PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of Open Joint Stock Company "Federal Hydrogenation Company HydroOGK" (OJSC "RusHydro"):

We have audited the accompanying combined and consolidated financial statements of **OJSC "RusHydro"** and its subsidiaries (the "Group") which comprise the combined and consolidated balance sheet as of 31 December 2006 and the combined and consolidated statements of income, of cash flows and of changes in equity 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 combined and consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

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

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 of the accompanying combined and consolidated financial statements. These combined and consolidated financial statements include carved out revenues and expenses related to periods from 1 January 2005 to 1 April 2005 or 1 July 2005 for electricity and heat generating divisions within OJSC Mosenergo, OJSC Stavropolenergo and OJSC Dagenergo, predecessor legal entities that had other business activities, and carved out rental revenues and expenses related to periods from 1 January 2005 to 1 November 2006 for Novosibirskaya HPP property, plant and equipment within RAO UES, predecessor legal entity. Because of the various determinations used in carving out such revenues and expenses, as described in Note 3 and elsewhere in these combined and consolidated financial statements, those revenues and expenses within predecessor legal entities may not be indicative of revenues expected to be earned and costs expected to be incurred on a prospective basis for the electricity and heat generation within the Group as a separate business and, as such, these combined and consolidated financial statements may not be indicative of future results of operations and trends.

ZAO PricewaterhouseCoopers Audit

2 August 2007
Moscow, Russian Federation

Combined and Consolidated Balance Sheet as at 31 December 2006

(in thousand of Russian Rubles except per share information)

	Notes	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	5	104,924,112	66,992,921
Other non-current assets	6	5,088,489	3,833,648
Total non-current assets		**110,012,601**	**70,826,569**
Current assets			
Cash and cash equivalents	7	5,571,822	1,220,076
Accounts receivable and prepayments	8	19,169,442	3,231,434
Inventories	9	703,711	554,187
Other current assets	10	1,196,150	157,154
Total current assets		**26,641,125**	**5,162,851**
TOTAL ASSETS		**136,653,726**	**75,989,420**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	140,954,760	103,951,323
Share premium	11	391,080	-
Merger reserve	11	(74,012,535)	(56,579,465)
Retained earnings		14,535,081	(1,017,185)
Equity attributable to shareholders of OJSC RusHydro		**81,868,386**	**46,354,673**
Minority interest		**20,986,163**	**16,517,022**
Total equity		**102,854,549**	**62,871,695**
Non-current liabilities			
Deferred tax liabilities	12	6,924,869	567,647
Non-current debt	14	14,492,995	445,964
Other non-current liabilities	15	283,144	3,393,745
Total non-current liabilities		**21,701,008**	**4,407,356**
Current liabilities			
Current debt and current portion of non-current debt	14	2,685,623	3,423,337
Accounts payable and accruals	16	8,333,982	3,978,464
Current income tax payable		59,832	74,329
Other taxes payable	17	1,018,732	1,234,239
Total current liabilities		**12,098,169**	**8,710,369**
Total liabilities		**33,799,177**	**13,117,725**
TOTAL EQUITY AND LIABILITIES		**136,653,726**	**75,989,420**

Chairman of the Management Committee — V.Yu. Sinyugin

Chief Accountant — O.V. Otto

23 July 2007

RusHydro Group
Combined and Consolidated Income Statement for the year ended 31 December 2006
(in thousand of Russian Rubles except per share information)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Revenues	18	20,564,692	15,110,883
Other operating income	18	3,903,379	3,252,036
Operating expenses	19	(23,336,656)	(14,488,400)
Reversal of impairment of property, plant and equipment	5	28,315,873	-
Operating profit		**29,447,288**	**3,874,519**
Finance income	20	283,865	35,816
Finance costs	20	(463,986)	(136,474)
Finance costs, net		**(180,121)**	**(100,658)**
Profit before income tax		**29,267,167**	**3,773,861**
Total income tax charge	12	(7,998,523)	(1,580,145)
Profit for the period		**21,268,644**	**2,193,716**
Attributable to:			
Shareholders of OJSC RusHydro		17,288,651	2,027,773
Minority interest		3,979,993	165,943
Earnings per ordinary share for profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles)	21	0.1424	0.0168
Weighted average shares outstanding – basic and diluted	21	121,414,115	120,920,110

Chairman of the Management Committee — V.Yu. Sinyugin

Chief Accountant — O.V. Otto

23 July 2007

Combined and Consolidated Cash Flow Statement for the year ended 31 December 2006

(in thousand of Russian Rubles except per share information)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		**29,267,167**	**3,773,861**
Depreciation of property, plant and equipment	19	3,093,545	3,219,419
Loss on disposal of property, plant and equipment	19	2,641,530	8,850
Finance costs, net	20	180,121	100,658
Write-off and charge of impairment of accounts receivable	19	392,163	155,590
Reversal of impairment of impairment, plant and equipment	5	(28,315,873)	-
Other		102,528	4,528
Operating cash flows before working capital changes and income tax paid		**7,361,181**	**7,262,906**
Working capital changes:			
(Increase) in accounts receivable and prepayments		(15,722,617)	(2,249,721)
(Increase) in other current assets		(60,667)	(58,660)
(Increase)/ Decrease in inventories		(149,524)	18,463
Decrease/ (Increase) in other non-current assets		651,741	(544,810)
Increase in accounts payable and accruals		891,524	473,254
(Decrease)/ Increase in taxes payable		(215,508)	301,603
(Decrease) in other non-current liabilities		(121,742)	(58,636)
Income tax paid		(1,962,949)	(1,296,617)
Net cash generated by operating activities		**(9,328,561)**	**3,847,782**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(15,532,039)	(7,351,532)
Loan issued	6	(1,900,000)	-
Purchase of promissory notes and other short-term investments, net		(423,383)	(2,132,985)
Net cash used in investing activities		**(17,855,422)**	**(9,484,517)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term debt		1,325,886	4,515,740
Proceeds from long-term debt		14,300,000	91,045
Repayment of debt		(3,390,423)	(3,057,326)
Interest paid		(456,553)	(117,372)
Dividends paid by Group to RAO UES shareholders	11	(931,089)	(580,896)
Dividends paid by Group to minority interest shareholders	11	(317,664)	(155,620)
Proceeds from share issuance	11	20,000,000	101,795
Purchase of Group's subsidiaries additional share issuance by RAO UES	11	892,427	1,092,342
Advances received from RAO UES under Investment agreements	15, 16	1,291,358	4,567,606
Repayment of advances to RAO UES under Investment agreements	15, 16	(834,520)	-
Finance lease payments		(343,693)	(234,211)
Net cash generated by financing activities		**31,535,729**	**6,223,103**
Increase in cash and cash equivalents		**4,351,746**	**586,368**
Cash and cash equivalents at the beginning of the period	7	**1,220,076**	**633,708**
Cash and cash equivalents at the end of the period	7	**5,571,822**	**1,220,076**

Chairman of the Management Committee V.Yu. Sinyugin

Chief Accountant O.V. Otto

23 July 2007

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

(in thousand of Russian Rubles except per share information)

	Ordinary share capital	Share premium	Unpaid share capital	Merger reserve	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Minority interest	Total equity
As at 1 January 2005	**103,951,323**	**-**	**(2,059,795)**	**(56,380,240)**	**(2,906,002)**	**42,605,286**	**15,320,378**	**57,925,664**
Payment of unpaid share capital (Note 11)	-	-	2,059,795	-	-	2,059,795	-	2,059,795
Effect of changes in minority interest (Note 11)	-	-	-	-	(111,067)	(111,067)	1,203,409	1,092,342
Effect of carve-out accounting (Note 11)	-	-	-	(199,225)	-	(199,225)	-	(199,225)
Profit for the period	-	-	-	-	2,027,773	2,027,773	165,943	2,193,716
Dividends declared (Note 11)	-	-	-	-	(27,889)	(27,889)	(172,708)	(200,597)
At 31 December 2005	**103,951,323**	**-**	**-**	**(56,579,465)**	**(1,017,185)**	**46,354,673**	**16,517,022**	**62,871,695**
As at 1 January 2006	**103,951,323**	**-**	**-**	**(56,579,465)**	**(1,017,185)**	**46,354,673**	**16,517,022**	**62,871,695**
Share issuance (Note 11)	37,003,437	391,080	-	(17,149,516)	-	20,245,001	-	20,245,001
Effect of changes in minority interest (Note 11)	-	-	-	-	(24,185)	(24,185)	916,612	892,427
Acquisition of subsidiary (Note 11)	-	-	-	(110,327)	-	(110,327)	-	(110,327)
Effect of carve-out accounting (Note 11)	-	-	-	(173,227)	-	(173,227)	-	(173,227)
Profit for the period	-	-	-	-	17,288,651	17,288,651	3,979,993	21,268,644
Dividends declared (Note 11)	-	-	-	-	(1,712,200)	(1,712,200)	(427,464)	(2,139,664)
At 31 December 2006	**140,954,760**	**391,080**	**-**	**(74,012,535)**	**14,535,081**	**81,868,386**	**20,986,163**	**102,854,549**

Chairman of the Management Committee V.Yu. Sinyugin

Chief Accountant O.V. Otto

23 July 2007

Note 1. The Group and its operations

Open Joint Stock Company "Federal Hydrogenation Company HydroOGK" or OJSC RusHydro (hereinafter referred to as "Company") was established as a wholly-owned subsidiary of the Open Joint-Stock Company RAO "UES of Russia" on 26 December 2004 in accordance with Government Decrees on "Restructuring the Electric Power Industry of the Russian Federation".

The RusHydro Group's (the "Group") primary activities are generation and sale of electricity. The registered office of the Company is at 51, Respubliki Street, Krasnoyarsk, Krasnoyarsk Territory, Russian Federation. The Group consists of hydro power stations located across Russian Federation. The significant subsidiaries are disclosed in Note 26.

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

Relations with the state and current regulation. At 31 December 2006, the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") owns 100 percent of the voting ordinary shares of OJSC RusHydro (at 31 December 2005 – 100 percent). The Russian Government is the ultimate controlling party of the Company.

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

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

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions were impacted significantly by social and political considerations, causing significant delays in tariff determinations and tariff increases that were lower than required to compensate for cost increases. 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 (Note1).

As described above, the government's economic, social and other policies could have material effects on the operations of the Group.

Sector restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which RAO UES Group and its successor companies (including OJSC RusHydro) 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 31 August 2006 and which came into force on 1 September 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.

Note 1. The Group and its operations (continued)

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 percent of the forecasted production volumes will be traded at regulated prices. The period from 2006 to approximately 2011 is a transition period. After that, it is expected that a fully competitive wholesale market will develop.

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

Establishment of the Group. Open OJSC RusHydro was established as a wholly-owned subsidiary of RAO UES (parent company) on 26 December 2004 in accordance with the Resolution No. 1254-r which approved the structure of wholesale generating companies ("OGKs"). RAO UES made the following contributions (Note 11):

- shares of subsidiaries and affiliates: OJSC Volga HPP, OJSC Zhigulyovsk HPP, OJSC Votkinsk HPP, OJSC Neporozhny Sayano-Shushensk HPP (named after PS Neporozhny), OJSC Zeya HPP, OJSC Boguchansk HPP, OJSC Bureya HPP, OJSC Zaramagsk HPP, OJSC Zelenchuki HPP, OJSC Kabbalk HPP, OJSC Sulakenergo, OJSC Nizhni Novgorod HPP, OJSC Saratov HPP, OJSC Kama HPP, OJSC Upper Volga Cascade HPPs, OJSC Volga Hydroenergy Cascade Management Company (VoGEK);
- cash funds.

In August 2006, in the course of further sector restructuring, RAO UES made the following contributions to the Company in exchange for additional share issue (Note 11):

- shares of subsidiaries: OJSC Cheboksary HPP, OJSC Regional Power Generation Company of Daghestan, OJSC Zagorsk HAEPP, OJSC The Stavropol Electricity Power Generating Company, OJSC B.V. Vedeneev Scientific Research Institute of Hydrotechnics, OJSC Research Institute of Power Facilities, OJSC Zaramagsk HPP and OJSC Zelenchuki HPP;
- the assets of Novosibirskaya HPP;
- cash funds;
- other assets.

In May 2007 the Company's Board of Directors approved an accelerated plan to transfer to a "one share" Company through absorption merger (Note 27). Following the absorption merger all principal subsidiaries will cease to exist as separate legal entities and become branches of the Company.

Note 2. Financial condition

As at 31 December 2006, the Group's current assets exceeded its current liabilities by RR 14,542,956 thousand. At 31 December 2005 current liabilities exceeded its current assets by RR 3,547,518 thousand.

As discussed above, the Group is affected by Government policy through control of tariffs and other factors. The FTS have not always permitted tariff increases in line with the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, increases in these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognised under an IFRS basis of accounting. As a result, tariffs may not consistently allow for an adequate return on investment and may 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 (Note1).

Note 2. Financial condition (continued)

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

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

Note 3. Basis of preparation

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

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

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

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.

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

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, OJSC Cheboksary HPP, OJSC Regional Power Generation Company of Daghestan, OJSC Zagorsk HAEPP, OJSC The Stavropol Electricity Power Generating Company, OJSC B.V. Vedeneev Scientific Research Institute of Hydrotechnics, OJSC Research Institute of Power Facilities Zaramagsk HPP, OJSC Zelenchuki HPP and OJSC North Osetian Generating Company were accounted in the Group's combined and consolidated financial statements effective from 1 January 2005.

The difference between the consideration paid including share capital measured at its statutory determined nominal value (Note 11), and the predecessor carrying values of the net assets relating to the acquisition of a business from an entity under common control is recorded in equity, as a merger reserve.

Note 3. Basis of preparation (continued)

In addition the assets of Novosibirskaya HPP transferred by RAO UES as a contribution to the Company's charter capital were rented out by the Company to OAO "Novosibirskenergo" until 31 December 2006 and the transfer included the rental agreement. The contribution of the property, plant and equipment and related rental contracts was accounted for as a business combination amongst entities under common control and accounted for under the predecessor values method as a matter of accounting policy effective from 1 January 2005. In carving out the full year rental income, depreciation charge and related taxes for transferred assets were recognised. The transferred assets were presented starting from 1 January 2005 at the value of the predecessor entity.

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

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

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

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

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

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

Note 3. Basis of preparation (continued)

- 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. The Group will apply IFRS 8 from 1 January 2009 and is currently assessing what impact the new IFRS will have on disclosures in its financial statements;
- 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). The Group will apply IFRIC 7 from 1 January 2007, though as none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 will not be relevant to the Group's operations;
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007). The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's accounts;
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The Group will apply IFRIC 9 from 1 January 2007, but it is not expected to have any impact on the Group's accounts;
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts;
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Group will apply the new interpretations from 1 January 2008, but it is not expected to have any impact on the Group's accounts;
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). The Group will apply IFRIC 12 from 1 January 2008, but it is not expected to have any impact on the Group's accounts;
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). The Group will apply IFRIC 13 from 1 January 2008, but it is not expected to have any impact on the Group's accounts;
- IFRIC 14, IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008). The Group will apply IFRIC 14 from 1 January 2008 and is currently assessing what impact the new IFRS will have on disclosures in its financial statements;
- 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. The Group will apply the new amendment from 1 January 2009, and is currently assessing what impact the new IFRS will have on the Group's accounts.

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

(in thousand of Russian Rubles except per share information)

Note 3. Basis of preparation (continued)

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

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

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

Carve-out methodologies. These consolidated and combined financial statements include carved out financial statement data of OJSC Zagorsk HAEPP, OJSC The Stavropol Electricity Power Generating Company and OJSC Regional Power Generation Company of Daghestan 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
OJSC Zagorsk HAEPP	OJSC Mosenergo	3 months ended 31 March 2005
OJSC The Stavropol Electricity Power Generating Company	OJSC Stavropolenergo	3 months ended 31 March 2005
OJSC Regional Power Generation Company of Daghestan	OJSC Dagenergo	6 months ended 30 June 2005

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

- electricity sales were based on actual electricity power production volume multiplied by actual tariffs approved by RSTs for the power stations (OJSC Zagorsk HAEPP, OJSC The Stavropol Electricity Power Generating Company and OJSC Regional Power Generation Company of Daghestan) after their spin-off from the predecessor legal entities for the year 2005;
- operating expenses were determined on an actual basis;
- depreciation of property, plant and equipment was calculated on IFRS predecessor values;
- general and administrative overheads were not allocated but were determined on an actual basis;
- current income tax was determined using the effective income tax rate of the predecessor entities;
- deferred income tax as of 1 January 2005 was determined from actual movements in deferred tax assets/liabilities between 1 January 2005 and the date of set up of the power stations as stand-alone legal entities;
- property, plant and equipment were based on IFRS predecessor values and rolled back to 1 January 2005 taking into account additions and disposals before their spin-off;
- accounts payable, taxes payable, accounts receivable, inventories were determined on an actual basis;
- carve-out data for all the power stations reflects the minority interest holding.

Carve-out accounting for the Novosibirskaya HPP is described above in Predecessor accounting.

Note 4. Summary of significant accounting policies

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

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

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

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

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

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

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

Property, plant and equipment is stated at depreciated cost less impairment. Deemed cost for the purposes of presenting IFRS financial statements for the first time by the predecessor 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.

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.

(in thousand of Russian Rubles except per share information)

Note 4. Summary of significant accounting policies (continued)

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

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997	Revised starting from 1 January 2006
Electricity and heat generation	22-28	20-50	3-40
Electricity distribution	26-30	25	26
Heating network	15	20	18
Other	8	10	8

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

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

Investments. Investments intended to be held for an indefinite period of time are classified as available-for-sale. These are included in other non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in other current assets and classified as trading investments. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments.

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

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

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

Differences in tariffs established by Federal Tariff Service between the sale and purchase of electricity through FOREM (Federal Wholesale Electricity (Power) Market) resulted in unallocated balances (tariff imbalance). These imbalances and related revenues initially recognised were reversed in the Group's accounts as it is not expected that tariff imbalances will be settled by the parties.

The related deferred VAT liability recognised in relation to the above tariff imbalance is maintained until these imbalances are written off for tax purposes.

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

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Note 4. Summary of significant accounting policies (continued)

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

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

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

Deferred tax is not provided for the undistributed earnings of subsidiaries, as it is probable that the temporary difference will not reverse in the foreseeable future. In May 2007 the Board of Directors approved an accelerated plan to transfer to a "one share" Company through absorption merger (Note 27). Following the absorption merger all principal subsidiaries will cease to exist as separate legal entities and become branches of the Company.

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

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

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

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

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

Note 4. Summary of significant accounting policies (continued)

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

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

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.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, 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. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. 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 Group is not reasonably certain that it will obtain ownership by the end of the lease term.

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

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

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

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

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

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

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

(in thousand of Russian Rubles except per share information)

Note 4. Summary of significant accounting policies (continued)

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.

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

Note 5. Property, plant and equipment

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Other property, plant and equipment	Construction in progress	Total
Opening balance as at 31 December 2005	**99,834,362**	**7,152,915**	**532,299**	**6,052,200**	**47,584,376**	**161,156,152**
Additions	993,401	6,432	-	311,772	14,826,363	16,137,968
Transfers	1,875,841	372,986	-	1,169,019	(3,417,846)	-
Disposals	(234,753)	(85,346)	-	(65,335)	(5,235,825)	(5,621,259)
Closing balance as at 31 December 2006	**102,468,851**	**7,446,987**	**532,299**	**7,467,656**	**53,757,068**	**171,672,861**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2005	**(65,428,362)**	**(4,135,265)**	**(456,074)**	**(3,624,530)**	**(20,519,000)**	**(94,163,231)**
Charge for the year	(2,348,376)	(308,602)	(54,714)	(381,853)	-	(3,093,545)
Reversal of impairment loss	26,966,289	1,036,960	1,400	311,224	-	28,315,873
Disposals	169,071	59,532	-	59,655	1,903,896	2,192,154
Closing balance as at 31 December 2006	**(40,641,378)**	**(3,347,375)**	**(509,388)**	**(3,635,504)**	**(18,615,104)**	**(66,748,749)**
Net book value as at 31 December 2005	**34,406,000**	**3,017,650**	**76,225**	**2,427,670**	**27,065,376**	**66,992,921**
Net book value as at 31 December 2006	**61,827,473**	**4,099,612**	**22,911**	**3,832,152**	**35,141,964**	**104,924,112**

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Other property, plant and equipment	Construction in progress	Total
Opening balance as at 31 December 2004	**97,303,042**	**6,836,904**	**531,967**	**5,863,477**	**43,945,590**	**154,480,980**
Additions	1,288,280	102,433	-	160,561	6,274,083	7,825,357
Transfers	1,409,810	284,158	7,715	668,967	(2,370,650)	-
Disposals	(166,770)	(70,580)	(7,383)	(640,805)	(264,647)	(1,150,185)
Closing balance as at 31 December 2005	**99,834,362**	**7,152,915**	**532,299**	**6,052,200**	**47,584,376**	**161,156,152**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2004	**(63,230,130)**	**(3,914,557)**	**(409,692)**	**(3,418,645)**	**(20,519,000)**	**(91,492,024)**
Charge for the year.	(2,264,223)	(287,825)	(53,765)	(613,606)	-	(3,219,419)
Disposals	65,991	67,117	7,383	407,721	-	548,212
Closing balance as at 31 December 2005	**(65,428,362)**	**(4,135,265)**	**(456,074)**	**(3,624,530)**	**(20,519,000)**	**(94,163,231)**
Net book value as at 31 December 2004	**34,072,912**	**2,922,347**	**122,275**	**2,444,832**	**23,426,590**	**62,988,956**
Net book value as at 31 December 2005	**34,406,000**	**3,017,650**	**76,225**	**2,427,670**	**27,065,376**	**66,992,921**

Note 5. Property, plant and equipment (continued)

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

Depreciation is charged once an asset is available for service.

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

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The relationships of use and alienability of the land are regulated by Land Code of Russian Federation. According to the Land Code the plots of land located under hydraulic engineering structures are limited in their alienability and shall not be conveyed to become private property, except for the cases established by federal laws.

Impairment provision for property, plant and equipment. The impairment provision included in accumulated depreciation balance as at 31 December 2006 was RR 19,774,025 thousand (31 December 2005: RR 49,620,345 thousand).

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

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

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

1. Electricity tariffs in the regulated sector will be increased by 19.0, 20.0 and 22.3 percents for the years ended 31 December 2008, 2009 and 2010, respectively;
4. Growth of other operating costs will be accounted for by the Regional Tariff Service in the course of establishing regulated electricity tariffs on a "cost-plus" basis;
5. Inflation rate will not exceed 7.7 percent per year;
6. Increase of major variable cost will not exceed the inflation rate;
7. The pre-tax discount rate used to determine assets value in use is equal to 18.4 percent.

Electricity tariffs (in the regulated sector) approved by respective regulators for the year ended 31 December 2007 indicates increases of 16.5 percents in comparison with the year ended 31 December 2006.

Management's assessment indicates that value in use of property, plant and equipment will not be lower than its net book value including effect of reversal of impairment provision. Consequently, the Group has recorded a reversal of the previously recognised impairment loss in the amount of RR 28,315,873 thousand. The impairment reversal and the corresponding deferred tax expense of RR 6,795,809 thousand were recognised in the income statement for the year ended 31 December 2006.

Financial leases. The Group leases property, plant and equipment on the basis of financial lease. The depreciation period of the capitalised leased assets corresponds to the period of the lease. Included in electricity and heat generation properties are assets held under finance leases with a carrying value of RR 1,036,564 thousand at 31 December 2006 (31 December 2005: RR 473,826 thousand).

(in thousand of Russian Rubles except per share information)

Note 5. Property, plant and equipment (continued)

Operating lease. The Group leases a number of land areas owned by local governments under non-cancelable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2006	31 December 2005
Less than one year	278,668	105,040
Between one year and five years	2,490,834	199,223
After five years	200,017	1,040,545
Total	**2,969,519**	**1,344,808**

The land areas leased by the Group are the territories on which the Group's electric power stations, heating stations and other assets are located. The leases typically run for an initial period of 5-49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The Group leases out electricity and heat generation property, plant and equipment to third parties under operating leases. Included in electricity and heat generation properties are assets leased out under operating lease agreements with a carrying value of RR 3,163,001 thousand at 31 December 2006 (31 December 2005: RR 3,404,000 thousand).

Note 6. Other non-current assets

	31 December 2006	31 December 2005
Available-for-sale investments (carried at cost)	1,982,590	1,976,007
VAT recoverable	627,882	1,529,246
Long-term loans receivable (effective interest rate: MOSPRIME plus 5.2 percent, due 2020)	1,900,000	-
Other long-term assets (Net of provision for impairment debtors of RR 62,731 thousand as at 31 December 2006 and RR 62,731 thousand as at 31 December 2005, effective interest rate: 15.5 percent, due 2008 - 2013)	578,017	328,395
Total other non-current assets	**5,088,489**	**3,833,648**

Available-for-sale investments (carried at cost). Included within investments available-for-sale investments (carried at cost) is a 15.9 percent interest in OJSC Bureya HPP totaling RR 1,958,000 thousand at 31 December 2006 (31 December 2005: 1,958,000 thousand).

Long-term loans receivable. In 2006 the Company issued a RR 1,900,000 thousand loan to OJSC Bureya HPP, a fellow subsidiary of RAO UES.

Note 7. Cash and cash equivalents

	31 December 2006	31 December 2005
Cash at bank and in hand	1,793,752	811,074
Cash equivalents (contractual interest rate: 2.5 - 8.75 percent)	3,778,070	409,002
Total cash and cash equivalents	**5,571,822**	**1,220,076**

Cash equivalents held as at 31 December 2006 and 31 December 2005 comprised short-term RR bank deposits of less than 3 months duration.

(in thousand of Russian Rubles except per share information)

Note 7. Cash and cash equivalents (continued)

Cash balances denominated in USD currency accounts were RR 726 thousand as at 31 December 2006 (31 December 2005: RR 527 thousand). Cash balances denominated in EURO were RR 1,805 thousand as at 31 December 2006 (31 December 2005: RR 4,211 thousand).

Note 8. Accounts receivable and prepayments

	31 December 2006	31 December 2005
Trade receivables (Net of provision for impairment debtors of RR 142,083 thousand as at 31 December 2006 and RR 126,825 thousand as at 31 December 2005)	753,173	857,041
Promissory notes: effective interest rate 12.0 percent p.a. (Note 25)	13,787,925	3,526
Advances to suppliers and prepayments (Net of provision for impairment debtors of RR 2,207 thousand as at 31 December 2006 and RR 2,207 thousand as at 31 December 2005)	733,118	675,819
Income tax receivables	377,241	53,955
Value added tax recoverable	2,503,653	879,601
Other receivables (Net of provision for impairment debtors of RR 26,029 thousand as at 31 December 2006 and RR 26,029 thousand as at 31 December 2005)	1,014,332	761,492
Total accounts receivable and prepayments	**19,169,442**	**3,231,434**

At 31 December 2006 and 31 December 2005 the above other receivables balance included RR 1,194,341 thousand and RR 96,118 thousand of tax prepayments respectively, which are to be settled against future tax liabilities.

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

Note 9. Inventories

	31 December 2006	31 December 2005
Materials and supplies	563,183	332,206
Other inventories	140,528	221,981
Total inventories	**703,711**	**554,187**

The above inventory balances are shown net of an obsolescence provision for RR 62,963 thousand and RR 48,875 thousand as at 31 December 2006 and 31 December 2005 respectively.

At 31 December 2006 and 31 December 2005, the inventory balances did not include inventories pledged as collateral under loan agreements.

Note 10. Other current assets

	31 December 2006	31 December 2005
Promissory notes: yield to maturity 9.8 – 13.2 percent p.a. (Note 25)	725,094	-
Other short-term investments	471,056	157,154
Total other current assets	**1,196,150**	**157,154**

(in thousand of Russian Rubles except per share information)

Note 11. Equity

Basis of presentation of movements in equity. The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (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 period and as at 1 January 2005 as if the current Group structure had existed from 1 January 2005 (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 adjustment in the merger reserve and recognition of minority interest.

(Number of shares unless otherwise stated)	**Ordinary shares 31 December 2006**	**Ordinary shares 31 December 2005**
Issued shares	140,954,759,856	103,951,322,702
Par value (in RR)	1.00	1.00

On 26 December 2004, the date that the Company was established, the number of issued ordinary shares amounted to 103,951,322,702 with a par value of RR 1.00 each.

The contributions to the Company's share capital were effected as follows:

- RR 103,849,528 thousand received by way of contribution of RAO UES' controlling interest in OJSC Volga HPP, OJSC Zhigulyovsk HPP, OJSC Votkinsk HPP, OJSC Neporozhny Sayano-Shushensk HPP (named after PS Neporozhny), OJSC Zeya HPP, OJSC Boguchansk HPP, OJSC Bureya HPP, OJSC Zaramagsk HPP, OJSC Zelenchuki HPP, OJSC Kabbalk HPP, OJSC Sulakenergo, OJSC Nizhni Novgorod HPP, OJSC Saratov HPP, OJSC Kama HPP, OJSC Upper Volga Cascade HPPs, OJSC Volga Hydroenergy Cascade Management Company (VoGEK);
- cash contributions amounted to RR 101,795 thousand.

In August 2006, in the course of further sector restructuring, 37,003,437,154 additional ordinary shares of OJSC RusHydro with a value of RR 1.00 each were issued. RAO UES made the following contributions to the Company in exchange for additional shares issued:

- RR 14,346,885 thousand received by way of contribution of RAO UES' controlling interest in OJSC Cheboksary HPP, OJSC Regional Power Generation Company of Daghestan, OJSC Zagorsk HAEPP, OJSC The Stavropol Electricity Power Generating Company, OJSC B.V. Vedeneev Scientific Research Institute of Hydrotechnics and OJSC Research Institute of Power Facilities;
- RR 91,058 thousand received by way contribution of RAO UES' 12.4 percent interest in OJSC Zaramagsk HPP and 1.6 percent interest in OJSC Zelenchuki HPP;
- RR 2,711,573 thousand received by way of contribution of Novosibirskaya HPP assets (business);
- cash contributions amounted to RR 20,000,000 thousand;
- RR 245,001 thousand received by way of contribution of various other assets.

Payment of unpaid share capital. In 2005 RR 2,059,795 thousand of unpaid share capital was settled via transfer of 15.9 percent interest in OJSC Bureya HPP (Note 6) and the remaining part in the amount of RR 101,795 thousand was paid in cash.

Effect of changes in minority interest. In 2006 OJSC Zelenchuki HPP issued 89,242,749 additional ordinary shares with a par value of RR 10.0 each fully paid by RAO UES. The cash contribution amounted to RR 892,427 thousand and the effect of the partial disposal of OJSC Zelenchuki HPP have been recorded within equity at the date of the additional share issue.

(in thousand of Russian Rubles except per share information)

Note 11. Equity (continued)

In 2005 the interest in OJSC Sulakenergo decreased from 61.2 percent to 53.6 percent and the interest in OJSC Zaramagsk decreased from 88.4 percent to 77.5 percent due to additional share issuance by these Group's subsidiaries. The additional share issues were fully paid by RAO UES in the amount of RR 1,092,342 thousand.

Effect of carve-out accounting. In 2006 and 2005 the Group recorded the effect resulted from carve-out accounting of OJSC Zagorsk HAEPP, OJSC The Stavropol Electricity Power Generating Company, OJSC Regional Power Generation Company of Daghestan and of Novosibirskaya HPP and related rental agreement for the period and from the predecessor legal entities (Note 3). Included within merger reserve in 2006 and 2005 periods there are RR 173,227 thousand and RR 199,225 thousand of carved out revenues and expenses related to periods from 1 January 2005 to 1 April 2005 or 1 July 2005 for electricity and heat generating divisions within OJSC Mosenergo, OJSC Stavropolenergo and OJSC Dagenergo, predecessor legal entities that had other business activities, and carved out rental revenues and expenses related to periods from 1 January 2005 to 1 November 2006 for Novosibirskaya HPP property, plant and equipment within RAO UES, predecessor legal entity.

Acquisition of subsidiary. In 2006 the Group acquired 56.0 percent of the share capital of OJSC North Osetian Generating Company from OJSC Sevkavkazenergo, subsidiary of RAO UES, for cash consideration of RR 110,327 thousand. The consideration was not paid as at 31 December 2006.

The acquisition of OJSC North Osetian Generating Company was accounted for using the predecessor basis of accounting method from 1 January 2005. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The difference between the carrying amount of net assets and the purchase consideration is accounted for in these consolidated financial statements as an adjustment to merger reserve in the statement of changes in equity.

Dividends. In accordance with Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The following dividends were declared by the Group, recognised as a liability and deducted from equity for the reporting periods:

	31 December 2006	Declared dividends	Dividends paid	31 December 2005
OJSC RusHydro	809,000	1,712,200	(931,089)	27,889
Group subsidiaries	246,990	427,464	(317,664)	137,190
Total	**1,055,990**	**2,139,664**	**(1,248,753)**	**165,079**

Note 12. Income tax

Income tax charge

	Year ended 31 December 2006	Year ended 31 December 2005
Current income tax expense	1,641,301	1,388,406
Deferred income tax expense	6,357,222	191,739
Total income tax charge	**7,998,523**	**1,580,145**

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

(in thousand of Russian Rubles except per share information)

Note 12. Income tax (continued)

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

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

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	29,267,167	3,773,861
Theoretical income tax charge at an average statutory tax rate of 24 percent	(7,024,120)	(905,727)
Tax effect of items which are not deductible or assessable for taxation purposes	(974,403)	(674,418)
Total income tax charge	**(7,998,523)**	**(1,580,145)**

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 for income tax purposes. Deferred income tax assets and liabilities are measured at 24 percent, the rate expected to be applicable when the assets or liabilities will reverse.

	31 December 2006	Charged (credited) to the income statement	31 December 2005
Deferred income tax liabilities	**10,418,412**	**6,093,600**	**4,324,812**
Property, plant and equipment	10,103,040	6,266,357	3,836,683
Other	315,372	(172,757)	488,129
Deferred income tax assets	**(3,493,543)**	**263,622**	**(3,757,165)**
Property, plant and equipment	(2,450,002)	633,522	(3,083,524)
Accounts receivables	(697,085)	(231,400)	(465,685)
Other	(346,456)	(138,500)	(207,956)
Deferred income tax liabilities, net	**6,924,869**	**6,357,222**	**567,647**

Property, plant and equipment movement includes a deferred tax expense of RR 6,795,809 thousand in relation to the reversal of a previously recognised impairment loss of RR 28,315,873 thousand before tax (Note 5).

	31 December 2005	Charged (credited) to the income statement	31 December 2004
Deferred income tax liabilities	**4,324,812**	**21,017**	**4,303,795**
Property, plant and equipment	3,836,683	(165,968)	4,002,651
Other	488,129	186,985	301,144
Deferred income tax assets	**(3,757,165)**	**170,722**	**(3,927,887)**
Property, plant and equipment	(3,083,524)	397,389	(3,480,913)
Accounts receivables	(465,685)	(223,177)	(242,508)
Other	(207,956)	(3,490)	(204,466)
Deferred income tax liabilities, net	**567,647**	**191,739**	**375,908**

(in thousand of Russian Rubles except per share information)

Note 12. Income tax (continued)

Investments in subsidiaries. The Group has not recorded a deferred income tax liability in respect of taxable temporary differences associated with investments in subsidiaries as it is probable that the temporary difference will not reverse in the foreseeable future. In May 2007 the Board of Directors approved an accelerated plan to transfer to a "one share", Company through absorption merger (Note 27). Following the absorption merger all principal subsidiaries will cease to exist as separate legal entities and become branches of the Company. At 31 December 2006 the estimated unrecorded deferred tax liabilities for such differences were RR 15,150,212 thousand (31 December 2005: RR 15,962,814 thousand).

Note 13: Pension benefits

The tables below provide information about the benefit obligations and actuarial assumptions used for the year ended 31 December 2006 and 2005. Amounts recognised in the Group's consolidated balance sheet:

	31 December 2006	31 December 2005
Present value of defined benefit obligations	450,236	144,058
Present value of unfunded obligations	450,236	144,058
Unrecognised actuarial gains	6,320	4,701
Unrecognised past service cost	(303,083)	-
Pension obligations	**153,473**	**148,759**

Amounts recognised in the Group's consolidated income statement:

	31 December 2006	31 December 2005
Current service cost	2,074	2,023
Interest cost	9,629	9,537
Past service cost	-	-
Net expense recognised in income statement	**11,703**	**11,560**

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

	31 December 2006	31 December 2005
Projected Benefit Obligation at beginning of the year	144,058	141,268
Service cost	2,074	2,023
Interest cost	9,629	9,537
Actuarial (gain)/loss	(1,619)	(4,701)
Past service cost	303,083	-
Benefits paid	(6,989)	(4,069)
Present value of pension benefit obligations at end of the year	**450,236**	**144,058**

Movements in the net liability recognised in the balance sheet as at 31 December 2006 and as at 31 December 2005 are as follows:

	31 December 2006	31 December 2005
Net liability at start of year	148,759	141,268
Net expense recognised in the income statement	11,703	11,560
Benefits paid	(6,989)	(4,069)
Employer contributions	-	-
Net liability at end of year	**153,473**	**148,759**

(in thousand of Russian Rubles except per share information)

Note 13: Pension benefits (continued)

Principal actuarial assumptions are as follows:

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

Note 14. Current and non-current debt

Non-current debt

	Currency	Effective interest rate	Due date	31 December 2006	31 December 2005
EBRD (tranche 1)	RR	3.65%+MOSPRIME	2020	2,000,015	-
EBRD (tranche 2)	RR	2.75%+MOSPRIME	2014	850,000	-
EBRD (tranche 3)	RR	3.05%+MOSPRIME	2016	3,150,000	-
Bonds issue	RR	8.10%	2011	5,000,000	-
Morgan Stanley Bank International Ltd.	RR	8.75%	2013	3,000,000	-
JSC Stroycredit	RR	12.50%	2007	-	145,000
Vneshtorgbank	RR	12.50%	2007	-	85,000
Finance lease liabilities	RR	15.50%		793,365	477,170
Total				**14,793,380**	**707,170**
Less current portion of finance lease liabilities				(300,385)	(190,372)
Less current portion of non-current debt				-	(70,834)
Total non-current debt				**14,492,995**	**445,964**

European Bank for Reconstruction and Development ("EBRD"). In September 2006 the Group received a loan in three tranches of RR 6,300,000 thousand from European Bank for Reconstruction and Development. At 31 December 2006 the tranche 1 is stated net of transaction costs incurred in the amount of RR 299,985 thousand. The funds will be used to finance a program to upgrade and re-equip HPPs of the Volga-Kama Cascade. The loan is co-arranged by Standard Bank PLC, Bank Austria Creditanstalt AG and ING Bank (Eurasia) ZAO. The lead arrangers are Calyon, Fortis SA/NV and ZAO Raiffeisenbank Austria, and the arrangers are ZAO Citibank, Credit Suisse and Banque Societe Generale Vostok. Interest is payable quarterly. The Group is subject to certain financial and other covenants under the facility. At 31 December 2006, the Group was in compliance with all its covenants under the facility.

Bonds issue. In July 2006 the Group issued bonds in a public offering on the MICEX Stock Exchange. The total value of bonds issue was RR 5,000,000 thousand. The bonds were sold at a par value of RR 1,000 rubles, with a yield of 8.1 percent per annum. The yield is paid once in six months (182 days). The yield rates of coupons 2 through 10 are the same as the yield of coupon 1. The bonds are repayable in July 2011. The RusHydro Group bonds issue was sponsored by the CIT Finance Investment Bank. The bond issue proceeds will be used to finance the completion of the Boguchanskaya HPP and the needs of the Group subsidiaries.

(in thousand of Russian Rubles except per share information)

Note 14. Current and non-current debt (continued)

Morgan Stanley Bank International Ltd. ("Morgan Stanley"). In December 2006 the Group obtained a loan of RR 3,000,000 thousand from Morgan Stanley. The funds are intended to be used for financing capital expenditure projects in accordance with the Company's investment programme. The loan bears interest at a 8.75 percent per annum and is scheduled for repayment in December 2013. The interest is payable on monthly basis. The Group is subject to certain financial and other covenants under the facility. At 31 December 2006, the Group was in compliance with all its covenants under the facility.

Current debt

	Currency	Effective interest rate	31 December 2006	31 December 2005
Aluminum Group Ltd.	RR	12.0%	966,562	-
JSC Mezhtopenergobank	RR	14.3%	872,613	1,461,124
Settimel Holding Ins.	RR	12.0%	182,000	-
Sberbank	RR	7.0-14.3%	-	903,550
Gazprombank	RR	9.8%	-	450,000
Vneshtorgbank	RR	11.0-12.5%	-	309,985
Moscow Industrial bank	RR	15.0%	-	16,664
Evrofinance Mosnarbank	RR	13.00%	-	19,000
Other current debt	RR	various	54,937	99
Finance lease liabilities	RR	15.50%	300,385	190,372
Current portion of non-current debt	RR		-	70,834
Interest payable	RR		309,126	1,709
Total current debt and current portion of non-current debt			**2,685,623**	**3,423,337**

Debt maturity

Due for repayment	31 December 2006	31 December 2005
Between one year and two years	-	159,167
Between two years and three years	-	-
Between three years and four years	-	-
Between four years and five years	5,000,000	-
After five years	9,300,000	-
Total	**14,300,000**	**159,167**

Boguchansk Energy-Metallurgical Association ("BEMA"). In May 2006 OJSC RusHydro and the RUSAL Group signed a Memorandum of Understanding on cooperation in supplying power for an aluminum plant in the Russian Far East. The BEMA project includes the completion of construction of Boguchansk HPP with installed capacity of 3000 GW on the Angara River and construction of Boguchansky Aluminium Plant with a capacity in the order of 600,000 tons a year, which will become one of the major consumers of power generated by HPP. According to Memorandum of Understanding the RusHydro Group and the RUSAL Group will jointly control Boguchansk HPP and Boguchansk Aluminium Plant. As at 31 December 2006 the BEMA structure was not formally established. During 2006 the Group received advances from Aluminum Group Ltd. and Settimel Holding Ins., both RUSAL Group affiliates, to finance the construction of Boguchansk HPP. The debt will be settled in 2007 upon the BEMA structure formation.

Effective interest rate. The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

(in thousand of Russian Rubles except per share information)

Note 14. Current and non-current debt (continued)

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2006	**300,385**	**527,191**	**34,350**	**861,926**
Less future finance charges	-	(66,724)	(1,837)	(68,561)
Present value of minimum lease payments at 31 December 2006	**300,385**	**460,467**	**32,513**	**793,365**
Minimum lease payments at 31 December 2005	**190,372**	**576,984**	**78,376**	**845,732**
Less future finance charges	-	(365,119)	(3,443)	(368,562)
Present value of minimum lease payments at 31 December 2005	**190,372**	**211,865**	**74,933**	**477,170**

Note 15. Other non-current liabilities

	31 December 2006	31 December 2005
Advances received from RAO UES (Note 25)	-	2,988,859
Pension obligations	153,473	148,759
Other non-current liabilities	129,671	256,127
Total other non-current liabilities	**283,144**	**3,393,745**

Advances received from RAO UES. During several years RAO UES has financed the construction of Irganaysk HPP located in OJSC Sulakenergo and other capital projects. As at 31 December 2006 the liabilities were reclassified as current due to the completion of the construction and expected settlements scheduled for 2007.

All accounts payable and accruals are denominated in Russian Rubles.

Note 16. Accounts payable and accruals

	31 December 2006	31 December 2005
Trade accounts payable	1,147,064	841,539
Advances received from RAO UES (Note 25)	4,870,009	2,296,926
Advances received	21,992	70,319
Dividends payable (Note 11)	1,055,990	165,079
Payables to staff	316,487	114,898
Other accounts payable	922,440	489,703
Total accounts payable and accruals	**8,333,982**	**3,978,464**

Advances received from RAO UES. As at 31 December 2006 the Group has investment agreements with RAO UES to finance the construction of various HPP assets located in OJSC Sulakenergo, OJSC Boguchansk HPP, OJSC Zaramagsk HPP, OJSC Zelenchuki HPP, OJSC Upper Volga Cascade HPPs and OJSC Kabbalk HPP. The Group expects to settle these obligations in 2007.

Non-cash settlements. In 2006 approximately RR 799,495 thousand (2005: RR 158,113 thousand) of the Group's accounts payable and accruals were settled via non-cash settlements.

All accounts payable and accruals are denominated in Russian Rubles.

(in thousand of Russian Rubles except per share information)

Note 17. Other taxes payable

	31 December 2006	31 December 2005
Value added tax	250,564	583,619
Property tax	463,690	437,141
Unified social tax	44,870	19,083
Other taxes	259,608	194,396
Total other taxes payable	**1,018,732**	**1,234,239**

Note 18. Revenues and other operating income

	Year ended 31 December 2006	Year ended 31 December 2005
Sales of electricity and heating	20,564,692	15,110,883
Other operating income	3,903,379	3,252,036
Total revenues and other operating income	**24,468,071**	**18,362,919**

Note 19. Operating expenses

	Year ended 31 December 2006	Year ended 31 December 2005
Purchased power expenses	4,222,949	1,455,826
Depreciation cf property, plant and equipment	3,093,545	3,219,419
Loss on disposals of property, plant and equipment, net	2,641,530	8,850
Employee benefit expenses and payroll taxes	2,575,874	1,972,055
Taxes other than income tax	1,911,379	1,664,044
Third parties services, including:	4,189,620	2,973,688
Repairs and maintenance	*1,777,346*	*1,883,735*
Rent expenses	*531,707*	*413,967*
Consulting, legal and information expenses	*277,097*	*91,123*
Insurance cost	*265,783*	*300,394*
Security expenses	*183,577*	*187,931*
Transportation expenses	*77,527*	*10,589*
Commission fee	*68,983*	*3,750*
Services of Central Dispatching Unit ("CDU")	*341,907*	-
Other third parties services	*665,693*	*82,199*
Water usage expenses	967,586	957,326
Other materials	601,120	412,696
Social charges	212,408	100,041
Write-off and charge of impairment of accounts receivable	392,163	155,590
Other expenses	2,528,482	1,568,865
Total operating expenses	**23,336,656**	**14,488,400**

Loss on disposals of property, plant and equipment. In 2006 included within loss on disposals of property, plant and equipment is RR 2,335,351 net loss resulted from disposal of construction in progress to OJSC Dagautodor. The disposed assets comprised of roads, bridges and other infrastructure under construction in Dagestan.

Note 20. Net finance cost

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income	(142,770)	(35,816)
Gain on initial recognition of short-term borrowings	(141,095)	-
Accretion of discount associated with short-term borrowings	18,709	-
Interest expense	390,836	119,081
Finance lease expense	54,441	-
Other charges	-	17,393
Total net finance cost	**180,121**	**100,658**

Note 21. Earnings per ordinary share for profit attributable to the shareholders of OJSC RusHydro basic and diluted

	Year ended 31 December 2006	Year ended 31 December 2005
Weighted average number of ordinary shares issued (thousand of shares)	121,414,115	120,920,110
Profit attributable to the shareholders of OJSC RusHydro (in thousand Russian Rubles)	17,288,651	2,027,773
Weighted average earnings per share – basic and diluted (in Russian Rubles)	**0.1424**	**0.0168**

Note 22. Commitments

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

The Group has entered into a number of annual electricity sales agreements with CJSC "Center for Financial Settlements", retail companies and large industrial customers. The sales agreements contracted for at the balance sheet date but not yet generated were RR 36,029 million at 31 December 2006 (31 December 2005: RR 20,564 million).

Social commitments. Group entities contribute to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Capital commitments. In May 2006 RAO UES, OJSC RusHydro and RUSAL Group concluded an agreement on the mutual financing, construction and exploitation of Boguchansk HPP and the Boguchansk Aluminum Plant (Note 14). The total investment to be contributed by the RusHydro and RUSAL Groups amounts to RR 100,619 million (USD 3,821.3 million). Both RusHydro Group and RUSAL Group has committed to finance the construction on a parity terms. The first line of Boguchansk HPP and Boguchansk Aluminum Plant is planned to be put into operation in the fourth quarter of 2009.

Other Future capital expenditures in accordance with contractual obligations amounted to RR 8,360 million at 31 December 2006 (31 December 2005: RR 8,481 million).

Note 23 Contingencies

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

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

Note 23 Contingencies (continued)

Legal proceedings. Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

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

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

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

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

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

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

Note 24. Financial instruments and financial risk factors

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

Credit risk. Financial assets which potentially subject Group entities to concentrations of credit risk consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for doubtful debtors already recorded.

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

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest-bearing long term borrowings.

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

(in thousand of Russian Rubles except per share information)

Note 25. Related party transactions (continued)

Transactions with subsidiaries of RAO UES were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Electricity and heating revenues	15,933,669	10,612,091
Other revenues	2,342,309	2,006,473
Purchased power expenses	3,862,955	1,636,957
Other expenses	326,576	168,676

Directors' compensation

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

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

Total remuneration in the form of salaries paid to the members of the Board of Directors and Management Board for the year ended 31 December 2006 was RR 67,431 thousand (2005: RR 14,090 thousand). The Group had no other compensation programs in 2006 and 2005.

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by FST and RST. Bank loans are granted at market rates. Taxes are charged and paid under the Russian tax legislation. The balances and transactions with other entities under Government control were not significant for both reporting periods.

(in thousand of Russian Rubles except per share information)

Note 25. Related party transactions

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

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

RAO UES

Balances with RAO UES were as follows:

Short-term

	31 December 2006	31 December 2005
Trade and other accounts receivable	26,193	32,308
Promissory notes receivable: effective interest rate: 12 percent p.a. (included in accounts receivable and prepayments)	6,219,850	-
Dividends payable (Note 11)	809,000	27,889
Advances received (Note 16)	4,870,009	2,296,926
Accounts payable	127,339	294,793

Long-term

	31 December 2006	31 December 2005
Advances received (Note 15)	-	2,988,859

Transactions with RAO UES's subsidiaries

Balances with subsidiaries of RAO UES were as follows:

Short-term

	31 December 2006	31 December 2005
Trade and other accounts receivable	1,172,804	804,847
Promissory notes receivable: effective interest rate: 12 percent p.a. (included in accounts receivable and prepayments)	7,568,075	3,526
Promissory notes receivable: yield to maturity 9.8-13.2 percent p.a. (included in other current assets)	725,094	-
Trade and other accounts payable	1,018,677	61,954

Long-term

	31 December 2006	31 December 2005
Accounts receivable	67,053	93,195
Loan receivable from Bureysk HPP (effective interest rate: MOSPRIME plus 5.2 percent, due 2020)	1,900,000	-
Accounts payable	86,257	-

(in thousand of Russian Rubles except per share information)

Note 26. Principal subsidiaries

The following are the significant subsidiary enterprises which have been consolidated into the Financial Statements. All subsidiaries are incorporated and operate in the Russian Federation.

Hydro generating companies

Name	Ownership / Voting 31 December 2006	Ownership / Voting 31 December 2005
1. OJSC Boguchansk HPP	64.2%/ 64.2%	64.2%/ 64.2%
2. OJSC Cheboksary HPP	99.9%/ 99.9%	99.9%/ 99.9%
3. OJSC HydroOGC Management Company	99.3%/ 99.3%	99.3%/ 99.3%
4. OJSC Kabbalk HPP	50.3%/ 50.3%	50.3%/ 50.3%
5. OJSC Kama HPP	99.9%/ 100.0%	99.9%/ 100.0%
6. OJSC Karachayevo-Circassia Hydro Generating Company	100.0%/ 99.3%	100.0%/ 99.3%
7. OJSC Neporozhny Sayano-Shushensk HPP	78.9%/ 78.9%	78.9%/ 78.9%
8. OJSC Nizhnebureya HPP	100.0%/ 86.9%	-
9. OJSC Nizhnezeya HPP	100.0%/ 86.9%	-
10. OJSC Nizhni Novgorod HPP	99.9%/ 100.0%	99.9%/ 100.0%
11. OJSC North Osetian Generating Company	56.0 %/ 43.4%	56.0 %/ 43.4%
12. OJSC Regional Power Generation Company of Daghestan	51.0%/ 51.0%	51.0%/ 51.0%
13. OJSC Saratov HPP	99.9%/ 86.9%	99.9%/ 86.9%
14. OJSC Sulakenergo	53.6%/ 53.6%	53.6%/ 53.6%
15. OJSC The Stavropol Electricity Power Generating Company	55.1%/ 71.9%	55.12%/ 71.9%
16. OJSC Upper Volga Cascade HPPs	99.9%/ 100.0%	99.9%/ 100.0%
17. OJSC Volga HPP	83.3%/ 86.4%	83.3%/ 86.4%
18. OJSC Votkinsk HPP	59.8%/ 74.2%	59.8%/ 74.2%
19. OJSC Zagorsk HAEPP	50.9%/ 50.9%	50.9%/ 50.9%
20. OJSC Zaramagsk HPP	89.9%/ 77.5%	89.9%/ 77.5%
21. OJSC Zelenchuki HPP	53.5%/ 53.5%	97.3%/ 97.3%
22. OJSC Zeya HPP	56.4%/ 72.2%	56.4%/ 72.2%
23. OJSC Zhigulyovsk HPP	84.1%/ 99.3%	84.1%/ 99.3%

Other entities

Name	Ownership / Voting 31 December 2006	Ownership / Voting 31 December 2005
24. CJSC Boguchansk HPP	100.0%/ 100.0%	100.0%/ 100.0%
25. HydroOGK Aluminium Company Limited	100.0%/ 100.0%	-
26. HydroOGK Power Company Limited	100.0%/ 100.0%	-
27. OJSC B.V. Vedeneev Scientific Research Institute of Hydrotechnics	99.9%/ 99.9%	99.9%/ 99.9%
28. OJSC Electroremont VKK	100.0%/ 100.0%	100.0%/ 100.0%
29. OJSC Hydroremont VKK	100.0%/ 100.0%	100.0%/ 100.0%
30. OJSC Malaya Mezenskaya Tidal PP	100.0%/ 86.9%	-
31. OJSC Prometeus	100.0%/ 100.0%	-
32. OJSC Research Institute of Power Facilities	99.9%/ 99.9%	99.9%/ 99.9%
33. OJSC Sayano-Shushensk Hydroremont	100.0%/ 100.0%	100.0%/ 100.0%
34. OJSC Sayano-Shushensk Motor Vehicles Shop	100.0%/ 100.0%	100.0%/ 100.0%
35. OJSC South Yakutia Hydro Energy Complex	100.0%/ 86.9%	-
36. OJSC Turboremont VKK	100.0%/ 100.0%	100.0%/ 100.0%
37. OJSC UES Energy Construction Complex	51.0%/ 51.0%	-
38. OJSC Zagorsk HAEPP-2	100.0%/ 86.9%	-

In 2005 the interest in OJSC Sulakenergo decreased from 61.2 percent to 53.6 percent and the interest in OJSC Zaramagsk decreased from 88.4 percent to 77.5 percent due to additional share issuance by these Group's subsidiaries. The additional share issues were fully paid by RAO UES in the amount of RR 1,092,342 thousand (Note 11).

Note 26. Principal subsidiaries (continued)

In August 2006 in the course of further sector restructuring RAO UES made further contributions to the Company in exchange for additional share issue (Note 11). The controlling interest in OJSC Cheboksary HPP, OJSC Regional Power Generation Company of Daghestan, OJSC Zagorsk HAEPP, OJSC The Stavropol Electricity Power Generating Company, OJSC B.V. Vedeneev Scientific Research Institute of Hydrotechnics and OJSC Research Institute of Power Facilities were transferred to the Company (Note 11).

During 2006 the interest in OJSC Zelenchuki HPP decreased from 97.3 percent to 53.5 percent due to an additional share issue which was fully paid by RAO UES (Note 11).

In September 2006 the Company established the wholly-owned subsidiaries - HydroOGK Power Company Limited and HydroOGK Aluminium Company Limited registered in the Republic of Cyprus within the BEMA framework agreement (Note 14).

In 2006 the Group acquired 56.0 percent of the share capital of OJSC North Osetian Generating Company from OJSC Sevkavkazenergo, a fellow subsidiary of RAO UES (Note 11).

The change in ownership in other subsidiaries was due to the establishment of these new entities in the reporting period ended 31 December 2006.

Note 27. Subsequent events

In February 2007 the Company provided a guarantee to Cascade Nizhny-Cherek HPP, which is not a subsidiary of the Group, with respect to a USD 60 million loan obtained from CF Structured Products B.V. The loan bears 10.5 percent annual interest and matures on 15 February 2013. The funds received will be used to complete the construction of the Kashkhatau HPP of Cascade Nizhny-Cherek HPP in the Kabardinian-Balkarian Republic.

In March 2007 the Company signed a purchase agreement with RAO UES to acquire movable and non-movable property, plant and equipment for RR 1,271 million.

In March 2007 the Company provided a guarantee with respect to a bridge loan of USD 520 million raised by Boguchansk Aluminium Plant (the "Plant"), jointly controlled by the RusHydro Group and the RUSAL Group, to finance the BEMA construction programme (Note 14). The loan bears interest at LIBOR plus 0.825 percent per annum and is scheduled for repayment in December 2010. The Company issued a guarantee to secure 50 percent of the Plant's obligations while the other 50 percent are secured by a guarantee and surety provided by the RUSAL Group.

In May 2007 the Company signed a loan agreement with Morgan Stanely for RR 1,500 million. The loan matures in May 2014. The interest rate is linked to MOSPRIME rates.

In May 2007 the Company's Board of Directors approved the following decisions:

- an accelerated plan to transfer to a "one share" Company;
- not to pay any dividends based on the annual 2006 results of OJSC RusHydro;
- to pay dividends in respect of the first quarter of 2007 of RR 0.00793872 per share for total amount of RR 1,119 million.

In June 2007 the Company transferred its 64.2 percent interest in OJSC Boguchansk HPP to an entity registered in Cyprus which is jointly controlled by RusHydro Group and the RUSAL Group. The transfer was made in accordance with a Memorandum of Understanding on cooperation in supplying power for an aluminum plant in the Russian Far East signed in May 2006 (Note 14).

In July 2007, the Federal Financial Markets Service registered the Company's additional issue of ordinary shares in a total number of 110,000 million shares with a total nominal value of RR 110,000 million at par value RR 1 per share.