivables	9	282 419	107 792
Cash and cash equivalents	10	7 939	7 988
Other current assets		5 496	711
Total current assets		**296 658**	**116 861**
Total assets		**341 920**	**136 761**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

	Note	2006 '000 RUR	2005 '000 RUR
EQUITY AND LIABILITIES			
Equity	11		
Share capital		10 000	10 000
Retained earnings		12 787	55
Total equity		**22 787**	**10 055**
Non-current liabilities			
Deferred tax liabilities	8	1 901	409
Total non-current liabilities		**1 901**	**409**
Current liabilities			
Trade and other payables	12	254 003	113 277
Income tax payable		28 567	-
Taxes payable (other than income tax)	13	34 662	13 020
Total current liabilities		**317 232**	**126 297**
Total liabilities		**319 133**	**126 706**
Total equity and liabilities		**341 920**	**136 761**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

	2006 '000 RUR	2005 '000 RUR
OPERATING ACTIVITIES		
Results from operating activities	36 400	3 489
Adjustments for:		
Depreciation and amortization	4 529	402
Provisions	96 105	88 637
Gain on disposal of property, plant and equipment	(331)	-
Operating profit before changes in working capital and provisions	**136 703**	**92 528**
Increase in inventories	(434)	(370)
Increase in trade and other receivables	(194 600)	(88 068)
Increase in other current assets	(4 785)	-
Increase in trade and other payables	44 621	24 703
Increase in taxes payable (except for income tax payable)	21 642	13 020
Cash flows from operations before income taxes and interest paid	**3 147**	**41 813**
Income taxes received/(paid)	19 872	(32 337)
Cash flows from operating activities	**23 019**	**9 476**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

	2006 '000 RUR	2005 '000 RUR
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	434	-
Interest received	40	-
Acquisition of property, plant and equipment	(22 132)	(11 487)
Cash flows utilised by investing activities	**(21 658)**	**(11 487)**
FINANCING ACTIVITIES		
Proceeds from the issue of share capital	-	5 000
Dividends paid	(1 410)	-
Cash flows from/(utilised by) financing activities	**(1 410)**	**5 000**
Net increase/(decrease) in cash and cash equivalents	**(49)**	**2 989**
Cash and cash equivalents at beginning of year	7 988	4 999
Cash and cash equivalents at end of year (note 10)	**7 939**	**7 988**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

'000 RUR	Attributable to shareholders of the Company		Total equity
	Share capital	Retained earnings	
Balance at 1 January 2005 as previously reported	10 000	(1)	9 999
Balance at 1 January 2005 (restated)	10 000	(1)	9 999
Profit for the year	-	56	56
Balance at 31 December 2005	**10 000**	**55**	**10 055**
Balance at 1 January 2006	**10 000**	**55**	**10 055**
Profit for the year	-	14 281	**14 281**
Dividends to shareholders	-	(1 549)	**(1 549)**
Balance at 31 December 2006	**10 000**	**12 787**	**22 787**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 26.

1 Background

(a) Organisation and operations

Open joint-stock company Interregional Distribution Grid Company of the Central and Northern Caucasus Regions (the "Company") is a Russian open joint stock company as defined in the Civil Code of the Russian Federation. The Company was established as a state-owned enterprise on 17 December 2004 by Order of OJSC RAO UES of Russia No. 154r of 9 December 2004, in execution of the decision of the Board of Directors of OJSC RAO UES of Russia (minutes No. 178 of 1 October 2004) and the decision of the Management Board of OJSC RAO UES of Russia (minutes No. 1102pr/b of 15 November 2004).

The Company's registered office is Prospekt Kalinina 55, Tver, Russia 170001. Head Office is located at the address: Glukharev pereulok 4/2, Moscow, Russia 129090.

The Company's basic goal is to effectively manage the electricity distribution grids of the Central and Northern Caucasus, ensuring their reliable functioning and development.

The Company's principal activity is providing advisory and information services on improving the system of management of the regional grid companies (RGC) operating in the Central and Northern Caucasus Regions.

The Company is wholly owned by OJSC RAO UES of Russia (the "Shareholder Group"). The founding of the Company is an integral part of the approved plan for reforming the Russian electrical power industry, which stipulates interregional integration of the new companies created after the energy companies are separated by line of business. In addition, the activities of the Company are closely linked with the requirements of the Shareholder Group and determination of the pricing of the Company's services to the Shareholder Group is undertaken in conjunction with other Shareholder Group companies. Related party transactions are detailed in note 18.

(b) Relations with the state and effective legislation

As at 31 December 2006 the state owned 52.7 percent of shares in OJSC RAO UES of Russia, the only Shareholder of the Company, which equals 55.0 percent of placed ordinary shares. Due to this fact, the policies of the Russian government in the economic, social and other spheres may have a significant impact on the Company's financial and business activity.

(c) Business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss and financial investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

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

(d) Use of judgements, estimates and assumptions

Management has made a number of judgments, 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 IFRSs. Actual results may differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 9 – trade and other receivables
- Note 17 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are described in note 3(a) to 3(l). These accounting policies have been consistently applied.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(j).

(c) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- computers 3-5 years
- communication equipment 3-15 years
- furniture 5-15 years
- other 3-20 years.

(iv) Liquidation value

The liquidation value of an asset represents an assessment of the amount which the Company could currently receive from the sale of the asset minus selling costs, based on the assumption that the age of the asset and its technical condition already meet expectations at the end of its period of useful life. If the Company plans to use the asset until the end of its physical service life, the liquidation value of the asset is set at zero. The liquidation value and periods of useful life of assets are reconsidered and adjusted, if necessary, at each reporting date.

(e) Impairment

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

(ii) *Reversal of impairment*

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(iii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of the assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Employee benefits

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an expense in profit or loss when they are due.

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(g) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Revenue

The Company renders consulting services, services of individual executive body and other services mainly to RAO UES Group companies (also discussed in note 18).

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(i) Other expenses

(i) Social expenditure

To the extent that the Company's contributions to social programs benefit the community at large and are not restricted to the Company's employees, they are recognised in the income statement as incurred.

(j) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(k) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(l) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital.
- Adjustment to IAS 1 *Presentation of Financial Statements – Disclosure of Information on Equity* is effective for annual periods beginning on or after 1 January 2007. This standard will require more detailed disclosure of information on the Company's capital.
- IAS 23 *Borrowing Costs*, which is effective for annual periods beginning on or after 1 January 2009. The new Standard eliminates the option of immediately expensing borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

4 Other expenses

	2006 '000 RUR	2005 '000 RUR
Business trips	9 541	2 949
Transportation services	2 928	1 016
Entertainment	1 398	977
Taxes other than profits tax	3 454	788
Postal, telegraph and clerical expenses	874	633
Advertising	13	431
Repairs and technical maintenance	303	309
Insurance	5 329	278
Bank services	1 100	228
Services for holding corporate functions	6 551	-
Support services for the corporate information system	2 245	-
Trainings and seminars	4 576	-
Services on granting access and servicing of informatioı systems	1 205	-
Software maintenance	1 089	-
Other	6 476	2 494
	47 082	**10 103**

5 Financial income

	2006 '000 RUR	2005 '000 RUR
Financial income		
Interest income	40	63
	40	**63**

6 Income tax expense

	2006 '000 RUR	2005 '000 RUR
Current tax expense		
Current year	(29 132)	(11 902)
	(29 132)	**(11 902)**
Deferred tax expense		
Origination and reversal of temporary differences	6 973	8 406
	6 973	**8 406**

The Company's applicable tax rate is the income tax rate of 24% for Russian companies (2005: 24%).

Reconciliation of effective tax rate:

	2006 '000 RUR	2005 '000 RUR
Profit before tax	36 440	3 552
Income tax at applicable tax rate	(8 746)	(853)
Non-deductible expenses	(13 332)	(2 643)
Change in unrecognised temporary differences	(81)	-
	(22 159)	(3 496)

7 Property, plant and equipment

'000 RUR	Furniture	Computers	Communications equipment	Other	Total
Balance at 1 January 2005	-	-	-	-	-
Additions	5 281	5 149	245	812	11 487
Balance at 31 December 2005	5 281	5 149	245	812	11 487
Balance at 1 January 2006	5 231	5 019	274	963	11 487
Additions	4 276	10 589	4 786	2 044	21 695
Disposals	(275)	-	(21)	(12)	(308)
Balance at 31 December 2006	9 232	15 608	5 039	2 995	32 874

'000 RUR	Furniture	Computers	Communications equipment	Other	Total
Depreciation and impairment losses					
Balance at 1 January 2005	-	-	-	-	-
Depreciation charge	(142)	(193)	(18)	(49)	(402)
Balance at 31 December 2005	(142)	(193)	(18)	(49)	(402)
Balance at 1 January 2006	(144)	(176)	(22)	(60)	(402)
Depreciation charge	(1 458)	(2 384)	(345)	(342)	(4 529)
Disposals	35	-	3	1	39
Balance at 31 December 2006	(1 567)	(2 560)	(364)	(401)	(4 892)
Net book value					
At 1 January 2005	-	-	-	-	-
At 31 December 2005	5 139	4 956	227	763	11 085
At 31 December 2006	7 665	13 048	4 675	2 594	27 982
Net book value had no revaluations taken place					
At 1 January 2005	-	-	-	-	-
At 31 December 2005	5 139	4 956	227	763	11 085
At 31 December 2006	7 665	13 048	4 675	2 594	27 982

Depreciation expense of RUR 4 529 thousand has been charged in operating expenses.

As at 1 January 2006 the Company reclassified certain assets between groups of property, plan and equipment for more accurate disclosure of information.

(a) Revaluation / Determination of deemed cost

The Company's property, plant and equipment mainly comprise furniture, computers and other office equipment. Management believe that no signs of economic obsolescence of property, plant and equipment have been identified.

8 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUR	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	-	-	(1 212)	(409)	(1 212)	(409)
Trade and other receivables	-	-	(689)	-	(689)	-
Provisions	17 280	8 815	-	-	17 280	8 815
Tax assets/(liabilities)	17 280	8 815	(1 901)	(409)	15 379	8 406
Set off of tax	-	-	-	-	-	-
Net tax assets/(liabilities)	17 280	8 815	(1 901)	(409)	15 379	8 406

9 Trade and other receivables

	2006 '000 RUR	2005 '000 RUR
Trade receivables	3 665	-
Receivables from related parties	264 062	65 380
Other receivables	14 692	42 412
	282 419	**107 792**
Impairment loss on trade receivables	-	-

As at 31 December 2006 other accounts receivable include advances given to suppliers and VAT on advances received.

10 Cash and cash equivalents

	2006 '000 RUR	2005 '000 RUR
Bank balances	2 939	7 988
Transfers in route	5 000	-
Cash and cash equivalents in the balance sheet	7 939	7 988
Cash and cash equivalents in the statement of cash flows	7 939	7 988

11 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares 2006	Ordinary shares 2005
Authorised shares	100 000 000	100 000 000
Par value	RUR 0.1	RUR 0.1
On issue at beginning of year	100 000 000	100 000 000
Issued for cash	-	-
On issue at end of year, fully paid	100 000 000	100 000 000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2006 the Company had retained earnings, including the profit for the current year, of RUR 15 933 thousand (2005: RUR 2 446 thousand).

At the balance sheet date the following dividends have been recommended by the directors, but have not been approved and, therefore, have not been provided for:

	2006 '000 RUR	2005 '000 RUR
0.01549 per ordinary share	-	1 549
	-	1 549

12 Trade and other payables

	2006	2005
	'000 RUR	'000 RUR
Trade payables	5 119	17 856
Accounts payable to employees	7 345	6 608
Accrual of annual bonus payable to employees	173 619	83 724
Accrual of unused vacation provision payable to employees	11 060	4 850
Advances received	55 787	-
Other accounts payable	1 073	239
	254 003	**113 277**

13 Taxes payable (other than income tax)

	2006	2005
	'000 RUR	'000 RUR
Value added tax	31 634	9 973
Unified social tax	2 097	1 814
Personal income tax	806	1 193
Property tax	125	40
	34 662	**13 020**

14 Financial instruments

(a) Financial risks

The Company's operations are subject to various financial risks, including changes in the exchange rate, changes in interest rates and the possibility of repayment of accounts receivable. The Company does not use a hedging strategy for financial risks.

(b) Credit risk

Financial assets on which potential credit risk may arise for the Company are mainly accounted in trade receivables. Although the repayment of these accounts receivable is dependent on economic factors, Company management believes that there is no material risk of losses. No doubtful debt provisions were created.

Cash is deposited in financial institutions that had a minimal risk of default at the time of opening of accounts.

15 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2006	2005
	'000 RUR	'000 RUR
Less than one year	86 508	21 379
	86 508	**21 379**

The Company leases office premises and vehicles on operating lease terms. The leases typically run for an initial period of one year with an option to renew the lease after that date.

During the current year RUR 86 508 thousand was recognised as an expense in the income statement in respect of operating leases.

16 Commitments

In 2006 the Company signed contracts with RAO UES Group companies on the provision of services of the chief executive body in 2007. The fixed component of remuneration amounts to RUR 51 639 thousand.

In 2006 the Company also signed agency agreements with RAO UES Group companies on the provision of other services without termination date. The agent's fee under the terms of these agreements is fixed at 0.5% - 1% of the cost of services rendered to the principal.

17 Contingencies

(a) Operating business environment

Despite the marked improvement in the economic situation, the Russian economy still has certain characteristics of a developing market: in particular, the inconvertibility of the Russian rouble in most countries, and fairly high inflation. Existing Russian tax, currency and customs legislation can be interpreted in various ways, and is subject to frequent amendments.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

18 Related party transactions

(a) Control relationships

The Company's parent company is OJSC RAO UES of Russia.

The party with ultimate control over the Company is the government of the Russian Federation, who holds 52.7% of shares of OJSC RAO UES of Russia.

During 2006 OJSC RAO UES of Russia provided services to the Company on the use of the information system of the certification center and other miscellaneous services in the amount of RUR 50 thousand.

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2006 '000 RUR	2005 '000 RUR
Salaries and bonuses of senior management	25 474	18 427
Remuneration to the members of Board of Directors	1 604	-
	27 078	**18 427**

(b) Transactions with other related parties

During the reporting period the Company received income from the provision on a contractual basis of advisory and information services on improving the management systems of the regional grid companies (RGC) that are subsidiaries of OJSC RAO UES of Russia.

Pursuant to the strategic development plans, in 2006 the functions of the chief executive body of the following RGCs were transferred to the Company: OJSC Belgorodenergo, OJSC Yarenergo, OJSC Vologdaenergo, OJSC Ivenergo, OJSC Nizhnovenergo, OJSC Rostovenergo, OJSC Vladimirenergo, OJSC Tulaenergo, OJSC Lipetskenergo, OJSC Kostromaenergo.

The variable component of remuneration under the contracts of the provision of services of the chief executive body is recognized as revenue in the period in which the remuneration was approved by the Board of Directors of the relevant RGC.

Recognized expenses on related-party transactions include expenses on lease of non-residential premises, property and vehicles, accounting and advisory services. Lease payments and prices for services provided are determined based on market conditions.

All accounts receivable and accounts payable on related-party transactions are current assets and liabilities.

(i) *Revenue*

'000 RUR	Transaction value 2006	Outstanding balance 2006	Transaction value 2005	Outstanding balance 2005
Services provided:				
Subsidiaries of OJSC RAO UES of Russia				
OJSC Vladimirenergo	15 941	10 685	8 965	2 064
OJSC Volgogradenergo	30 383	1 953	23 271	7 844
OJSC Voronezhenergo	17 227	676	8 470	5 000
OJSC Vologdaenergo	60 608	33 271	-	-
OJSC Ivenergo	9 449	6 916	6 406	1 080
OJSC Kalugaenergo	12 306	1 171	8 656	1 149
OJSC Kurskenergo	17 420	884	15 579	1 974
OJSC Lipetskenergo	39 156	12 244	19 799	6 675
OJSC Korporativnye servisnye sistemy	-	707	-	-
OJSC Kubanenergo	2 185	2 578	-	-
OJSC Nizhnovenergo	42 243	28 663	23 946	2 537
OJSC Tverenergo	16 327	1 929	18 234	6 147
OJSC Tulaenergo	47 257	36 482	15 448	2 604
OJSC Yarenergo	21 647	9 616	13 970	2 355
OJSC Bryanskenergo	11 689	2 516	7 477	101
OJSC Smolenskenergo	15 752	1 151	15 109	2 547
OJSC Rostovenergo	35 804	25 966	28 881	4 431
OJSC Stavropolenergo	30 000	16 900	14 083	2 374
OJSC Moskovskaya oblastnaya elektrosetevaya kompaniya	163 855	3 391	42 295	1 940
OJSC FGC UES	11 907	14 051	-	-
OJSC Belgorodenergo	73 264	39 642	39 192	14 558
OJSC Dagenergo	1 061	-	-	-
OJSC Kalmenergo	809	191	-	-
OJSC Oryolenergo	7 117	1 434	8 123	-
OJSC Astrakhanenergo	8 896	478	5 916	-
OJSC Kostromaenergo	31 426	8 407	6 837	-
OJSC Ryazanenergo	12 357	871	9 594	-
OJSC Tambovenergo	11 285	1 289	8 251	-
	747 371	**264 062**	**348 502**	**65 380**

All outstanding balances with related parties are to be settled in cash within one year of the balance sheet date. None of the balances are secured.

(ii) ***Expenses***

'000 RUR	Transaction value 2006	Outstanding balance 2006	Transaction value 2005	Outstanding balance 2005
Services received:				
Parent company	(50)	-	-	-
Subsidiaries of OJSC RAO UES of Russia				
OJSC Kalugaenergo	(5 465)	(74)	-	-
OJSC Korporativnye servisnye sistemy	(15 614)	(84)	(19 377)	(5 182)
OJSC Kubanenergo	-	(55 787)	-	-
OJSC Rostovenergo	(6 192)	-	-	(804)
OJSC Belgorodenergo	(34 300)	-	(8 949)	(2 930)
OJSC Kostromaenergo	(4 310)	(925)	-	-
	(65 931)	**(56 870)**	**(28 326)**	**(8 916)**

All outstanding balances with related parties are to be settled in cash within one year of the balance sheet date. None of the balances are secured.

(c) State controlled entities

During its operations the Company performs transactions with other state-controlled companies, including OJSC RAO UES of Russia and its subsidiaries, state-controlled banks, and various government agencies. Accrual and settlements on taxes are performed according to Russian tax legislation. The value of banking services is determined based on market conditions.

As at 31 December 2006 the cash balance on accounts opened in OJSC Vneshtorgbank equaled RUR 1 826 thousand.

19 Events subsequent to the balance sheet date

No significant events which could have a significant impact on the financial statements have occurred subsequent to the balance sheet date.