Information Statement dated November 2, 2007

NORILSK NICKEL

Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel

This Information Statement relates to a reorganization involving a spin-off (the "Spin-off") by Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel ("Norilsk" or the "Company" and, together with its subsidiaries, the "Norilsk Group") that will result in the creation of a newly-formed Russian open joint stock company ("EnergoPolyus") and the issuance of shares in EnergoPolyus to shareholders of Norilsk. As a result of the Spin-off, EnergoPolyus, when established, is expected to be one of the largest independent investors in the Russian power industry. EnergoPolyus, if established, will focus on the strategic management of the shareholdings it receives as a result of the Spin-off and the expansion of its portfolio of the power assets. In the Spin-off, EnergoPolyus is currently expected to receive shares in five Russian thermal power generation companies (such companies, the "Power Generation Companies") comprising (i) a 65.15% shareholding in the Russian wholesale power generation company JSC WGC-3 ("WGC-3", also referred to in the Company's financials as OGK-3, and, with respect to the discussion of the financial results contained elsewhere in this Information Statement, the reference to "WGC-3" includes reference to WGC-3 and its subsidiaries); (ii) a 1.72% shareholding in the Russian wholesale power generation company OJSC OGK-5 ("OGK-5"); (iii) a 7.37% shareholding in the Russian territorial power generation company JSC TGC-1 ("TGK-1"); (iv) a 1.63% shareholding in the Russian territorial power generation company JSC TGC-5 ("TGK-5"); and (v) a 27.69% shareholding in the Russian territorial power generation company JSC TGC-14 ("TGK-14") and shares in various other power sector companies (such companies, the "Portfolio Companies"), comprising (i) a 3.52% shareholding in the Russian state-controlled power utility company Open Joint-Stock Company Unified Energy System of Russia ("RAO UESR"); (ii) a 24.83% shareholding in the Russian electricity sales company Open Joint-Stock Company Kola Power Supply Company ("Kola Power Supply Company", also referred to in the Company's financials as "OJSC "Kolenergosbyt"); (iii) a 24.87% shareholding in the Russian electricity distribution company OJSC Kolenergo ("Kolenergo"); (iv) a 25.70% shareholding in the Russian electricity distribution company OJSC Krasnoyarskenergo ("Krasnoyarskenergo"); (v) a 25.47% shareholding in the Russian holding company OJSC Tyvaenergo-Holding ("Tyvaenergo-Holding"); (vi) a 24.83% shareholding in the Russian electricity trunk-grid transmission company OJSC Kola Transmission Network Company ("Kola Transmission Network Company", also referred to in the Company's financials as "OJSC "Kolskie magistralniye seti"); (vii) a 25.47% shareholding in the Russian electricity trunk-grid transmission company OJSC Krasnoyarsk Transmission Network Company ("Krasnoyarsk Transmission Network Company", also referred to in the Company's financials as "OJSC "Krasnoyarskiye magistralniye seti"); and (viii) a 74.00% shareholding in the Russian energy research and global development company LLC National Innovation Company New Energy Projects ("NIC NEP"), and assume debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and, possibly, in TGK-14. The shareholdings indicated in this Information Statement as the shareholdings to be received by EnergoPolyus in the Power Companies are calculated as of September 30, 2007, unless this Information Statement specifies otherwise. EnergoPolyus, if formed, will not be able to dispose of its holding in RAO UESR until the completion of the reorganization of RAO UESR by way of a spin-off (or a spin-off combined with a merger), following which RAO UESR will merge into Open Joint Stock Company Federal Grid Company of Unified Energy System (the "FSK") and, as a result of the merger, the shareholding in RAO UESR will be converted into shares of FSK, which is expected to occur in July 2008. Following the Spin-off, the Norilsk Group will retain certain strategic power assets that provide energy to its mining operations on the Taimyr Peninsula. In this Information Statement, the Power Generation Companies and the Portfolio Companies are each referred to as a "Power Company" and, collectively, the "Power Companies"; and the group, including all subsidiaries and minority interests, which will be formed in the Spin-off immediately following the transfer of the Power Companies to EnergoPolyus and the consolidation of WGC-3 under EnergoPolyus is referred to as the "EnergoPolyus Group". It is possible that Norilsk will dispose of its stakes or a portion thereof in certain of the Power Companies, other than WGC-3, before the Spin-off is implemented and, in the event of such disposal, EnergoPolyus would receive smaller stakes than indicated above or no stakes at all in the relevant Power Companies. If a disposition of holdings in a Power Company takes place before the Spin-off is implemented, Norilsk will transfer to EnergoPolyus the cash received by Norilsk in the sale. According to the current plans of the electricity industry restructuring, certain Portfolio Companies, including Krasnoyarskenergo, Tyvaenergo-Holding, Kolenergo, Kola Transmission Network Company and Krasnoyarsk Transmission Network Company, will be reorganized by way of a merger into OJSC MRSK of Siberia ("MRSK of Siberia") (with respect to Krasnoyarskenergo and Tyvaenergo-Holding), OJSC MRSK of North-West ("MRSK of North-West") (with respect to Kolenergo), and the FSK (with respect to Kola Transmission Network Company and Krasnoyarsk Transmission Network Company). If such mergers are completed prior to the Formation Date, EnergoPolyus will receive shares in the respective surviving companies, MRSK of Siberia, MRSK of North-West and the FSK. It is currently expected that in the reorganization of RAO UESR, EnergoPolyus will receive shares in OJSC MRSK Holding, OJSC RAO East Energy Systems and OJSC Sochinskaya TES (following the merger of OJSC InterRAO Holding into Sochinskaya TES), as well as a majority shareholding in OJSC Intergeneration ("Intergeneration"), a holding company to be set up as a result of the reorganization of RAO UESR, which will own, among others, a 14.08% shareholding in WGC-3, which would increase the shareholding of the EnergoPolyus Group in WGC-3 from 65.15% to 79.23% (calculated as of September 30, 2007). If the reorganization of RAO UESR is completed before the Spin-off is implemented, EnergoPolyus will not receive shares in RAO UESR, but will receive shares in the entities created in, or surviving, the reorganization of RAO UESR pursuant to the terms and conditions of the RAO UESR reorganization approved by RAO UESR shareholders on October 26, 2007.

On December 14, 2007 (the "EGM Date"), an extraordinary general meeting of Norilsk shareholders (the "EGM") is scheduled to be held to vote on the Spin-off. All persons (other than Norilsk) who held ordinary shares of Norilsk, each with a par value of RUB 1.00 (each, a "Norilsk Share" and collectively, the "Norilsk Shares"), on October 26, 2007 (the "EGM Record Date") will be entitled to vote at the EGM either in person or by way of submitting a voting ballot to the Company at least 2 days prior to the EGM Date. Each holder of Norilsk's American Depositary Receipts (the "Norilsk ADRs"), each of which represents one Norilsk Share, who held Norilsk ADRs on the EGM Record Date will be entitled to deliver voting instructions to The Bank of New York Mellon, the depositary bank under Norilsk's ADR facility (the "Depositary"), under the terms of the deposit agreement, dated June 15, 2001 relating to the Norilsk ADRs (the "Norilsk Deposit Agreement"). As at November 2, 2007, there were 190,627,747 Norilsk shares, including 7,498,950 shares held directly by Norilsk as treasury shares, issued and 76,250,748 Norilsk ADRs issued. It is currently contemplated that Norilsk will sell the 7,498,950 treasury shares held by it during the fourth quarter of 2007. The timing of any such sale will depend on market conditions and other factors. If such sale were not to occur, such shares will need to be cancelled and Norilsk's charter capital decreased accordingly, as required by Russian law. Approval of the Spin-off requires the affirmative vote of at least 75% of the aggregate voting power of the Norilsk Shares represented at the EGM. Norilsk shareholders holding 2% or more of the shares of Norilsk as at the EGM Record Date were entitled to nominate members of the Board of Directors and internal audit commission and candidates for the General Director of EnergoPolyus by no later than October 30, 2007.

If the Spin-off is approved:

- EnergoPolyus will be formed as a new and separate open joint stock company after the EGM on the date of its state registration (the "Formation Date") in the Russian Unified State Register of Legal Entities (the "USRLE"). The Formation Date is currently expected to occur in or around March 2008.
- Effective as at the Formation Date, each holder of record of Norilsk Shares as at March 19, 2008 (the "Spin-off Record Date") will (a) be entitled to a number of ordinary shares in EnergoPolyus (each, an "EnergoPolyus Share") equal to the number of Norilsk Shares held by such holder on the Spin-off Record Date and (b) continue to own the same number of Norilsk Shares as such holder held immediately preceding the Spin-off Record Date. Holders of EnergoPolyus Shares will not be able to sell or otherwise transfer their EnergoPolyus Shares until the Trading Date (as defined below).
- Effective as at the Formation Date, each holder of record of Norilsk ADRs as at the Spin-off Record Date will (a) be entitled to a number of EnergoPolyus Shares equal to the number of Norilsk ADRs held of record by such holder on the Spin-off Record Date, each of which (or of a portion of which), if a Level 1 American depositary receipt program ("Level 1 ADR Program") is established in respect of EnergoPolyus Shares, and subject to Russian law restrictions, will be converted following the Trading Date into one American Depositary Receipt of EnergoPolyus (each, an "EnergoPolyus ADR"), each of which will represent one EnergoPolyus Share on deposit with CJSC ING Bank (Eurasia), acting as custodian (the "Custodian") unless the holder of Norilsk ADRs notifies the Depositary on or after the

Formation Date, but in any event prior to the date advised by the Depositary, that it wishes to receive EnergoPolyus Shares and provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or in the event that, because of Russian law restrictions, the number of EnergoPolyus ADRs to be issued is less than the number of Norilsk ADRs outstanding on the Spin-off Record Date, be entitled to its pro rata share of EnergoPolyus ADRs based on the number of EnergoPolyus ADRs being made available and to such number of EnergoPolyus Shares that would represent the difference between the Norilsk ADRs it held on the Spin-off Record Date and the EnergoPolyus ADRs distributed to it, provided that it provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or if it fails to provide a Russian securities account, to cash proceeds from the sale of the EnergoPolyus Shares it would have received, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution and (b) continue to own the same number of Norilsk ADRs as such holder held immediately preceding the Spin-off Record Date. Holders of Norilsk ADRs as at the Spin-off Record Date will not receive EnergoPolyus ADRs or be able to sell or otherwise transfer any such EnergoPolyus ADRs unless and until a Level 1 ADR Program is established.

See "Indicative Timetable", "The Spin-off" and "The Level 1 ADR Program".

If the Spin-off is implemented, following the Spin-off Record Date, the Norilsk Shares and the Norilsk ADRs will no longer reflect the value of EnergoPolyus that will be registered in the USRLE on the Formation Date.

The EnergoPolyus Shares will be distributed to holders of record of Norilsk Shares as at the Spin-off Record Date, other than those who held Norilsk Shares in the form of Norilsk ADRs, on the Formation Date. The EnergoPolyus Shares that would be distributed to Norilsk ADR holders will be held by the Custodian on the account of the Depositary and, upon instructions received from the Depositary at the time when the Level 1 ADR Program, if any, is established, will be converted into EnergoPolyus ADRs and distributed to the holders at such time. See "Summary — The Level 1 ADR Program". **Until the date of state registration with the Federal Service on Financial Markets of the Russian Federation (the "FSFM") of EnergoPolyus' share issuance, the prospectus and report on the results of the share issuance (the "Trading Date") (which is not expected to occur until approximately 45 days after the Formation Date), the EnergoPolyus Shares may not be sold or otherwise transferred by holders of EnergoPolyus Shares.** On the Trading Date, the EnergoPolyus Shares are expected to become tradable over-the-counter in Russia. See "The Spin-off — Description of the Spin-off".

As soon as practicable following the Trading Date, Norilsk expects that EnergoPolyus will apply for listing on one or more of the Russian stock exchanges, although there can be no assurance that the EnergoPolyus Shares will qualify for such a listing. The admission to trading and listing of EnergoPolyus Shares on one or more Russian stock exchanges will be subject to the approval of the relevant Russian stock exchange. Norilsk expects that if the listing on a Russian stock exchange is obtained, EnergoPolyus will apply to the FSFM for approval to establish the Level 1 ADR Program and will register the EnergoPolyus ADRs on Form F-6 with the United States Securities and Exchange Commission (the "SEC"), subject to receiving an exemption from the reporting requirements of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), pursuant to Rule 12g3-2(b) thereunder ("Rule 12g3-2(b)"). Upon this registration becoming effective, it is expected that the EnergoPolyus ADRs will become tradable over-the-counter in Western Europe and the United States. The Board of Directors of EnergoPolyus may consider listing EnergoPolyus ADRs on the London Stock Exchange or another Western European stock exchange, although there can be no assurance that any such listing will take place. See "Summary — Listing and Trading of the EnergoPolyus Shares", "Summary — The Level 1 ADR Program" and "Market Information". The Company currently plans to consider options available under applicable law to enhance liquidity for the EnergoPolyus Shares between the Formation Date and the Trading Date, and, in respect of the EnergoPolyus Shares that would be converted into EnergoPolyus ADRs if the Level 1 ADR Program, if any, is set up, between the Formation Date and the date of establishment of the Level 1 ADR Program, if any, although there can be no assurance that any such option will be implemented or that all Norilsk shareholders and Norilsk ADR holders would be able to participate. If a Level 1 ADR Program is not established within 90 days of the Trading Date, FSFM approval for, and SEC registration of, the Level 1 Program is not obtained or if the number of EnergoPolyus ADRs to be distributed to holders of Norilsk ADRs is less than the number of Norilsk ADRs outstanding, each holder of Norilsk ADRs who held Norilsk ADRs as at the Spin-off Record Date will be asked to provide a Russian securities account to the Depositary within 14 calendar days following such 90-day period and, if such an account is so provided, will (a) be entitled to receive EnergoPolyus Shares equal to the number of

EnergoPolyus ADRs it would have received had a Level 1 ADR Program been set up or equal to the difference in number between the Norilsk ADRs it held on the Spin-off Record Date and the EnergoPolyus ADRs distributed to it, as applicable, and (b) continue to own the same number of Norilsk ADRs after the Spin-off as before. Holders who do not provide to the Depositary a Russian securities account following the Formation Date, but in any event prior to the date advised by the Depositary will (a) be entitled to receive the cash proceeds from the sale of the EnergoPolyus Shares such holder would have received, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution and (b) continue to own the same number of Norilsk ADRs after the Spin-off as before. **Holders of Norilsk ADRs as at the Formation Date will not receive EnergoPolyus ADRs or be able to sell or otherwise transfer any such EnergoPolyus ADRs unless and until a Level 1 ADR Program is established after the Trading Date**.

Under Russian law, Norilsk shareholders and Norilsk ADR holders that are entitled to vote at the EGM or to deliver voting instructions to the Depositary, respectively, and either vote against the Spin-off or do not vote on the Spin-off proposal may elect to have Norilsk redeem their Norilsk Shares or Norilsk Shares represented by their Norilsk ADRs, as the case may be, within 45 days of the approval of the Spin-off by the EGM (the "Redemption Election Period") if the Spin-off is approved. See "Summary — Redemption Rights of Dissenting and Non-Voting Shareholders and Norilsk ADR Holders" and "The Spin-off — Redemption rights of dissenting and non-voting shareholders and Norilsk ADR Holders".

No consideration will be paid to Norilsk or EnergoPolyus for the EnergoPolyus Shares issued as a consequence of the Spin-off.

The EnergoPolyus Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may be offered or sold within the United States in an offering registered under the Securities Act, or pursuant to an available exemption from registration under the Securities Act.

Norilsk is furnishing this Information Statement solely to provide information to shareholders of Norilsk and holders of Norilsk ADRs. This Information Statement is not, and should not be construed as, an inducement or encouragement to buy or sell any securities of Norilsk or of EnergoPolyus.

Neither the FSFM, the SEC nor any other national, state or local securities commission has approved or disapproved of the Spin-off or passed upon the accuracy or adequacy of this Information Statement or any document referred to herein. Any representation to the contrary may be a criminal offense under U.S. law.

In this Information Statement, references to "rubles" and "RUB" are to the lawful currency for the time being of the Russian Federation and references to "U.S. dollars" and "USD" are to the lawful currency for the time being of the United States.

This Information Statement contains conversions of certain amounts into U.S. dollars at specified rates solely for the convenience of the reader. Except where otherwise stated, the U.S. dollar amounts have been translated from the RUB amounts at the closing exchange rate as at June 30, 2007, as quoted by the Central Bank of the Russian Federation (the "CBR"), which was RUB 25.82 = USD 1.00. No representation is made that the RUB or U.S. dollar amounts referred to herein could have been or could be converted into rubles or U.S. dollars, as the case may be, at these rates, or at any particular rate or at all. See "Exchange Rates".

ADDITIONAL INFORMATION

It is expected that neither EnergoPolyus nor any of its subsidiaries is or will be required to file periodic reports under Section 13 or 15 of the Exchange Act. Norilsk expects that EnergoPolyus will apply for an exemption from the filing requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder and, upon acceptance of the application, intends to furnish specified documents to the SEC pursuant to this rule. These documents consist primarily of financial statements and annual and interim reports of EnergoPolyus that are required by Russian law or practice or the FSFM. Pursuant to Rule 12g3-2(b), these documents are not deemed filed with the SEC.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Information Statement includes:

- audited combined and consolidated financial statements of the Norilsk Group as at and for the years ended December 31, 2006 and 2005, prepared in accordance with International Financial Reporting Standards ("IFRS");
- audited consolidated financial statements of WGC-3 as at and for the year ended December 31, 2006, prepared in accordance with IFRS;
- unaudited consolidated interim financial statements of the Norilsk Group as at and for the six months ended June 30, 2007 prepared in accordance with IFRS;
- unaudited consolidated interim financial statements of WGC-3 as at and for the six months ended June 30, 2007, prepared in accordance with IFRS;
- unaudited pro-forma consolidated balance sheet of the Norilsk Group as at June 30, 2007, December 31, 2006 and June 30, 2006, giving effect to the Spin-off as if it occurred on January 1, 2006, and pro-forma consolidated income statements of the Norilsk Group for the six months ended June 30, 2007, the six months ended June 30, 2006, and the year ended December 31, 2006, giving effect to the Spin-off as if it occurred at the beginning of the reported periods;
- unaudited pro-forma consolidated balance sheet of the EnergoPolyus Group as at June 30, 2007, and the unaudited pro forma consolidated income statements of the EnergoPolyus Group for the six months ended June 30, 2007, and for the twelve months ended December 31, 2006, presenting the results of operations and giving effect to the Spin-off as if it occurred at the beginning of the reported periods;
- unaudited separation balance sheet of the Company prepared on the basis of the Norilsk's financial statements as at September 30, 2007, prepared in accordance with Russian accounting standards ("RAS") and giving effect to the Spin-off as if it occurred on September 30, 2007.

Consolidated financial statements of Norilsk Nickel as at and for the years ended December 31, 2006 and 2005 included in the Information Statement, have been audited by ZAO Deloitte & Touche CIS ("Deloitte & Touche"), independent auditors, located at Business Center Mokhovaya, 4/7 Vozdvizhenka Street, Building 2, Moscow 125009, Russian Federation. Deloitte & Touche is a member of the Institute of Professional Accountants of Russia (*Institut Professionalnih Buhgalterov Rossii*). Consolidated financial statements of WGC-3 as at and for the year ended December 31, 2006 included in the Information Statement, have been audited by ZAO PricewaterhouseCoopers Audit ("PwC"), independent auditors, located at Kosmodamianskaya Nab. 52, Bldg. 5, 115054 Moscow, Russian Federation. PwC is a member of the Russian Chamber of Auditors (*Auditorskaya Palata Rossii*) and the Institute of

Professional Accountants of Russia (*Institut Professionalnih Buhgalterov Rossii*). With respect to the unaudited consolidated interim financial statements for the six months ended June 30, 2007, included in the Information Statement, Deloitte & Touche and PwC have applied limited procedures in accordance with professional standards for review of such information and no audit has been carried out on such interim financial statements.

Certain data presented in this Information Statement have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

The majority of the directors and executive officers of Norilsk named in this Information Statement reside in the Russian Federation. A substantial portion of their and Norilsk's assets are located in the Russian Federation. It is expected that, following the Spin-off, most of the directors and executive officers of EnergoPolyus will reside in the Russian Federation and that all or a substantial portion of their and EnergoPolyus' assets will be located in the Russian Federation. As a result, it may not be possible for holders of Norilsk Shares, Norilsk ADRs, EnergoPolyus Shares or, if a Level 1 ADR Program is established for EnergoPolyus' shares, the holders of EnergoPolyus ADRs to:

- effect service of process outside the Russian Federation upon any of the directors and executive officers of Norilsk or EnergoPolyus, as the case may be; or
- enforce, in the relevant jurisdiction of that holder of Norilsk Shares, Norilsk ADRs, EnergoPolyus Shares or the EnergoPolyus ADRs, court judgments obtained in courts outside of the Russian Federation, against Norilsk or EnergoPolyus, as the case may be, or any of their respective directors and executive officers in any action.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. No such treaty exists between the United States or the United Kingdom, for example, and the Russian Federation for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

FORWARD-LOOKING STATEMENTS

This Information Statement contains "forward-looking statements" which relate to, without limitation, the Norilsk Group's and EnergoPolyus' plans, objectives, goals, strategies, future operations and performance, and anticipated developments in the mining and energy industries and the Russian and global economies. In addition, the Norilsk Group and/or EnergoPolyus may make forward-looking statements in future filings with the SEC or Russian or other securities authorities or in written materials, press releases and oral statements issued by or on behalf of them. These forward-looking statements are characterized by words such as "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause circumstances or the Norilsk Group's or EnergoPolyus' actual results, performance or achievements to be materially different from any future circumstances, results, performance or achievements expressed or implied by such statements. Such forward-looking statements are inherently based on numerous assumptions regarding, among other things:

- changes in political, social, legal or economic conditions in the Russian Federation;
- the scope and pace of implementation of reform of the Russian power industry, including the restructuring of RAO UESR;
- international and domestic metal prices, and tariffs and other restrictions on the export of metals;
- inflation, interest rate or exchange rate fluctuations;
- the costs of energy and transportation and the continued availability of fuel;
- any expansion, divestiture or acquisition plans of each of the Norilsk Group or EnergoPolyus and their ability to implement those plans, including their ability to benefit from related cost savings and synergies;

- the impact of the Norilsk Group's or EnergoPolyus' expansion, as the case may be, on its revenue potential, cost basis and margins;
- the Norilsk Group's or EnergoPolyus' ability to remain competitive in the industries in which it operates;
- the effects of regulatory and fiscal developments and legal proceedings;
- the Norilsk Group's or EnergoPolyus' ability to obtain or extend the terms of the licenses necessary for its business;
- the effects of Russian and international political events;
- the Norilsk Group's or EnergoPolyus' ability to meet its obligations and develop and maintain additional sources of financing; and
- other factors set forth in the "Risk Factors" section of this Information Statement.

This list of important factors is not exhaustive. Neither the Norilsk Group nor EnergoPolyus makes any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Accordingly, shareholders of Norilsk and holders of Norilsk ADRs should not place undue reliance on these forward-looking statements. These forward-looking statements speak only as at the date of this Information Statement. The Norilsk Group and EnergoPolyus expressly disclaim any obligation or undertaking to disseminate after the date of this Information Statement any updates or revisions to any forward-looking statements contained herein, whether as a result of any change in its expectation with regard thereto, any change in events, conditions or circumstances on which any such forward-looking statement is based or otherwise.

No person is authorized to give any information or to make any representation not contained or incorporated herein by reference, and, if given or made, such information or representation must not be relied upon as having been authorized by Norilsk or EnergoPolyus.

If the Spin-off is implemented, EnergoPolyus will file an application with the FSFM to register the EnergoPolyus Shares. This registration does not imply any certification as to the investment quality of the EnergoPolyus Shares, EnergoPolyus' solvency, or the accuracy or completeness of the information contained herein.

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SHAREHOLDER INQUIRIES

Shareholders of Norilsk with questions relating to the proposed Spin-off and distribution of EnergoPolyus Shares should contact Norilsk at:

OJSC MMC Norilsk Nickel
22 Voznesensky Pereulok
Moscow 125993
Russian Federation
Web address: http://www.nornik.ru/en

Head of Investor Relations Department:

Dmitry A. Usanov
Tel: +7 (495) 786 8320
Fax: +7 (495) 797 8613
E-mail: usanovda@nornik.ru

NORILSK ADR HOLDER INQUIRIES

Holders of Norilsk ADRs with questions relating to the proposed Spin-off and distribution of EnergoPolyus ADRs should contact the Depositary at:

The Bank of New York Mellon
Depositary Receipts Division
101 Barclay Street
22nd Floor West
New York, NY 10286
USA
Tel: +1 (800) 507 9357

SUMMARY

The following is a brief summary of certain information contained elsewhere in this Information Statement. This summary is qualified in its entirety by the more detailed information set forth in this Information Statement.

EnergoPolyus. . . . . The Spin-off will result in the creation of EnergoPolyus, a newly-formed Russian open joint stock company. EnergoPolyus, when established, is expected to be one of the largest independent investors in the Russian power industry, and is expected to own power generating assets comprising approximately 6% of total installed electric generation capacity in Russia. EnergoPolyus, if established, will focus on the strategic management of the shareholdings it receives in the Spin-off and the expansion of its portfolio of power assets. As a result of the Spin-off, EnergoPolyus will receive the entire shareholdings of the Norilsk Group in each of the Power Companies and assume debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and, possibly, TGK-14. See "The Spin-off" and "EnergoPolyus". It is possible that Norilsk will dispose of its stakes or a portion thereof in certain of the Power Companies, other than WGC-3, before the Spin-off is implemented and, in the event of such disposals, EnergoPolyus would receive smaller stakes than indicated in this Information Statement or no stakes at all in the relevant Power Companies. If a disposition of holdings in a Power Company takes place before the Spin-off is implemented, Norilsk will transfer to EnergoPolyus the cash received by Norilsk in the sale. According to the Russian state's current plans for the restructuring of the Russian power sector, certain Portfolio Companies, including Krasnoyarskenergo, Tyvaenergo-Holding, Kolenergo, Kola Transmission Network Company and Krasnoyarsk Transmission Network Company, will be reorganized by way of a merger into MRSK of Siberia (with respect to Krasnoyarskenergo and Tyvaenergo-Holding), MRSK of the North-West (with respect to Kolenergo), and the FSK (with respect to Kola Transmission Network Company and Krasnoyarsk Transmission Network Company). If such mergers are completed prior to the Formation Date, EnergoPolyus will receive shares in the respective surviving companies, MRSK of Siberia, MRSK of North-West and the FSK. If the reorganization of RAO UESR is completed before the Spin-off is implemented, EnergoPolyus will not receive shares in RAO UESR, but in the entities created in or surviving the reorganization of RAO UESR pursuant to the terms and conditions of the RAO UESR reorganization approved by RAO UESR shareholders on October 26, 2007.

The Power Companies include the Power Generation Companies and the Portfolio Companies.

Power Generation Companies

Below is a brief description of the Power Generation Companies. For a more detailed description of the Power Generation Companies, see "EnergoPolyus — Business — Power Generation Companies", "Operating and Financial Review of WGC-3" and "Major Shareholders of WGC-3".

The shareholdings indicated below as the shares to be received by EnergoPolyus in the Power Companies are calculated as of September 30, 2007, unless otherwise specified herein.

WGC-3 is one of the six thermal wholesale generating companies ("OGKs") created during the restructuring of RAO UESR. WGC-3's principal business comprises the generation of electricity and the sale of electricity and electric capacity on the Russian wholesale electricity market as well as the generation and sale of heat, and it operates through six generation facilities located across the Russian Federation. As at June 30, 2007, WGC-3 had a total installed electric capacity of 8,497 MW, representing approximately 4% of total installed electric capacity in Russia, according to Minpromenergo, and, in the year ended December 31, 2006, it generated 30,614 million kW/h of electricity and produced 1,653.1 thousand Gcal of heat. EnergoPolyus will receive a 65.15% shareholding in WGC-3 in the Spin-off. Upon the spin-off by RAO UESR of its remaining assets, which is currently expected to take place in July 2008, EnergoPolyus' shareholding in WGC-3 will increase from 65.15% to 79.23% (calculated as of September 30, 2007) through its majority shareholding in Intergeneration, a holding company to be set up as a result of the reorganization of RAO UESR, which would own, among others, a 14.08% shareholding in WGC-3. See "Risk Factors — Risks relating to EnergoPolyus — EnergoPolyus or its affiliates may be required to make a mandatory offer for WGC-3 when the RAO UESR reorganization is completed".

OGK-5 is one of the six thermal OGKs created during the restructuring of RAO UESR. OGK-5's principal business comprises the generation of electricity and the sale of electricity and electric capacity on the Russian wholesale electricity market, as well as the generation and sale of heat, and it operates through four generation facilities located in the Russian Federation. OGK-5 was the third largest of the OGKs in terms of installed electric capacity as at December 31, 2006. According to OGK-5's annual report, as at December 31, 2006, OGK-5 had a total installed capacity of 8,672 MW, representing approximately 4% of the total installed electric capacity in Russia, and, in the year ended December 31, 2006, it generated 40,441 million KW/h of electricity. EnergoPolyus will receive a 1.72% shareholding in OGK-5 in the Spin-off.

TGK-1 is one of the 14 territorial power generating companies ("TGKs") created during the restructuring of RAO UESR. TGK-1's principal business comprises the generation of electricity and the sale of electricity and electric capacity, as well as the generation and sale of heat, in the North-West IES, including St. Petersburg and Leningrad region, Murmansk region and the Republic of Karelia. TGK-1 is the third largest territorial generating company in Russia in terms of installed electric capacity. According to TGK-1's annual report, as at December 31, 2006, TGK-1 had an installed electricity capacity of 6,248 MW and an installed heat capacity of 14,735 Gcal/h. In the year ended December 31, 2006, according to TGK-1's annual report and RAO Factsheet, TGK-1's electricity output was 23,377 million kW/h TWh and its heat output was 25,091 thousand Gcal. EnergoPolyus will receive a 7.37% shareholding in TGK-1 in the Spin-off (calculated as of September 30, 2007).

TGK-5 is one of the 14 TGKs created during the restructuring of RAO UESR. TGK-5's principal business comprises the generation and sale of electricity and capacity, as well as the generation and sale of heat, in the Middle-Volga IES (the "Volga IES"), including four neighboring regions of Russia: Chuvashskaya Republic, Udmurtskaya Republic, Mariy El Republic and Kirov region. TGK-5 is the sixth largest territorial generating company in Russia in terms of installed electric capacity. According to TGK-5's annual report as at December 31, 2006, TGK-5 had an installed electric capacity of 2,467 MW and an installed heat capacity of 9,040 Gcal/h. In the year ended December 31, 2006, its electricity output was 10,419 million kW/h and its heat output was 16,971 thousand Gcal. TGK-5 is headquartered in Moscow and it operates 11 power plants. EnergoPolyus will receive a 1.63% shareholding in TGK-5 in the Spin-off.

TGK-14 is one of the 14 TGKs created during the restructuring of RAO UESR. TGK-14's principal business comprises the generation and sale of electricity and electric capacity, as well as the generation and sale of heat in the Siberia IES, including two regions of Russia, the Republic of Buryatia and the Chita region. TGK-14 is the smallest territorial generating company in Russia in terms of installed electric capacity. According to TGK-14's annual report, as at December 31, 2006, TGK-14 had an installed electricity capacity of 643 MW and an installed heat capacity of 2,708 Gcal/h. In the year ended December 31, 2006, TGK-14's electricity output was 2,769 million kW/h and its heat output was 5,649 thousand Gcal. EnergoPolyus will receive a 27.69% shareholding in TGK-14 in the Spin-off.

Portfolio Companies

Below is a brief description of thePortfolio Companies. For a more detailed description of the Portfolio Companies, see "EnergoPolyus — Business — Portfolio Companies".

RAO UESR is the state-controlled power holding company in the Russian Federation. The RAO UESR is the largest power holding company in Russia, and through its subsidiaries and affiliates controls the vast majority of electricity generation, transmission, distribution and sale in Russia. RAO UESR is in the process of a reorganization, the final stage of which will involve the spin-off by RAO UESR of its remaining assets to separate legal entities, shares in which will be distributed to the shareholders of RAO UESR, as approved by RAO UESR shareholders on October 26, 2007. In the Spin-off, EnergoPolyus will receive a 3.52% shareholding in the share capital of RAO UESR. EnergoPolyus will not be able to dispose of its holding in RAO UESR until the completion of the reorganization of RAO UESR, as a result of which such shareholding in RAO UESR will be converted into shares of the FSK as a result of a merger of RAO UESR into the FSK, which is expected to occur in July 2008. See "Electricity Industry Overview — Final Steps in the Creation of the Post-Reform Industry Structure — Dissolution of RAO UESR".

Pursuant to the terms of the RAO UESR reorganization, EnergoPolyus will receive the following assets upon the completion of the reorganization of RAO UESR: shares in OJSC MRSK Holding, OJSC RAO East Energy Systems and OJSC Sochinskaya TES (following the merger of OJSC InterRAO Holding into Sochinskaya TES), as well as a majority shareholding in Intergeneration, which will own a 14.08% shareholding in WGC-3; a 3.43% shareholding in HydroOGK; a 2.69% shareholding in FSK; a 3.43% shareholding in System Operator; and other minority shareholdings in companies to be spun-off from RAO UESR.

Kolenergo operates the electricity distribution network in the City of Murmansk and the surrounding region. According to Kolenergo annual report, for the year ended December 31, 2006, Kolenergo distributed approximately 10,880 million kW/h of electricity and supplied the connection to 30,576 kW of electric capacity. EnergoPolyus will receive a 24.87% shareholding in Kolenergo in the Spin-off. According to the current plan for the restructuring of the Russian electricity industry, Kolenergo is expected to be merged into MRSK of North-West in 2008. A general shareholders' meeting to vote on the merger may take place by the end of 2007.

Kola Power Supply Company is a regional utility company involved in the supply of electricity in the Murmansk region. It is currently the principal supplier of electricity to the Murmansk region, providing up to 97% of the region's electricity needs. According to publicly available information, RAO UESR's board of directors resolved in February 2007 to sell RAO UESR's shareholding in Kola Power Supply Company. Such sale has not yet been completed, but is expected to occur in 2007 or 2008. EnergoPolyus will receive a 24.83% shareholding in Kola Power Supply Company in the Spin-off.

Kola Transmission Network Company is a regional utility grid company with electricity transmission grids in the Murmansk region. As at December 31, 2006, Kola Transmission Network Company owned four transforming stations with a total installed capacity of 2,287.89 MVA. As at June 30, 2007, Kola Transmission Network Company's power transmission lines extended to approximately 770 kms. EnergoPolyus will receive a 24.83% shareholding in Kola Transmission Network Company in the Spin-off. Kola Transmission Network Company is expected to merge into the FSK. A general shareholders' meeting of the FSK to vote on the merger into the FSK of a number of companies, including Kola Transmission Network Company, will take place on December 14, 2007.

Krasnoyarskenergo is one of the largest regional companies providing electricity distribution networks in the Krasnoyarsk Territory of Siberia. In the year ended December 31, 2006, Krasnoyarskenergo distributed 32,617.4 million kW/h of electricity, concluded approximately 690 connection agreements and supplied the connection to 77,402.6 kW of electric capacity. EnergoPolyus will receive a 25.70% shareholding in Krasnoyarskenergo in the Spin-off.

Krasnoyarsk Transmission Network Company is a regional utility grid company with electricity transmission grids in the Krasnoyarsk Territory. Krasnoyarsk Transmission Network Company's power transmission lines extended to approximately 2,213 kms (or 2,930 kms if separate electrical circuits are taken into account) as at December 31, 2006. As at December 31, 2006, Krasnoyarsk Transmission Network Company owned 24 electricity substations with a total transforming capacity of 4,744 MVA. EnergoPolyus will receive a 25.47% shareholding in Krasnoyarsk Transmission Network Company in the Spin-off. Krasnoyarsk Transmission Network Company is expected to merge into the FSK. A general shareholders' meeting of the FSK to vote on the merger into the FSK of a number of companies, including Krasnoyarsk Transmission Network Company, will take place on December 14, 2007.

Tyvaenergo-Holding is a holding company that currently holds shares in Tyvaenergo, which is an electricity distribution grid company in the Republic of Tyva. Tyvaenergo-Holding was spun off from Krasnoyarskenergo in October 2005. RAO UESR currently owns 51.75% of Tyvaenergo-Holding, representing 66.33% of Tyvaenergo-Holding's ordinary shares. According to publicly available information, RAO UESR planned to liquidate Tyvaenergo-Holding and had initiated liquidation procedures. However, Tyvaenergo-Holding's minority shareholders blocked the resolution proposing to liquidate Tyvaenergo-Holding in July 2007. EnergoPolyus will receive a 25.47% shareholding in Tyvaenergo-Holding in the Spin-off. According to publicly available sources, the board of directors of RAO UESR determined on October 26, 2007, that, Tyvaenergo-Holding will be merged into MRSK of Siberia.

NIC NEP is a company acting as the overall integrator between scientific research and businesses that are involved in various projects for the development, production, commercialization and sales of competitive products based on technologies and activities in the hydrogen power and fuel cells industry, both domestically and internationally, including the areas of power engineering facilities, fuel cells of various types, fuel processors of gaseous and liquid hydrocarbon fuels, and pure hydrogen extraction systems. EnergoPolyus will receive a 74.00% shareholding in NIC NEP in the Spin-off.

The Norilsk Group .... The Norilsk Group is one of the world's premier metals and mining operations. The Norilsk Group is the world leading producer of nickel and palladium and a major producer of platinum and copper. Its nickel reserve base is one of the largest in the world and its ore deposits contain a rich mixture of other valuable commodities. Following the Spin-off, the Norilsk Group plans to continue to conduct mining, enrichment and metallurgical activities relating to base metals and platinum group metals ("PGMs") through its Polar Division on the Taimyr Peninsula in Northern Siberia and through Kola MMC, a 100% subsidiary of the Company on the Kola Peninsula in the North-West region of Russia. Through Stillwater Mining Company, a New York Stock Exchange listed company 54.01% owned by the Norilsk

Group (calculated as of September 30, 2007), it intends to continue mining, processing and refining PGMs in southern Montana in the United States. In addition, Norilsk acquired the nickel business of the OM Group in March 2007, and, as a result, it obtained nickel mining and refining operations in Australia and Finland. Norilsk intends to continue these operations after the Spin-off, as well as the mining operations in Australia, Botswana and the Republic of South Africa that it obtained through the acquisition of a 100% shareholding in Lion Ore, an international nickel producer, in the period between June and August 2007. Following the proposed Spin-off, the Norilsk Group will retain certain strategic power assets that provide energy to its mining operations on the Taimyr peninsula. See "Norilsk Group".

Capital Structure of EnergoPolyus ..... EnergoPolyus is expected to have one class of ordinary shares, each with a par value of RUB 1.00. Each ordinary share will have the right to one vote at meetings of shareholders. The number of issued ordinary shares of EnergoPolyus will initially be the same as the number of Norilsk Shares outstanding on the EGM Date.

The Spin-off .... The Spin-off will be conducted by means of a reorganization (*vydelenie*) under Russian corporate law. Effective on the Formation Date:

- EnergoPolyus will be established as a new and separate open joint stock company, and the Power Companies will be transferred by Norilsk to EnergoPolyus immediately following the Formation Date.
- Each holder of record of Norilsk Shares as at the Spin-off Record Date will (a) be entitled to a number of EnergoPolyus Shares equal to the number of Norilsk Shares held by such holder on the Spin-off Record Date and (b) continue to own the same number of Norilsk Shares as such holder held immediately preceding the Formation Date. Holders of EnergoPolyus Shares will not be able to sell or otherwise transfer their EnergoPolyus Shares until the Trading Date.
- Each holder of record of Norilsk ADRs as at the Spin-off Record Date will (a) be entitled to a number of EnergoPolyus Shares equal to the number of Norilsk ADRs held of record by such holder on the Spin-off Record Date, each of which or a portion of which, if the Level 1 ADR Program is established in respect of EnergoPolyus Shares, and, subject to restrictions under Russian law, will be converted following the Trading Date, into one EnergoPolyus ADR, each of which will represent one EnergoPolyus Share on deposit with the Custodian on the account of the Depositary unless the holder of Norilsk ADRs notifies the Depositary on or after the Formation Date, but in any event prior to the date advised by the Depositary, that it wishes to receive EnergoPolyus Shares and provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or in the event that, because of Russian law restrictions, the number of EnergoPolyus ADRs issued is less than the number of Norilsk ADRs outstanding on the Spin-off Record Date, be entitled to its pro rata share of EnergoPolyus ADRs

based on the number of EnergoPolyus ADRs being made available and to such number of EnergoPolyus Shares that would represent the difference in number between the Norilsk ADRs it held on the Spin-off Record Date and the EnergoPolyus ADRs distributed to it, provided that it provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or if it fails to provide a Russian securities account, to cash proceeds from the sale of EnergoPolyus Shares it would have received, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution and (b) continue to own the same number of Norilsk ADRs as such holder held immediately preceding the Formation Date. **Holders of Norilsk ADRs as at the Spin-off Record Date will not receive EnergoPolyus ADRs or be able to sell or otherwise transfer any such EnergoPolyus ADRs unless and until a Level 1 ADR Program is established after the Trading Date.** The cash distribution to those Norilsk ADR holders who did not provide a Russian securities account to the Depositary is expected to be by way of a sale of the EnergoPolyus Shares, either directly or acting through a broker or placing agent. Approximately ten days following the date on which the Depositary has received proceeds from the sale of such EnergoPolyus Shares, the Depositary will distribute the net cash proceeds to holders of Norilsk ADRs pro rata to the number of EnergoPolyus Shares to which they would be entitled. These are solely indicative measures that the Company and the Depositary would take in connection with the sale in certain circumstances of EnergoPolyus Shares. See "— Distribution of the EnergoPolyus Shares", "The Spin-off" and "The Level 1 ADR Program".

If the Spin-off is implemented, following the Spin-off Record Date, the Norilsk Shares and the Norilsk ADRs will no longer reflect the value of EnergoPolyus that will be registered in the USRLE on the Formation Date.

Shareholder Approval of the Spin-off . . . The Spin-off requires the affirmative vote of at least 75% of the aggregate voting power of the Norilsk Shares represented at the EGM. The EGM is scheduled to be held on December 14, 2007. All persons (other than Norilsk with respect to the treasury shares, if any, it holds on the EGM Date) who held Norilsk Shares on the EGM Record Date are entitled to vote at the EGM. Each holder of record of Norilsk ADRs on the EGM Record Date will be entitled to deliver voting instructions to the Depositary under the terms of the Norilsk Deposit Agreement in order to exercise voting rights attached to the Norilsk Shares represented by their Norilsk ADRs. As at November 2, 2007, there were 190,627,747 Norilsk shares, including 7,498,950 shares held directly by Norilsk as treasury shares, issued and 76,250,748 Norilsk ADRs issued. It is currently contemplated that Norilsk will sell the 7,498,950 treasury shares held by it during the fourth quarter of 2007. The timing of any such sale will depend on market conditions and other factors. If such sale were not to occur, such shares will need to be cancelled and Norilsk's charter capital decreased accordingly, as required by Russian law.

If the Spin-off is not approved at the EGM, the Spin-off will not occur, EnergoPolyus will not be established, holders of Norilsk Shares and holders of Norilsk ADRs will not receive any EnergoPolyus Shares or any EnergoPolyus ADRs, and they will remain holders of Norilsk Shares and Norilsk ADRs.

Distribution of the EnergoPolyus Shares . . . . If the Spin-off is approved, on the Formation Date, the EnergoPolyus Shares will be distributed to the holders of record of Norilsk Shares on the Spin-off Record Date, other than those who hold Norilsk Shares in the form of Norilsk ADRs. The EnergoPolyus Shares that would be distributed to Norilsk ADR holders will be held by the Custodian on the account of the Depositary and, upon instructions received from the Depositary at the time when the Level 1 ADR Program is established, if any, will be converted into EnergoPolyus ADRs, subject to Russian law restrictions, and distributed to the Norilsk ADR holders unless the holder of Norilsk ADRs notifies the Depositary on or after the Formation Date, but in any event prior to the date advised by the Depositary, that it wishes to receive EnergoPolyus Shares and provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or if the number of EnergoPolyus ADRs issued is less than the number of Norilsk ADRs outstanding on the Spin-off Record Date and no Russian securities account is provided by a holder of Norilsk ADRs into such number of EnergoPolyus Shares that would represent the difference in number between the Norilsk ADRs held by it on the Spin-off Record Date and the EnergoPolyus ADRs distributed to it may be deposited, the Depositary will, as soon as practicable, sell such EnergoPolyus Shares in a public or private sale and deliver the cash proceeds thereof pro rata to the relevant Norilsk ADR holders, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution. The Depositary shall not be responsible for (i) any failure to determine that it may be lawful or practicable to make the net proceeds of the sale of any EnergoPolyus Shares available to Norilsk ADR holders in general or any Norilsk ADR holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with the sale of any EnergoPolyus Shares, or (iii) its inability to distribute the net proceeds, or the amount that will be distributed as such net proceeds. See "— The Level 1 ADR Program". The Formation Date is expected to occur in or around March 2008. **It will not be possible to sell or otherwise transfer EnergoPolyus Shares until the Trading Date.** The Trading Date will only occur when regulatory requirements under Russian law have been satisfied, including the registration with the FSFM of EnergoPolyus' issuance of shares, share prospectus and report on the results of the new share issuance. Such registration with the FSFM is not expected to occur until approximately 45 days after the Formation Date. On the Trading Date, the EnergoPolyus Shares will become transferable. See "The Spin-off — Description of the Spin-off".

Listing and Trading of the EnergoPolyus Shares	Subject to applicable law, it is currently anticipated that EnergoPolyus will apply to list the EnergoPolyus Shares on one or more of the Russian stock exchanges as soon as practicable following the Trading Date. Listing and admission to trading on a Russian stock exchange will be subject to the approval of the relevant stock exchange. There can be no assurance that the EnergoPolyus Shares will qualify for listing on any exchange. Even if a listing is obtained for the EnergoPolyus Shares, no assurance can be given that a public trading market will develop. See "Market Information". In addition, EnergoPolyus may, in the future, apply for a listing on a Western European stock exchange; however, there can be no assurance when this may take place or if this will take place at all.
The Level 1 ADR Program	Norilsk expects that EnergoPolyus, as soon as practicable after the Trading Date, subject to the FSFM approval and registration with the SEC, will establish a Level 1 ADR Program. See "Additional Information" and "The Level 1 ADR Program". If the Level 1 ADR Program is established, one EnergoPolyus ADR will represent the right to receive one EnergoPolyus Share on deposit with the Custodian and the EnergoPolyus ADRs are currently anticipated to be tradable over-the-counter in Western Europe and the United States and may in the future be traded on one or more Western European stock exchanges. See "The Level 1 ADR Program". There is no assurance that the Level 1 ADR Program will be established or that a public market for the EnergoPolyus ADRs will develop. See "Market Information". If the Level 1 ADR Program is not established within 90 days of the Trading Date, the FSFM approval and SEC registration of the Level 1 ADR Program are not obtained, or if the number of EnergoPolyus ADRs to be distributed to holders of Norilsk ADRs is less than the number of Norilsk ADRs outstanding, each holder of Norilsk ADRs who held Norilsk ADRs as at the Spin-off Record Date will be asked to provide a Russian securities account to the Depositary. Holders who provide to the Depositary a Russian securities account 14 calendar days following the expiry of such 90-day period will (a) be entitled to receive EnergoPolyus Shares equal to the number of EnergoPolyus ADRs they would have received had the Level 1 ADR Program been set up or in number or equal to the difference in number between the number of Norilsk ADRs it held on the Spin-off Record Date and the number of EnergoPolyus ADRs distributed to it, as applicable, and (b) continue to own the same number of Norilsk ADRs after the Spin-off as before. Holders who do not provide to the Depositary a Russian securities account as specified above, will (a) be entitled to receive the cash proceeds from the sale of the EnergoPolyus Shares which such holder would have received, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution and (b) continue to own the same number of Norilsk ADRs after the Spin-off as before. See "The Spin-off — Description of the Spin-off".

Redemption Rights of Dissenting and Non-Voting Shareholders and Norilsk ADR Holders . . . . Under Russian corporate law, Norilsk shareholders that are entitled to vote at the EGM and that either vote against the Spin-off or do not participate in voting on the Spin-off proposal, may elect to have Norilsk redeem their Norilsk Shares within the Redemption Election Period if the Spin-off is approved. Holders of Norilsk Shares who wish to exercise their redemption rights (including the Depositary on behalf of Norilsk ADR holders) must tender their Norilsk Shares to Norilsk during the Redemption Election Period. Promptly following the EGM Date, holders of Norilsk ADRs who either vote against the Spin-off or do not participate in voting on the Spin-off proposal will be provided with materials from the Depositary detailing the procedures to be followed if such holders wish to exercise their redemption rights. Norilsk ADR holders who elect to exercise their redemption rights will be required to tender their Norilsk ADRs to the Depositary as tender and exchange agent during the Redemption Election Period (the "Tender and Exchange Agent").

Within the 30-day period following the end of the Redemption Election Period, Norilsk is required to redeem any Norilsk Shares tendered by holders of Norilsk Shares and the Depositary on behalf of the holders of Norilsk ADRs at a price of RUB 5,300 per share. In accordance with the requirements of Russian law, the price for the Norilsk Shares to be redeemed has been set by the Board of Directors of Norilsk based on the market price (without taking into account the effects, if any, on the market price resulting from the redemption rights), as determined by LLC Rosexpertisa (MRI), an independent appraiser. Norilsk may use no more than 10 per cent of its net assets, determined as of the EGM Date, as calculated in accordance with RAS, to redeem such Norilsk Shares. For purposes of illustration, based on the net assets of Norilsk as at June 30, 2007, which constituted RUB 327.2 billion, such amount equaled RUB 32.72 billion, meaning that, if the EGM had been held on June 30, 2007, Norilsk would have been entitled to redeem approximately 3.37% of the Norilsk Shares outstanding based on the purchase price of RUB 5,300 per one share.

In the event that holders tender more Norilsk Shares or Norilsk ADRs representing more Norilsk Shares than Norilsk is permitted to redeem, tendered Norilsk Shares (including Norilsk Shares represented by Norilsk ADRs) will be redeemed on a pro rata basis.

See "The Spin-off — Redemption rights of dissenting and non-voting shareholders and Norilsk ADR Holders".

Nomination Rights . . . . Norilsk shareholders holding 2% or more of the shares of Norilsk as at the EGM Record Date were entitled to nominate members of the Board of Directors and internal audit commission and candidates for the General Director of EnergoPolyus by no later than October 30, 2007.

Certain Tax Consequences	This Information Statement includes a summary description of certain potential tax consequences of the Spin-off for certain holders of Norilsk Shares or Norilsk ADRs, as the case may be, under the laws of the Russian Federation, U.S. federal laws and the laws of the United Kingdom. See "Certain Tax Consequences". Norilsk has not investigated the possible tax treatment of the Spin-off under the laws of any other jurisdiction. Notwithstanding the summary descriptions contained in this Information Statement, holders of Norilsk Shares or Norilsk ADRs should consult with their own tax advisors concerning the overall tax consequences of the Spin-off.

RISK FACTORS

Shareholders of Norilsk and holders of Norilsk ADRs should carefully consider the following information about the risks described below, together with the other information contained in this Information Statement, before deciding whether to approve the Spin-off. If any of the risks described below actually occur, EnergoPolyus' business, financial condition, or results of operations could be adversely affected. In that case, the value of the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs may decline and shareholders could lose all or part of their investment.

The Company has described the risks and uncertainties that its management believes to be material, but these risks and uncertainties may not be the only ones EnergoPolyus will face. Additional risks and uncertainties, including those of which the Company is currently unaware or which it deems immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs and shareholders losing all or part of their investment. These risks and uncertainties will also apply in many respects to the subsidiaries of EnergoPolyus.

RISKS RELATING TO THE REFORM OF THE RUSSIAN POWER INDUSTRY

The Russian power industry is currently being restructured and reformed, and these changes may be conducted in a manner that differs from the Company's current expectations or in a manner that is adverse to EnergoPolyus' interests, which could materially and adversely affect EnergoPolyus' investments in the industry

The Russian power market has been undergoing significant reform and restructuring, which launched officially in 2001, and the process is still ongoing. The current plans for the restructuring of the industry contemplate that the reforms are to be accomplished principally through the following steps:

- changes in the rules regulating the electricity industry;
- the separation of the natural monopolies (electricity and heat transmission and distribution and electricity dispatch management) from the potentially competitive businesses (electricity and heat generation, supply, repairs, and services);
- the eventual dissolution of the current state controlled power utility company, RAO UESR; and
- the gradual expansion of the competitive segment, which will result in a reduction in the percentage of output subject to regulated prices ("tariffs").

As part of the on-going reform process, the rules governing the Russian power market, including, among others, the rules related to market liberalization, the determination of tariffs for electricity, operation of the capacity market and the framework for relations between power generators and consumers are undergoing significant change.

The timing of the stages of the reform and the scope of such stages have changed several times since the formal launch of the reform by the release on July 11, 2001 of the Russian Government Resolution "On Restructuring of Electricity Industry of the Russian Federation" No. 526 dated July 11, 2001 ("Resolution No. 526"). For example, in September 2007, RAO UESR announced that it was scaling back its 2006-2010 investment program. It is difficult to predict how the Russian power sector will develop, and there is no assurance that the current plan of the Russian government to liberalize fully the wholesale electricity market by 2011 (excluding electricity required for residential consumption) will be implemented. Furthermore, there is no reliable indication as to when, if at all, the politically controversial reforms will be completed.

As a result of the on-going reform process and the uncertainty associated with its completion and ultimate scope, the Russian power market is changing dramatically and continues to operate in conditions of uncertainty. The Power Companies may, therefore, be subject to a large number of operational, business, technical, managerial, regulatory and other risks, which are currently difficult or impossible to predict and are not within their control, in addition to the existing risks inherent in the Russian power market. These changes and the associated uncertainty may have a material adverse effect on the business, financial condition and results of operations of these Power Companies.

Reform of the Russian power sector envisages the dissolution of RAO UESR, and the identity of the legal successor to RAO UESR, which currently has a dominant position in the Russian market in terms of knowledge, expertise, experience and management skills related to the power sector, is currently unclear

RAO UESR and its group of companies are in the process of reorganization, pursuant to which the Russian Federation is expected to relinquish its control of the thermal generation subsidiaries currently held by RAO UESR. In February 2007, Mr. Anatoly Chubais, the chief executive officer of RAO UESR, announced amendments to the reform process, which were approved by the board of directors of RAO UESR in March 2007. The amendments contemplate a different structure for spinning-off the generation subsidiaries, including the TGKs and OGKs, from the structure that was initially proposed. The original spin-off structure contemplated that the Russian Federation and other shareholders of RAO UESR would become direct shareholders in the TGKs and OGKs (including WGC-3), and that the Russian Federation would then divest its stakes in these companies. This was the structure followed in the spin-off of TGK-5 and OGK-5, which was completed in September 2007. Under the amendments, the FSK and HydroOGK, which will be controlled by the Russian Federation following the dissolution of RAO UESR, will hold the Russian Federation's stakes in the generation subsidiaries. Since current regulations prohibit the FSK from owning generation assets, it would have to divest such stakes. This new structure is still subject to discussions between RAO UESR and the Russian government, and there is no assurance that it will not be changed in the future.

Furthermore, the dissolution of RAO UESR, which currently enjoys a dominant position in the market in terms of knowledge, expertise, experience and management skills related to the power sector and the transfer of a portion of RAO UESR's existing shareholding in the TGKs and the OGKs (including WGC-3) to the FSK, the HydroOGK and/or other companies, which may not benefit from the same knowledge, expertise, experience and skills, may materially adversely affect these companies' business, financial condition and results of operations.

The proposed liberalization of wholesale electricity tariffs may be suspended or reversed, and existing and future tariff regulations applicable to the Russian power industry may result in a tariff system that inadequately compensates the Power Companies for their cost base, which could materially adversely affect the business, financial condition and results of operations of EnergoPolyus and the Power Companies

The generation and distribution of electricity in Russia are currently largely subject to tariff regulations, and Power Companies that are in the power generation and distribution businesses are currently, and over the next several years are expected to continue to be, required to sell part of their planned electricity output under Regulated Contracts. The distribution and transmission tariffs and connection fees charged by the Distribution Grid Companies ("RSKs"), including Kolenergo and Krasnoyarskenergo, are, and the distribution tariffs and connection fees to be charged by the inter-regional grid distribution companies established as part of the restructuring of the power industry in Russia (the "MRSKs") are expected to be, also subject to governmental regulations.

Under the existing tariff regime, the tariffs have been revised annually by the Russian Federal Service on Tariffs (the "FTS") in the case of electricity tariffs, and by regional tariff authorities, in the case of electricity distribution tariffs and electricity connection fees, in each case based on the estimated costs of Power Companies for the following year. The cost element of tariffs includes expenses which the FTS considers reasonable, for example operational costs, but does not generally include full capital expenditures since these may not be considered reasonable by the FTS. Under the "cost plus" system, tariffs cover the cost base and provide for limited profitability. The FTS has a certain degree of discretion in determining which expenses are, and which are not, reasonable. As a result of the "cost plus" tariff system, the ability of Power Companies that are in the power generation and distribution businesses to increase their profitability is limited, and their revenues may be insufficient to fund their capital expenditure requirements. Moreover, since tariffs are generally adjusted only annually based on projections, they may not reflect the actual fluctuations of costs during a year, which may lead to costs exceeding tariffs in certain periods within a year.

One of the main goals of the Russian power market reform is the gradual liberalization of wholesale electricity prices. It is currently anticipated that the liberalization of wholesale electricity prices will be completed by 2011. The framework for gradual wholesale electricity market liberalization is established by Resolution No. 529 "On Improving the Operation of the Wholesale Electricity (Electric Capacity) Market" dated August 31, 2006 ("Resolution No. 529"), which introduced the new rules for the wholesale electricity market (the "New Wholesale Market Rules"), as further amended by the Russian Government Resolution No. 205 ("Resolution No. 205"). The New Wholesale Market Rules provide that power generators, including the Power Generation Companies, are required to sell, in the second half of 2007, 85-90% of their 2007 planned power output through Regulated Contracts at regulated prices. Only the remaining 10-15% of such planned output and any volumes generated above the annual planned output approved by the FTS may be sold at free-market prices in the "one-day-ahead" spot market or balancing sector or under unregulated bilateral agreements at prices freely chosen by the parties. The New Wholesale Market Rules also provide that the Russian government will further liberalize the market by reducing semi-annually the percentage of planned output that must be sold at regulated prices. Under the New Wholesale Market Rules, such semi-annual reductions should be within the range of 5-20% of the planned 2007 output for each power generation company, with full liberalization expected to occur in 2011. While the volumes approved for sale at free-market prices have been increased for the first and second halves of 2007, there can be no assurance that this trend will actually continue after 2007. Moreover, there is no assurance that the existing regulations will remain in place or that tariff liberalization will not be suspended or reversed in the future. If liberalization is suspended or reversed, or does not proceed as currently envisioned, this could have a material adverse effect on the business, financial condition and results of operations of Power Generation Companies.

Furthermore, should the process of power market liberalization continue, price levels in the free market for power will have a direct impact on the revenues and profitability of the Power Generation Companies. There can be no assurance that price levels in the Russian power market will increase as a result of greater market liberalization. If free-market prices for power are not sufficient to cover the costs and expenses of Power Companies, the business, revenues and results of operations of Power Companies may be materially adversely affected. From 2008, electricity tariffs charged by the Power Generation Companies for electricity sold under Regulated Contracts (as defined below) are expected to be calculated in accordance with tariff indexation formulas determined by the FTS based on, among other things, the forecasted level of inflation, growth of fuel prices, including gas tariffs, and tax increases. Furthermore, it remains to be seen how tariff indexation formulas determined by the FTS will be applied in the future, and there is a risk that any changes in tariffs may be inadequate to compensate for changes in the underlying cost base of one or more of the Power Generation Companies.

The Russian government is currently considering the introduction of a new tariff regulation system based on a regulated asset base ("RAB") method for electricity distribution. Such discussions are at a very early stage and no assurance can be given that the RAB tariff system will be adopted as currently envisioned or at all. If the RAB tariff system is not adopted, the MRSKs may be subject to significant pressure on margins, EBITDA and net income and may not be able to finance the modernization and development of their distribution grids, which would have a material adverse effect on the MRSKs' business, financial condition and results of operations. If the RAB tariff system is adopted, the RAB or permissible returns on RAB may not be set at a sufficient level, as a result of which the MRSKs may not be adequately compensated or incentivized. This may lead to tariffs that do not provide returns that adequately compensate for the cost of capital and the MRSKs may therefore not be able to finance modernization and development of their distribution grids, which would have a material adverse effect on the MRSKs' business, financial condition and results of operations.

The capacity market in Russia may not be created or may not operate in a manner that allows Russian power generation companies to receive adequate returns on their investments

According to the New Wholesale Market Rules, in order to encourage greater investment new electric capacity commissioned after 2007, new electric capacity not included in the forecasted generation and consumption balance for 2007 and certain existing electric capacity will be traded in the wholesale market at unregulated prices. However, implementing regulations adopting this new approach and setting forth gradual liberalization of the electric capacity market in line with the power market are still being formulated. The date of commencement of the electric capacity market has not yet been announced, and there can be no assurance that it will be created or, if created, that it will operate in accordance with the principles set forth in the New Wholesale Market Rules. Should the electric capacity market fail to be created and operate as currently expected and should the Power Generation Companies be required to continue to sell their electric capacity at regulated prices, these companies may be unable to receive adequate returns on their investments in new electricity generating capacity within projected times, and this may materially adversely affect their business, financial condition and results of operations.

The consolidation process for the MRSKs may not take place as currently envisioned or at all

After the Spin-off, EnergoPolyus will have interests in Kolenergo and Krasnoyarskenergo that, according to the resolution of the RAO UESR board of directors of April 27, 2007, are to be merged into MRSK of North-West and MRSK of Siberia, respectively. To date, and consistent with the timetable set out in the initial plan for the reform of the Russian electricity distribution sector, ten out of the planned eleven MRSKs have been established. However, the final corporate structure of the MRSKs is yet to be established, and the merger of Kolenergo and Krasnoyarskenergo into the respective MRSKs has not yet been completed. There can be no assurance that the consolidation process for the MRSKs will take place as currently envisaged or at all, and the assets currently targeted for consolidation may not appreciate in value to the extent envisaged.

The price of the Power Companies' shares may be affected by the general perception of the Russian power sector

Certain circumstances, such as blackouts or other power supply disruptions, which may lead to price increases as more investments will be required, political unrest in Russia and tensions in Russia's political and commercial relations with other countries, taken together with the uncertainties and risk associated with the reform of the Russian power industry, could adversely affect investors' general perception of the Russian power sector and the share prices of companies within this sector. The effect of such events and unrest on investor sentiment and on the market price of the shares of the Power Companies cannot be predicted, but it is possible that these share prices could significantly fluctuate or fall as a result of negative investor sentiment.

RISKS RELATING TO THE NATURE AND CHARACTERISTICS OF THE RUSSIAN POWER INDUSTRY

The demand for electricity and heat in Russia may not grow as fast or as much as has been expected in developing capital expenditure plans, which may result in a lower load factor for the existing and newly-commissioned capacity of Russian power companies, overcapacity in the market and lower sales prices

The current investment program for the power generation companies currently in the group consisting of RAO UESR and its subsidiaries (the "RAO UESR Group") formulated by RAO UESR involves a substantial increase in the generation capacity of the Power Generation Companies. The formulation of these programs involved the use of long-term models, which necessarily have a substantial amount of variance. The high risk of inaccuracy in these models concerning important terms, such as future consumption and future prices, and the difficulties in changing the comprehensive investment program supported by several parties, including the government, may result in a substantial risk of over-investment.

Investment programs of power generation companies are generally based on certain forecasts of growth in electricity and heat consumption. Accordingly, if the growth in the demand for Russian electricity or heat is lower than expected, the load factor of the Power Generation Companies may not increase as currently expected or may actually decrease depending on the prioritization of the stations set by the OJSC System Operator-Central Dispatching Office of the Unified Energy System (the "System Operator"). As a result, the Power Generation Companies may be unable to realize expected returns on their investments in their facilities and infrastructure, which may materially adversely affect these companies' business, financial condition and results of operations.

The Power Generation Companies may face increasing costs, insufficient supply and other risks and uncertainties in their procurement of gas supplies

The majority of Russian fossil fuel-powered generation plants use natural gas as their primary fuel and are not or may not be easily convertible to other alternative forms of fuel. The Power Generation Companies, in particular those companies that are primarily dependent on gas as their fuel supply, are, therefore, highly sensitive to disruptions in the gas supply, the market power of the gas suppliers, changes in the regulated gas tariff and quota structure, and variations in the unregulated gas prices from commercial sources to the extent that regulations or other restrictions prevent them from adjusting their output level or passing the increased cost to customers.

The existing Russian gas pipeline system is exposed to the risk of various natural disasters, sabotage, corrosion and technical difficulties and the gas supplies may therefore be from time to time subject to interruptions, which may in turn result in disruptions in power generation by the Power Generation Companies who rely on the gas for their primary fuel. The occurrence of any of these events could also have a material adverse effect on the business, results of operations and financial condition of the Power Generation Companies.

The Russian natural gas market is highly monopolistic, with a vast majority of supplies, reserves, production and transportation controlled by OJSC "Gazprom" ("Gazprom") and its affiliates. Moreover, Gazprom controls the access of independent gas producers to its Unified Gas Transportation System ("UGTS") and is, therefore, able to prevent such producers from delivering gas to their customers, including the Power Companies. Furthermore, because of its natural power monopoly status, Gazprom is able to impose stringent conditions on its customers, such as requiring very aggressive payment schedules. Therefore, if any of the Power Generation Companies is unable to pay Gazprom on a timely basis, either because its customers fail to pay for the power they are supplied at all or on a timely basis or it is otherwise unable to comply with Gazprom's conditions for pipeline access, its gas supplies may be interrupted or delayed. Furthermore, Gazprom holds stakes in various power companies, some of whom compete with the Power Generation Companies. If Gazprom were to supply gas to any of these power companies on preferential terms, this could give them a competitive advantage over the Power Generation Companies. Due to the possible increase of gas prices, and in order to reduce their reliance on gas, some Power Generation Companies are currently planning to diversify their fuel supply by gradually switching to coal.

The majority of Gazprom's gas supplied to the TGKs and OGKs (including WGC-3) is supplied under pre-agreed quotas established by Gazprom for RAO UESR and its power generation subsidiaries, including the TGKs and the OGKs (including WGC-3), at regulated prices (tariffs) determined by the FTS for Gazprom. The quotas are allocated by Gazprom amongst buyers based on requests received by Gazprom and potential buyers with a prompt payment history may have the possibility of receiving gas above the quota at regulated prices. Pursuant to Resolution No. 534 "On an Experiment to Sell Gas" in the Electronic Gas Trading System of September 2, 2006 of the Russian government, from 2006 to 2007 Gazprom is permitted to sell up to 5 billion cubic meters of gas at unregulated prices on the electronic trade platform. As part of the Russian government's plan to bring the profitability of domestic sales of gas more in line with export sales, and in accordance with Resolution No. 333 "On Improvement of Gas Price Regulation" of May 28, 2007, gas tariffs are currently expected to increase in the future. If gas tariffs increase in the future, this would result in an increase in the expenses of the Power Generation Companies. This could have a material adverse effect on the business, financial condition and results of operations of these Power Generation Companies. Should the Russian government accelerate the liberalization of gas prices or should the FTS increase the gas tariffs prior to a corresponding decrease in the volumes of electricity required to be sold at regulated prices, this could have a material adverse effect on the business, financial condition and results of operation of the Power Generation Companies.

Quotas established by Gazprom for gas supplies from Gazprom may be reduced or left unchanged. Although the volumes of electricity generation and gas consumption by the electricity industry in Russia have been growing over the last three years, the gas supply quotas have at various times either been reduced or left unchanged. If these quotas are decreased or left unchanged or increased insufficiently, the Power Generation Companies may not be able to obtain sufficient volumes of gas at regulated price levels, as a result of which the volume of power that they generate may decrease or the cost of the generation may increase and their business, financial condition and results of operations may be materially adversely affected.

The Power Generation Companies may be required to purchase gas from either Gazprom or independent suppliers in the unregulated market at commercial prices if the gas supplied under the quotas is insufficient for generation needs. These commercial prices may be significantly higher than the tariffs established by the FTS for the gas supplied under the quotas. If the Power Generation Companies have to increase the amount of gas they purchase at commercial prices or if commercial gas prices increase in the future, this would result in an increase in the expenses of the Power Generation Companies. This could have a material adverse effect on the business, financial condition and results of operations of the Power Generation Companies.

The Power Generation Companies may not be able to adjust their generation levels or price levels sufficiently to offset the changes in the gas supply levels or cost levels. The suspension of the supply of power to certain of their consumers may not be possible, regardless of those consumers' ability to pay or to pay increased tariffs. See "— Risks relating to the Nature and Characteristics of the Russian Power Industry — Customers may withhold payments, or fail to pay, the Power Generation Companies for the electricity supplied by them." To the extent that regulatory strictures or changes limit any of the Power Generation Companies' ability to pass the increased costs on to their customers, or economic developments adversely affect the ability of their customers to pay higher tariffs, the business, financial condition and results of operations of the Power Generation Companies could be materially adversely affected.

Interruptions or other material changes in the generation of electricity by the Power Generation Companies could also lead to lawsuits being brought by customers against such companies. The occurrence of any of these events could also have a material adverse effect on the Power Generation Companies' business, results of operations and financial condition.

Any increase in gas tariffs may lead to an increase in market demand for other fuel types which will potentially raise prices and reduce the amount available

It is possible that if gas prices increase in the future, the power generation companies, including the Power Generation Companies, may seek to switch to other sources of energy, including coal. An increase in demand for other sources of energy may increase the prices of these alternative energy sources and potentially reduce the amount available. A future increase in the prices of these energy sources would result in an increase in the expenses of the Power Generation Companies and this could have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

Certain Power Generation Companies that have coal-fired plants are dependent on the transportation of coal and rely on specific grades, and specific suppliers, of coal

Certain Power Generation Companies have coal-fired plants that may only operate on specific grades of coal, and, thus, such Power Generation Companies are particularly reliant on the transportation network of, and specific suppliers of, these grades of coal.

The transportation of coal to the Power Generation Companies is dependent on certain factors, including access to, and reliability of, the rail network. The transportation of coal to the Power Generation Companies may be interrupted or suspended due to restricted access by the Power Generation Companies to the rail network. Furthermore, factors such as adverse weather conditions, failure of the transportation infrastructure or contractual disagreements could also impede the transportation of coal to the Power Generation Companies. Due to the large distances that often exist between the Power Generation Companies and their coal suppliers, significant price fluctuations may be caused by the need to cover the cost of transportation. Until existing facilities are technically adapted to utilize alternative types of coal, any interruption or suspension of the transportation of coal to these companies or any increase in the cost of such transportation could materially adversely affect the business, financial condition and results of operations of the Power Generation Companies.

The reliance on specific suppliers of coal increases the price and supply risks. Coal prices are subject to fluctuations based on market movements, which, in the absence of the ability to utilize alternative types of coal, will increase the cost of coal to the Power Generation Companies. If a Power Generation Company has a limited number of coal suppliers, such suppliers may demand unfavorable contractual terms, including increasing the price of the desired grade of coal beyond the level of the price of the type of coal available from a number of suppliers. In addition, the Power Generation Companies may experience logistical, temporal or other limitations on the production or transportation systems of coal. Any increase in coal prices or any reduction or disruption in the supply of coal would increase the costs of the Power Generation Companies that rely on coal or reduce the ability of the Power Generation Companies to generate power and thereby materially adversely affect the business, financial condition and results of operations of the Power Generation Companies.

Customers may withhold payments from, or fail to pay, the Power Generation Companies for the electricity supplied by them

The Power Generation Companies sell, or may sell, a significant portion of the electricity that they generate in the wholesale market under "regulated" contracts under the New Wholesale Market Rules (the "Regulated Contracts"). The customers under such Regulated Contracts are assigned by the Non-Profit Partnership Unified Energy System Wholesale Electricity Market Trade System Administrator (the "Trade System Administrator") to certain generators on the basis of several factors, including forecasts of electricity generation and consumption established by the FTS. If a customer is unable to pay or withholds payment for the supplied electricity, the relevant electricity generation company will not be able to terminate the regulated contract or suspend electricity supply unilaterally. Instead, a delinquent or non-paying customer is subject to certain administrative sanctions, including fines, that may only be imposed by the Trade System Administrator or its subsidiary, CJSC Financial Settlement Centre. The Power Generation Companies have no formal authority to institute claims for such administrative sanctions, and it is unclear to what extent the Power Generation Companies are entitled to receive the proceeds of any fine that is imposed. Many of these customers are or may be regional electricity supply companies, which are not the end consumers of the electricity but merely resell it to end consumers and, therefore, are highly vulnerable to the ability or willingness of such end consumers to pay. Some of these end consumers, including individuals or state and municipal institutions, have in the past been late with payments, or have failed to pay, for the electricity, in part due to their poor financial condition and in part due to regulatory and technical constraints. For example, pursuant to the relevant regulation, a supplier can terminate its supply of electricity to individuals only if the overdue debts exceed six average monthly payments. While the number of such consumers has decreased in recent years, there is no assurance that payment delays and failures at the end customer level and/or the regional supply company level will not occur. If the Power Generation Companies are faced with such payment delays and failure, and in particular if such payment delays and failures continue for a protracted period due to these companies' inability to terminate or suspend their supply of electricity unilaterally, this could materially adversely affect their business, financial condition and results of operations.

The Power Generation Companies may be unable to generate electricity as required under Regulated Contracts or agreements concluded in the "one-day-ahead" spot market and may therefore have to purchase additional volumes at a higher price

Under the Regulated Contracts, unregulated agreements or the bids in the "one-day-ahead" spot market, where market participants may submit bids for buying or selling electricity for a certain volume, including the price for each hour of the next day, the Power Generation Companies are required to supply a certain amount of electricity to buyers. The Power Generation Companies may be unable to generate such amounts of electricity as required under the Regulated Contracts or the bids they have delivered in the "one-day-ahead" spot market. Should this occur, they would have to purchase additional volumes of electricity in the wholesale market to cover the shortfall. If the cost of such purchases is higher than the cost at which these companies could generate this electricity, this could have a material adverse effect on their business, financial condition and results of operations.

The nature of the future competitive environment in which the Power Generation Companies will operate is uncertain, and the Power Generation Companies may not be able to compete effectively in the future

After the reforms have been implemented, the nature and composition of the markets in which the Power Generation Companies will operate will be substantially different. The market environment post-reforms and the identity of future participants in the markets remain uncertain. The Power Generation Companies may operate in consolidated markets with few competitors or highly fragmented markets with numerous competitors. Future participants and, in particular, large strategic investors that may be politically powerful may operate with goals other than profit maximization, and this may cause distortions in the market's competitive structure. Alternative products such as alternative fuels (wind power, solar power, geothermal energy etc.) may reduce the size of the markets of the Power Generation Companies or the profitability of the Power Generation Companies.

Following the implementation of the reforms, there will be increasing competition between the OGKs (including WGC-3), TGKs and other generators of electricity participating in the wholesale market. This competition is expected to become more intense as the wholesale electricity market further liberalizes. Pending the dissolution of RAO UESR, the RAO UESR Group is anticipated to remain a highly influential player in the Russian energy market, which may make it difficult for the Power Generation Companies to compete. In addition, new generating facilities other than those of RAO UESR and its subsidiaries may enter the market. This difficulty would be exacerbated in the event that the restructuring of the RAO UESR Group is halted or does not take place according to the timetable that is currently envisioned, in which case the competitive environment would continue to be significantly influenced by RAO UESR. If the Power Generation Companies are unable to operate effectively in an environment of heightened competition in the future, this may materially adversely affect their business, financial condition and results of operations.

Changes in the power generation market may adversely affect the operations of power supply companies, such as Kola Power Supply Company, since competition among the power generation companies may lead to a reduction in the number of market participants, an increase in prices at which power supply companies purchase electricity or a reduced availability of power for supply companies to purchase. This may materially adversely affect the power supply companies' business, financial condition and results of operations of the power supply companies, including those of Kola Power Supply Company.

In 2006, the Russian government established an investment fund in the amount of approximately USD 2.6 billion, which is to be increased in 2007 by approximately USD 4.3 billion. The purpose of the investment fund is to subsidize infrastructure investment projects of national importance on a public-private partnership basis. It is possible that this investment fund will be used in the future to help fund the modernization of certain transmission or distribution electricity grids or the creation of additional installed capacity in the power generation sector. The Russian government may also use this fund to provide state support for certain power generators, such as nuclear and hydro generators in the future. If nuclear or hydro power generators or certain distribution grids benefit from such subsidies and they are able to set prices for their services at levels lower than what the Power Generation Companies would charge, this may have a material adverse effect on their business, financial condition and results of operations.

The Power Generation Companies may be subject to increased competition in the local heat supply markets

Certain large industrial enterprises, as well as municipalities, operate their own boiler plants in the regions in which the Power Generation Companies operate. In addition, the Power Generation Companies could be subject to increased competition from alternative producers of heat. If the Power Generation Companies are unable to effectively compete with such producers in the future, this may materially adversely affect the business, financial condition, results of operations and prospects of the Power Generation Companies.

The Power Generation Companies are dependent upon the services provided by and assets and infrastructure of third parties

The Power Generation Companies are dependent to various extents upon the services provided by third parties. Most of these third parties are monopolies, and alternative providers are not available. Should any of these third parties fail to provide the relevant services for any reason, the operations of the Power Generation Companies will be disrupted, which may materially adversely affect their business, financial condition and results of operations. In addition, the majority of services provided by such third parties are provided at tariffs established by the FTS. Increases in these tariffs may increase the costs of the Power Generation Companies that rely on their services, and materially adversely affect these companies' business, financial condition and results of operations.

In particular, the Power Generation Companies depend on the electricity transmission and distribution services provided by the FSK and RSKs (or, should the consolidation of the RSKs into the MRSKs proceed as currently envisaged, the MRSKs). Although these Power Generation Companies have agreements with the FSK with respect to their connection to the electricity transmission grid, they may not have agreements with distribution grid companies regarding their connection to the electricity distribution grids because distribution services are generally paid for by customers and not by generation companies. Therefore, these Power Generation Companies are not assured of a reliable and continuous connection to the electricity distribution grid.

Moreover, while the level of wear and tear of electricity transmission and distribution grids is very high, the existing system by which the grid companies' tariffs for providing electricity distribution and transmission services and connecting power plants and consumers are set has not, in the past, ensured an adequate level of investment in the modernization and development of the grids. The high level of wear and tear and lack of investment in, and the continuing increase in electricity load of, these grids may result in a decrease in the reliability of electricity supply and, in certain circumstances, in electricity outages. For example, in May 2005, there were electricity outages in several districts of Moscow and in certain areas of the Moscow, Tula, Kaluga and Ryazan regions. Due to the condition of the generating facilities and grid network, the business of these Power Generation Companies may be particularly susceptible to interruptions caused by technical accidents and emergencies. Any disruption to electricity distribution or transmission, including forced outages affecting any of the transmission or distribution grids that these Power Generation Companies rely upon, could result in decreased sales by and, therefore, decreased revenues of, the Power Generation Companies, and have a material adverse effect on their business, financial condition and results of operations.

In the past, the plants of Russian power generation companies generally have not been run at full capacity. This has been in part due to the RAO UESR Group's control over the generation by these plants, based on power requirements in the relevant region and in part due to the limited capacity of the electricity distribution and transmission grid, which is ageing and is not sufficient for present requirements. In certain regions, due to the increase in electricity consumption, the electricity transmission and distribution grids' carrying capacity is insufficient. According to Minpromenergo, since 2004 up to 60% of new requests for connection to the power supply system made by customers have not been satisfied each year. Furthermore, a significant proportion of transmission assets are now older than their originally envisaged useful life span. The ability of the Power Generation Companies to maximize their generation depends largely on the ability of the grid to handle greater volumes of electricity, and the current condition of the grid is likely to limit an increase in electricity generation. Such constraints on the generation levels of these companies could have a material adverse effect on their business, financial conditions and results of operations.

In addition, the Power Generation Companies are dependent on the System Operator, to which the functions and assets of regional dispatch administrations of energy networks have been transferred, and the Trade System Administrator, which manages the trading system within the electricity wholesale market. A failure by the System Operator and the Trade System Administrator to provide services to the power generation companies could result in a reduction in the amount of electricity generated or actually delivered, which could have a material adverse effect on the Power Generation Companies' businesses, financial condition and results of operations.

Certain Power Generation Companies in the heat generation business may lease from third parties a significant portion of their boiler houses and thermal transmission network. If the third party owners of these boiler houses and networks should suspend access, refuse renewal of the leases, increase the rents or in any other way materially change the terms of the leases, then the heat generation capacity of these Power Generation Companies may be significantly curtailed.

The Power Companies have engaged and may continue to engage in transactions with related and other parties that may present conflicts of interest

The Power Companies have engaged in transactions with related parties, including their controlling shareholders and companies controlled by them or in which they own an interest and other affiliates, and may continue to do so in the future. They have engaged in transactions with certain of their shareholders, directors and executive officers and companies controlled by them or in which they own an interest. Conflicts of interest may arise between the Power Companies and their affiliates, potentially resulting in the conclusion of transactions on terms not determined by market forces.

The interests of RAO UESR, FAMFP, the Russian government and other significant shareholders in the Power Generation Companies could conflict with those of other shareholders in the Power Generation Companies, including EnergoPolyus

Certain Power Generation Companies are currently a part of the RAO UESR Group and, therefore, under the control of RAO UESR, which is a state-controlled entity. As a result, these Power Generation Companies are subject to economic, corporate, public relations, investor relations, human resources, management and other policies developed by RAO UESR for its subsidiaries and affiliates. More generally, RAO UESR is or may be the controlling or largest shareholder of certain of these companies and, as such, exercises significant influence over their strategy and business. RAO UESR's representatives at general shareholders' meetings and meetings of the board of directors of these companies vote on principal items of the agenda on the basis of RAO UESR's instructions as adopted by RAO UESR's board of directors. As RAO UESR's controlling shareholder is the Russian Federation, the principal items of the agenda of RAO UESR's board of directors' meetings must be also agreed in advance with the Federal Agency for the Management of the Federal Property (the "FAMFP"). In addition, RAO UESR is included in the list of special state-owned companies that the FAMFP is required to manage in cooperation with the Russian government. Although there is no strict legal requirement that the FAMFP agree with RAO UESR's voting instructions to its representatives at the general shareholders' meetings and board of directors' meetings of these companies, should such agreement not be obtained, RAO UESR's representatives are unlikely to vote upon the aforementioned instructions for the relevant items of the agenda of the general shareholders' meetings and board of directors' meetings, respectively. Accordingly, any prospective major decision of the board of directors or the general shareholders' meeting must in practice generally be agreed in advance with RAO UESR and approved by the FAMFP and the Russian government. The interests of RAO UESR, FAMFP and the Russian government could conflict with those of other holders of the shares of the relevant Power Generation Companies, which could materially adversely affect their business, financial condition and results of operations.

The Russian Federation, and its subdivisions, including the Economic Development and Trade Ministry, will continue to maintain substantial influence and control even after its shareholdings have been sold during the dissolution of RAO UESR. It is currently planned that the Economic Development and Trade Ministry will be responsible for monitoring the investment programs of the companies spun-off from RAO UESR, and, according to recent media reports, will have the use of a variety of regulatory mechanisms, including the imposition of fines and the revocation of necessary licenses. It is possible that such influence and control may be used to interfere in the management and operation of privatized companies, including the Power Generation Companies, which may materially adversely affect these companies' business, financial condition and results of operations.

The plant and equipment of the Power Companies, and the infrastructure of the Russian power industry more generally, is in many cases ageing and susceptible to natural disasters, technical accidents or emergencies, increased maintenance costs, reduced reliability and reduced efficiency

the Russian infrastructure largely dates back to the mid-twentieth century and has not been adequately funded or maintained over the past two decades. This is particularly true of the rail and road networks, communication systems and building stock. Russia's poor infrastructure can make the transportation of goods and supplies difficult, adds costs to doing business in Russia and can interrupt business operations. These difficulties can affect the Power Companies directly if, for example, fuel supplies are interrupted. In addition, the Russian government is actively pursuing the reorganization of the nation's rail and telephone systems. Any such reorganization may result in increased charges and tariffs for rail transport and telephones and may not lead to the desired level of repair, maintenance, and improvement of these systems. The poor infrastructure and any further deterioration or possible reorganization thereof could disrupt the normal business activities of the Power Companies, and any such disruption or any increase in the charges and tariffs for rail transport and telephones could have a material adverse effect on the Power Companies' business, financial conditions and results of operations.

A significant portion of the existing plant and equipment of the OGKs (including WGC-3), TGKs and MRSKs consist of ageing assets. These facilities generally have lower reliability and efficiency in comparison to newer facilities. As a result, facilities may be particularly susceptible to technical accidents, emergencies, natural disasters or other events beyond the control of the Power Companies. Such accidents and emergencies, if they occur, could lead to interruptions in the operations of the Power Companies resulting in significant losses as well as significant costs for the reconstruction of the facilities damaged by the accident or emergency. In addition, these facilities may necessitate the incurrence of additional expenses connected with planned and unplanned repairs and maintenance of the generating or distribution facilities.

The Power Generation Companies may require significant capital investment

The Power Generation Companies will require significant additional capital expenditures to maintain and modernize their existing facilities and construct new facilities, including to increase their installed capacity as required by the investment programs of certain of these companies, approved by RAO UESR. The Power Generation Companies may also require additional capital from time to time to finance working capital needs. If the Power Generation Companies are unable to obtain adequate financing on acceptable terms or at all, they may be required to delay or abandon their business or technical development plans, fall behind in their maintenance obligations or be unable to take advantage of opportunities or to meet unexpected financial requirements, which would have a material adverse effect on their business, financial condition and results of operations.

Due to the decentralization of the decision-making bodies within the Russian power industry and the pressure on the management teams of the Power Generation Companies to modernize facilities and meet the growing power needs, it is possible that demand for capital investment will continue to increase, lowering the prices of securities of the Power Generation Companies and resulting in an over-investment within the Russian power industry, which would have a material adverse effect on the Power Generation Companies' business, financial condition and results of operations.

Without significant capital investment in these ageing facilities, it is possible that they will not be able to maintain the levels of overall productivity that are required for the Power Generation Companies to remain or become profitable. Even if these companies are able to attract the required financing for such capital investment, there is no assurance that they will be able to buy new equipment or modernize their existing facilities because of the strong demand for such equipment and works from other companies in the power industry, many of which are currently starting or undergoing modernization programs. In the event that the Power Generation Companies are unable to modernize their plants and equipment, they may not be able to maintain their productivity and remain or become profitable, and this could have a material adverse effect on their business, financial condition and results of operations.

The Power Companies may issue additional shares resulting in the dilution of shares held by existing shareholders

The Power Companies may decide to issue additional shares, including in order to finance capital expenditures, which would result in the dilution of the stakes held by its existing shareholders, including EnergoPolyus. New shares may have rights and preferences superior to those of the shares held by EnergoPolyus. In at least some cases, EnergoPolyus may not have preemptive rights with regard to new share issuances or may not have sufficient cash available to participate in new share issuances even when

EnergoPolyus is accorded the opportunity to invest. In other cases, EnergoPolyus may not wish to increase the proportion of its assets invested in a particular Power Company. New share issuances could have a material adverse effect on the economic interests of such shareholders, including EnergoPolyus, and, thereby, have a materially adverse effect on the economic interests of shareholders.

The Power Generation Companies may not be able to complete their investment programs on time, on budget or at all or to realize expected returns on their investments

Many of the Power Generation Companies may not have experience in large-scale construction and modernization projects, such as those contemplated by certain of their existing or planned investment programs. In addition, due to the relatively limited number of companies, including contractors and equipment producers, that are able to handle such projects, and lack of qualified personnel, there is no assurance that they will be able to hire contractors for such projects within the planned timeframe or according to the planned budget.

The Power Generation Companies may also need to purchase new equipment in order to fulfill the large-scale construction and modernization contemplated by the existing or planned investment programs. It is possible that such equipment may not be available to the Power Generation Companies due to a lack of supply in relation to the high growth within the power market, the overall investment or price inflation. Accordingly, the Power Generation Companies may not be able to complete their investment programs on time, on budget or at all, which could materially adversely affect their business, financial condition and results of operations.

Additionally, the Power Generation Companies may be unable to sell the output that they generate from new facilities that they construct, due to lack of demand or third-party infrastructure or to gain access to fuel supplies in sufficient volume or at reasonable prices. Therefore, they may be unable to realize expected returns on their investments and this may materially adversely affect their business, financial condition and results of operations. See "— Risks relating to the Nature and Characteristics of the Russian Power Industry — Demand for electricity and heat may vary significantly."

The Power Generation Companies are required to sell heat at regulated prices (tariffs)

Tariffs for heat produced by the Power Generation Companies are established by Regional Energy Committees ("RECs"). These tariffs are set at levels which reflect the affordability of the heat for consumers and, accordingly, may not allow the Power Generation Companies to improve or maintain its profitability margins. The tariffs are calculated by the RECs on a cost-plus basis without taking into account the costs of the Power Generation Companies' investment programs. The Power Generation Companies' management believes that the heat tariffs in the regions where the Power Generation Companies operate are unlikely to increase substantially in the foreseeable future. Any reduction in heat tariffs or any failure to increase them sufficiently to meet the costs of the Power Generation Companies' investment programs could materially adversely affect the business, financial condition, results of operations and prospects of the Power Generation Companies.

The business, revenues and results of operations of the Power Companies are dependent on the ability of their management and information systems to meet changes in the power market

The power market is dependent on various factors that may significantly influence levels of generation, consumption, supply and demand, tariffs, free market prices and other power market dynamics. The Power Companies have to make short-term and long-term forecasts and estimates regarding these power market dynamics upon which certain of their business decisions are based. Any inaccuracy in these forecasts or estimates could have a material adverse effect on the business, financial condition and results of operations of the Power Companies. For example, within the electricity market the Power Companies may be unable to sell some or all of the electricity that they generate, or they may, alternatively, be unable to meet their electricity supply obligations to certain customers. As a result, they may be required to purchase electricity in the market at free-market prices and resell it to customers at the agreed prices, and, if they are unable to do so, may be liable under Russian law to pay damages to those customers.

Furthermore, the management and information systems, financial reporting functions and internal control systems of the Power Companies may be less developed in certain respects than those of power companies in more developed markets and may not provide the management of these companies with as much or as accurate information as systems in more developed markets. In addition, the Power Companies may encounter difficulties in the ongoing process of implementing and enhancing its management information systems. If they are unable to maintain adequate management information systems, financial reporting functions and internal control systems, this may have a material adverse effect on their business, financial condition, and results of operations.

Demand for electricity and heat may vary significantly

The demand for electricity and heat may vary significantly, daily, seasonally and from year to year due to weather conditions and other factors. Demand for electricity and heat is usually higher during the period from October through March due to longer nights and colder weather and lower in the period from April through September due to longer days and warmer weather. Furthermore, demand may fluctuate from year to year due to changes in global or regional weather patterns. For example, demand for heat declined during the 2006-2007 winter due to unseasonably warm temperatures across Russia. Therefore, the generating capacities of the OGKs (including WGC-3) and TGKs and distribution networks of the MRSKs may be fully utilized during certain parts of the day or during certain months, and under-utilized during other parts of the day and year. If the Power Generation Companies fail to obtain their expected levels of revenues during the periods when their generating capacities reach their peak loads, they may be unable to compensate for lost revenues during other periods when the demand for electricity and/or heating is lower. If the Power Generation Companies are unable to address or forecast these daily, seasonal and yearly fluctuations in demand for electricity and heat, this could have a material adverse effect on their business, financial condition, and results of operations in a given year and could also cause their financial condition and results of operations to vary significantly from year to year.

The Power Companies may be unable to attract or retain key personnel

The success of the Power Companies depends in part upon the efforts and abilities of key personnel, such as engineering, sales, programming, technical, financial and accounting, marketing and management staff, as well as upon their ability to continue to attract and retain such personnel. The competition in Russia for certain of such personnel is intense due to the limited number of qualified individuals, particularly in certain regions and in areas requiring specialized training, such as IFRS reporting and accounting. There can be no assurance that the Power Companies will be successful in attracting and retaining qualified individuals in the future, and any failure to do so may have a material adverse effect on their business, financial condition and results of operations.

Insurance carried by the Power Companies may not protect them adequately against relevant risks

The insurance industry is not yet well developed in Russia, and many forms of insurance protection common in more developed countries are not yet available in Russia on comparable terms, including coverage for business interruption and director and officer liability. To the extent that the operating assets of the Power Companies are insured, the insurance coverage may be insufficient to cover replacement costs in the event such assets are irreparably damaged. The Power Companies may carry only limited insurance coverage for third party personal injury claims and for property or environmental damages arising from their operations. Accordingly, the Power Companies may incur uninsured losses relating to their assets and may be subject to claims not covered, or not sufficiently covered, by insurance, which could have a material adverse effect on their business, financial condition and results of operations.

POLITICAL RISKS IN THE RUSSIAN FEDERATION

Investments in businesses operating in emerging markets are generally subject to greater risks than those operating in more developed markets

Investing in emerging markets, including Russia, involves greater risks than investing in more developed markets, including, in some cases, significant political, economic and legal risks, as more fully described below. Investors should note that the conditions in these markets are subject to rapid change, and the information set out herein may become outdated relatively quickly. Financial turmoil in one emerging market country tends to adversely affect prices in equity markets of many emerging market countries or the equity prices of companies that do business in such countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems, or an increase in the perceived risks associated with investing in emerging economies, could dampen foreign investment in these markets and adversely affect their economies. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Financial turmoil in other emerging market countries could result in a decrease in the price of the shares in Power Companies or EnergoPolyus Shares.

Political and governmental instability, including conflicts between central and regional authorities, and social unrest could disrupt the ability of the Power Companies to conduct their business

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy into a democracy with a market economy. The reforms have been widespread, and the failure of certain of these reforms, combined with uncertainty regarding the implications of certain of the other reforms, have left the Russian political system vulnerable to popular discontent. In addition, there have been incidents of labor and social unrest, particularly as a result of the failure of the Russian government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living in Russia. An escalation of this unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, including in the form of restrictions on foreign involvement in the Russian economy, and increased violence. An occurrence of any of the foregoing events could have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

The next State Duma elections are scheduled for December 2, 2007, while the next Presidential elections are expected to be held in March 2008. The potential stagnation during the period of uncertainty leading up to these elections, as well as potential instability during the transition period, could negatively affect the economic and political environment in the near term. In addition, shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies. Future changes in the Russian government, major policy shifts or lack of consensus between various branches of the Russian government and powerful economic groups could disrupt or reverse economic and regulatory reforms, including the electricity industry reform, which could have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

In addition, the delineation of authority and jurisdiction between local authorities and the federal government is, in many instances, unclear and remains contested. Currently, Russia comprises 85 sub-federal political units (84 from January 1, 2008, and 83 from March 1, 2008) consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at different levels of government, which may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and the governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus and established precedent could hinder the long-term planning efforts of the Power Companies and creates uncertainties in the operating environment, each of which may prevent them from effectively and efficiently implementing their business strategy and, thereby, materially adversely affect their business, financial condition and results of operations.

Furthermore, in the past, ethnic, religious, historical and other divisions have given rise to tensions and, in certain cases, military conflict and terrorist attacks. In the future, such tensions, military conflict or terrorist activities could result in significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which could disrupt normal economic activity and as a result have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

Russia could adopt national security laws limiting foreign ownership in the Power Companies, which could adversely affect or result in a loss of EnergoPolyus' investments

The Russian government has introduced a law limiting foreign ownership of sectors that "are of strategic importance for national security." The current draft of this law does not specifically refer to the power sector; however, it does include natural monopolies, which, under Russian law, currently includes electricity transmission, electricity dispatching services and heat transmission. For example, TGK-14 is currently included on the list of natural monopolies maintained by the FTS. Therefore, certain of the Power Companies may fall within the scope of the proposed law. The possibility that other laws or governmental actions that are disadvantageous to foreign investment in the Russian power sector (whether direct or indirect) will be enacted or taken cannot be ruled out.

Under the current draft of the proposed law, the prior approval of the competent state authorities would be required in order for foreign investors to acquire control over the Russian entities that "are of strategic importance for national security". Any acquisition completed without such approval would be deemed null and void. However, newly adopted laws do not generally apply retroactively unless the relevant law explicitly provides to the contrary. As a result, the proposed law, if adopted, should not affect the interests in the Power Companies to be contributed to EnergoPolyus. However, any further acquisitions would need to comply with such law, which could adversely affect EnergoPolyus' investments. Furthermore, there is no assurance that the draft law will not be amended or supplemented so as to be applied retroactively or include any additional provisions that would adversely affect EnergoPolyus' interests in the Power Companies. Moreover, any sales to foreign investors of EnergoPolyus' stakes in the Power Companies that "are of strategic importance for national security" would need to comply with such law, which could restrict EnergoPolyus' ability to sell such stakes.

The draft law was approved by the State Duma in the first reading on September 14, 2007. In order for the law to be adopted, it must be approved by the State Duma in the second and third readings, then undergo approval by the upper chamber of the Russian Parliament, the Federation Council, following which approval it must be signed into law by the President of the Russian Federation. It is unclear when the second reading (and, consequently, the third reading) of the draft law will take place. On November 6, 2007, the second reading was postponed. The draft law may be amended in the next readings or may not be approved.

If the draft law or other laws limiting foreign ownership were enacted or actions were taken, which could significantly limit foreign ownership (including indirect ownership) in certain of the Power Companies, they could adversely affect EnergoPolyus' investments in the Power Companies or result in a loss of such investments, which could have a material adverse effect on EnergoPolyus' business, operations, financial condition and results of operations.

The reversal of reform policies or the implementation of governmental policies in Russia targeted at specific individuals or companies could lead to a deterioration in Russia's investment climate that might constrain the ability of the Power Companies to obtain financing in Russia and otherwise materially adversely affect their business, financial condition and results of operations

Since President Putin took office as prime minister in 1999 and then as president in 2000, the political and economic situation in Russia has generally become more stable and conducive to investment. However, signs of a breakdown in consensus among key Russian government officials have raised questions about the direction of future economic reforms. Any significant struggle over the direction of future reforms or the reversal of the reform program could lead to a deterioration in Russia's investment climate, which might constrain the ability of the Power Companies to obtain financing and otherwise materially adversely affect its business, financial condition and results of operations.

Crime and corruption could disrupt EnergoPolyus' ability to conduct business

The local and international press have reported significant criminal activity, including organized crime in Russia and particularly in large metropolitan centers. In addition, the local and international press have reported high levels of official corruption in Russia, including bribery and the use of investigative and prosecutorial powers for corrupt purposes. In addition, reports have been published indicating that certain members of the Russian media have published or regularly publish biased articles in return for payment or under pressure. Organized or other crime, corrupt, biased or impartial officials or authorities or any similar elements could materially interfere with, obstruct, or restrict the normal and most economically advantageous actions of the Power Companies and materially adversely affect their business, financial condition and results of operations. In addition, any report or allegations of such activity where a person or related person involved in any capacity with the Power Companies is an active or passive participant or otherwise involved or related could in the future bring negative publicity or otherwise disrupt the ability of these companies to conduct their business effectively, and, thus, could materially adversely affect their business, financial condition and results of operations.

LEGAL AND REGULATORY RISKS AND UNCERTAINTIES IN THE RUSSIAN FEDERATION

Weaknesses relating to the Russian legal system create an uncertain environment for investment and business activity

Risks associated with the Russian legal system include, to varying degrees, the following: inconsistencies between and among laws, presidential decrees, edicts and governmental and ministerial orders and resolutions, as well as inconsistencies between different provisions within the same law or legal act, including the Joint Stock Companies Law; conflicting local, regional, and federal rules and regulations; the lack of judicial or administrative guidance regarding the interpretation of the applicable rules; the untested nature of the independence of the judiciary and its immunity from political, social and commercial influences; the relative inexperience of jurists, judges and courts in interpreting recently enacted legislation and complex commercial arrangements; a high degree of unchecked discretion on the part of governmental authorities; substantial gaps in the regulatory structure due to delays in or absence of implementing regulations; bankruptcy procedures that are not well-developed and are subject to abuse; a lack of binding judicial precedent; the unpredictability of enforcement of both Russian and non-Russian judicial orders and arbitral awards; uncertainties with regard to legal title and ownership; and alleged corruption within the judiciary and amongst government authorities. All of these weaknesses may affect the ability of the Power Companies and EnergoPolyus to protect and enforce their legal rights, including rights under contracts, and to defend against claims of the third parties.

The relatively recent enactment of many laws, the lack of consensus about the scope, content and pace of political and economic reform and the rapid evolution of legal systems in ways that may not always coincide with market developments have resulted in ambiguities, inconsistencies and anomalies and, in certain cases, the enactment of laws without a clear constitutional or legislative basis. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. Legal and bureaucratic obstacles and corruption exist to varying degrees in the Russian regions in which the Power Companies operate and these factors are likely to hinder the further development of these companies. These characteristics give rise to certain investment risks that do not always exist in countries with more developed legal systems.

In particular, because of the current state of the Russian legal system, it is uncertain whether the Power Companies would be able to enforce their rights in disputes with their contractual partners or other parties, including the state authorities. Their ability to operate in Russia could be adversely affected by difficulties in protecting and enforcing their rights and by future changes to local laws and regulations.

Furthermore, the enforceability of these rights is dependent on the Russian courts, which are not always effective. Enforcement of court orders can, in practice, be very difficult in Russia. The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences is less than complete. The Russian court system has been and may continue to be underfunded. Russia, like many Western European states, is a civil law jurisdiction and, as such, judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court judgments by law enforcement agencies can be time consuming due to large numbers of outstanding court judgments. In addition, court claims are often used in furtherance of political aims.

Any or all of these weaknesses in the Russian legal system could have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

The Power Companies, including WGC-3, their predecessors or shareholders may have undertaken transactions that could be subject to legal challenge for non-compliance with applicable legal requirements

The Power Companies, including WGC-3, their predecessors and major shareholders have taken a variety of actions relating to share issuances, share disposals and acquisitions, valuation of property, interested party transactions, major transactions, anti-monopoly issues and certain other matters in respect of which certain of the Power Companies, their legal predecessors or their shareholders did not fully comply with applicable legal procedures and which, therefore, could be subject to a legal challenge. In particular, the merger of six power plants into WGC-3 in April 2006 was not approved by the disinterested shareholders of the four power plants. WGC-3 and two of the power plants also failed to approve the merger as a major transaction. The one-year statute of limitations for the invalidation of major and interested party transactions entered into in violation of statutory requirements is likely to have expired, however, there can be no assurance that no claims will be brought in the future seeking to invalidate these transactions. If challenges of any transactions entered into by any of the Power Companies or their predecessors or shareholders were successful, it could result in the invalidation of the relevant transaction or the imposition of liabilities on the respective Power Companies. Moreover, since applicable provisions of Russian law are subject to many different interpretations, the Power Companies or their shareholders may not be able to successfully defend any challenge brought against such transactions. For example, the provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to differing interpretations and there is no assurance that former, current or future minority shareholders of the Power Companies will not challenge such transactions in the future. The invalidation of any such transactions or imposition of any such liabilities could have a material adverse effect on the Power Companies' businesses, financial condition and results of operations.

The Power Companies may have acquired shares in their subsidiaries in violation of the takeover provisions of Russian law, which could result in limitation of voting rights of the respective acquiring companies

The Power Companies, including WGC-3, may have acquired shares in their subsidiaries in violation of the then applicable takeover provisions of the Joint Stock Companies Law, which could result in limitation of their voting powers with respect to such subsidiaries.

The privatization of the Power Companies, or their predecessors, may be subject to challenge

Certain Power Companies were created as a result of the privatization of certain companies and assets. Certain Russian privatization laws are vague, inconsistent or in conflict with other laws. For example, a number of federal and regional privatization laws conflict with one another. Consequently, many Russian privatizations may be arguably deficient and, therefore, vulnerable to challenge. Although the statute of limitations provided by Russian law in respect to these privatization transactions has already expired, should the privatization of any relevant predecessor companies be challenged in court on the grounds that these companies or any of their assets has been improperly privatized and should the court for any reason disapply the limitation periods, EnergoPolyus may lose its rights to the shares in the relevant Power Companies, and the Power Companies may lose their respective rights to other assets, which could materially affect their business, financial condition and results of operations.

The Power Companies, including WGC-3, may be required to prepay amounts owed to their creditors as a result of the restructuring of the Russian power sector and, in particular, the restructuring of RAO UESR

As part of the restructuring of the Russian power sector, and, in particular, the restructuring of RAO UESR, it is currently expected that a number of the Power Companies will undergo corporate reorganization. In particular, on October 26, 2007, the shareholders of RAO UESR approved the RAO UESR reorganization, which will involve the merger or OJSC WGC-3 Holding, OJSC TGK-1 Holding and OJSC TGK-14 Holding, which will be created as a result of the RAO UESR reorganization and will be holding RAO UESR's shares in WGC-3, TGK-1, TGK-14, respectively. In addition, certain Portfolio Companies, including Krasnoyarskenergo, Tyvaenergo-Holding, Kolenergo, Kola Transmission Network Company and Krasnoyarsk Transmission Network Company, will be reorganized by way of a merger into MRSK of Siberia (with respect to Krasnoyarskenergo and Tyvaenergo-Holding), MRSK of North-West (with respect to Kolenergo), and the FSK (with respect to Kola Transmission Network Company and Krasnoyarsk Transmission Network Company). Once such reorganizations are approved by the respective Power Company's shareholders, the respective Power Company must notify its creditors about such reorganization within 30 calendar days following the extraordinary general shareholders' meeting approving the reorganization. Within 30 calendar days of such notification, the creditors of the Power Company may demand the early termination or performance of the Power Company's obligations and, in addition, may demand that the Power Company compensate them for any damages caused by such early termination or performance. The exercise by the creditors of any such rights could have a material adverse effect on the financial condition and results of operations of the Power Company undergoing a reorganization (or its successors), which could effect the financial condition and results of operations of EnergoPolyus.

The Power Companies may be liable for the obligations of their legal predecessors

As part of the formation process of certain Power Companies, such Power Companies entered into agreements on joint and several liability between such Power Companies and other companies were relating to the allocation of certain liabilities which arose prior to the date of formation but had not been allocated on the balance sheets produced during the formation. In particular, WGC-3 signed an agreement on joint and several liability with OJSC Chelyabenergo, from which Yuzhnouralskaya GRES had been spun off. Under this agreement, WGC-3 assumed joint and several liability for contingent liabilities of OJSC Chelyabenergo relating to any claims in an amount exceeding RUB 100,000 that emerged prior to the spin-off of Yuzhnouralskaya GRES. A party to the agreement that faces any claim or liability which is neither allocated to such party in the separate balance sheet of OJSC Chelyabenergo nor appears on the introductory balance sheet of such party at the time of its registration as a separate legal entity but which is certified by an effective court judgment, is required to pay the full amount of such claim and is entitled to demand the other parties to the agreement to pay as contribution their respective portions of the amount paid. In the event that such a liability arises, WGC-3's share of such liability would be 24.13%. If any claims are filed by the creditors of the predecessor companies in connection with the operations prior to the formation, including any claims by the creditors of OJSC Chelyabenergo, this could materially adversely affect the business, financial condition, results of operations and prospects of the respective Power Companies.

Any increase or change in governmental regulation of the operations of the Power Companies could restrict their ability to conduct their operations or to do so profitably

The Power Companies carry out their business and operations in the Russian electricity and heat markets, which are heavily regulated by Russian federal authorities and by the authorities of Russian regions where the power plants or distribution grids, as the case may be, of these companies are located. Regulatory authorities in Russia exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses and permits and in monitoring licensees' compliance with license terms. Furthermore, Russian authorities have the right to, and frequently do, conduct periodic inspections of the operations and properties of Russian companies throughout the year. Any such inspections in the future may conclude that the Power Companies or their subsidiaries violated applicable laws, decrees or regulations. Such findings may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of these companies' or their subsidiaries' licenses or permits, an order that the Power Companies cease certain business activities or in criminal and administrative penalties being applied to the officers of the Power Companies. Any such decisions, sanctions, orders, penalties, or any increase in governmental regulation of the operations of the Power Companies could restrict their abilities to conduct their operations or to do so profitably, which could have a materially adverse effect on their business, financial condition and results of operations.

The Power Companies may incur material costs to comply with health, safety and environmental laws and regulations, and future changes to such regulations may materially adversely affect their businesses, financial condition or results of operations

The Power Companies are involved in an industry that uses gas, coal, peat and fuel oil-fired generators and high-voltage equipment, which may involve health and safety risks or pollute or be hazardous to the environment. As a result, the activities of the Power Companies are subject to various federal, state and local health, safety and environmental protection laws and regulations. These regulations generally relate, among other things, to work conditions, effluents into the water, emissions into the air, the use of water, wetlands preservation, waste disposal, the protection of endangered species and noise regulation. The pollution risks and related clean-up costs that these companies are subject to are often impossible to assess unless environmental audits have been performed and the extent of potential liability under the relevant environmental laws can be clearly determined, neither of which is always the case under Russian laws.

In recent years, new and stricter health, safety and environmental regulations have been imposed in Russia, and fines and other payments for violation of these regulations have been significantly increased, although these regulations still remain generally weaker and are generally less stringently enforced than in the European Union or the United States. In the future, federal, regional or local authorities may impose stricter health, safety and environmental standards than those currently in effect or enforce or interpret the existing environmental laws, regulations or licenses in a stricter or different manner from how they are currently enforced or interpreted. This may require Russian companies to undertake further expenditures to modify their operations, ensure better work conditions, install pollution control equipment, perform site clean-ups, curtail or cease certain of their operations, or to pay fees, fines or make other payments for discharges or other breaches of health, safety, environmental standards. Concerns about global climate change may also affect the operations of companies in the power sector. There can be no assurance that the Power Companies will be able to recover all or any of these increased costs from their customers or that their businesses, financial condition or results of operations will not be materially adversely affected by future changes in health, safety and environmental laws and regulations.

Due to the possible increase of gas prices, and in order to reduce their reliance on gas, some Power Companies are currently planning to diversify their fuel supply by gradually switching to coal. Coal-based power generation generates significantly more environmental pollution than gas-based power generation, and, as a result, these power generation companies may face an increase in expenditures because of the need to install pollution control equipment, to perform site clean-ups and to meet the environmental regulations applicable to them, which could have a material adverse effect on their businesses, financial condition and results of operation.

Obsolescent power plants and equipment often have a greater environmental impact than newer power plants and equipment and it may be more difficult to increase their environmental efficiency. See "— Risks relating to the Nature and Characteristics of the Russian Power Industry — The plant and equipment of the Power Companies, and the infrastructure of the Russian power industry more generally, is in many cases ageing and susceptible to natural disasters, technical accidents or emergencies, increased maintenance costs, reduced reliability and reduced efficiency". To the extent that the technology of the Power Companies is currently obsolescent or becomes obsolescent, such Power Companies may face an increase in expenditures to install pollution control equipment, to perform site clean-ups and to replace the obsolescent technology in order to conform to environmental regulations. Any such increase in expenditures or any failure to conform to environmental regulations could have a material adverse effect on the businesses, financial condition and results of operation of the Power Companies.

The Power Companies' assets may be subject to the risk of expropriation and nationalization

The Russian government has enacted legislation to protect property against expropriation and nationalization. In the event that the property of the Power Companies is nationalized, legislation provides for fair compensation. The Federal Law "On Investment Activity in the Russian Federation in the Form of Capital Investments" No. 39-FZ dated February 25, 1999, as amended, and the Federal Law "On Foreign Investments in the Russian Federation" No. 160-FZ, dated July 9, 1999, as amended, provide that in the event of nationalization of property (including, by implication, real estate) by the state, the owner is entitled to reimbursement for all incurred losses, including loss of profit, and, in the case of the requisition of assets, to compensation for the cost of such assets. It is not clear from the legislation how such losses will be calculated nor whether there is any way to seek to challenge (and so to prevent) confiscation of real estate. Furthermore, there can be no certainty that these protections would be enforced. This uncertainty is due to several factors, including weaknesses in the judiciary and insufficient mechanisms to enforce judgments, as well as reports of corruption among state officials. In addition, it is possible that due to a lack of experience in enforcing these provisions or due to political change, legislative protections may not be enforced in the event of an attempted nationalization. Nationalization of the Power Companies or any of the assets of the Power Companies or their subsidiaries, potentially with little or no compensation, could have a material adverse effect on the business, financial condition and results of operations of the Power Companies. Furthermore, the concept of property rights is not well developed in Russia and there is little experience in enforcing legislation enacted to protect private property against nationalization. As a result, the Power Companies may not be able to obtain proper redress in the courts and may not receive adequate compensation if in the future the state decides to nationalize some or all of their assets. If this occurs, the business, financial condition and results of operations of the Power Companies could be materially adversely affected.

Unlawful, selective or arbitrary governmental action may have an adverse effect on EnergoPolyus' business and financial condition

Government officials have a high degree of discretion in Russia and at times act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, Russian government officials have the power in certain circumstances, by regulation or government legislation, to interfere with the performance of, nullify or terminate contracts and effectively expropriate or nationalize private enterprises. Unlawful, selective or arbitrary actions of Russian government officials have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government officials in Russia have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for what appears to be political purposes. There have been recent cases where the Russian tax authorities brought claims against specific companies and individuals based on allegedly invalid non-arm's length transactions or tax evasion. In this environment, the competitors of the Power Companies (or EnergoPolyus) may receive preferential treatment from Russian government officials, potentially giving them a competitive advantage over these companies. Unlawful, selective or arbitrary action of Russian government officials, if directed at the Power Companies or at EnergoPolyus, could have a material adverse effect on their business, financial condition and results of operations.

Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law

In certain cases, Russian law may allow a court to order the liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during its formation, reorganization or operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance by a Russian legal entity with provisions of Russian law have been used by Russian courts as a basis for liquidation of that legal entity. For example, under Russian corporate law, net assets lower than the minimal charter capital or negative net assets calculated on the basis of RAS as at the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. Many Russian companies have net assets lower than the minimal charter capital or negative net assets due to the very low historical asset values reflected on their balance sheets under RAS. The existence of such negative assets may not, however, accurately reflect their actual ability to pay debts as they come due. Nonetheless, creditors have the right to accelerate claims, including damages claims, and governmental authorities may seek the liquidation of a company with negative assets if the company does not take a decision on its liquidation (or on a reduction of its share capital, if the net assets of the company are below its share capital) within a reasonable time period. Weaknesses in the Russian legal system create an uncertain legal environment, which, on occasion, makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation of one or more of the Power Companies were to occur, investors could lose their entire investment in those companies.

The Power Companies may not have acquired all the licenses and permits required to conduct their business and the licenses that the Power Companies require for their businesses may be invalidated or may not be issued or renewed, or may contain onerous terms and conditions that restrict their ability to conduct their operations or to do so profitably

Currently, under Russian law, power generation does not directly require licenses, but there are licenses required to perform necessary related activities, particularly in connection with the use of hazardous industrial facilities or processing of dangerous wastes. There can be no guarantee that licenses will not be required in the future for power generation or other necessary related activities. In particular, some of WGC-3's licenses and permits will expire in November – December 2007, and there is no assurance that these licenses and permits will be renewed. To the extent the number of licenses required increases, the level of the risk described in this section would likely increase.

The business of the Power Companies will depend on the continuing validity of some of their licenses and permits and the issuance of new licenses and the compliance by the Power Companies with the terms of such licenses and permits. For instance, some of the Power Companies, including WGC-3, may not currently hold all the licenses and permits required to conduct their business, including, for example, licenses on collection, use and processing of wastes, and there is no assurance that the relevant Power Companies will obtain such licenses in the future. There can be further no assurance that the existing licenses of the Power Companies will be renewed, that any new licenses that they apply for will be granted or that they will be able to comply with the terms of their licenses. This is particularly because Russian regulatory authorities exercise considerable discretion in the decision-making process relating to, and the terms and timing of, license issuance and renewal and the monitoring of licensees' compliance with license terms. In the event that the licensing authorities determine that a material violation of a license term by any of the Power Companies has occurred, such Power Company may be required to suspend operations or incur substantial costs to eliminate or remedy the violation, which could have a material adverse effect on the businesses, financial condition or results of operations of that Power Company. Requirements imposed by these authorities, which require the Power Companies to comply with numerous industrial standards, recruit qualified personnel, maintain necessary equipment, monitor their operations, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, are costly and time-consuming and may impede the efficient running of these companies' operations.

In addition, licenses may be invalidated, may not be issued or renewed, or otherwise may be materially altered based on performance failures beyond the control of the Power Companies including as a result of demand fluctuations from changes in global or regional weather patterns or as a result of third party behavior including transportation or supply providers.

Difficulties exist in ascertaining the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered

After the Soviet Union ceased to exist, land reform commenced in Russia. Over the years that followed, real estate legislation changed continuously; more than one hundred federal laws, presidential decrees and governmental resolutions were issued. In addition, almost all of the Russian regions enacted their own real estate legislation. Until recently, the real estate legislative regime in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body had the power to sell, lease or otherwise dispose of land. In 2001, the Civil Code was amended and a new Russian Land Code and a number of other federal laws regulating land use and ownership were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered. The Power Companies may not have properly obtained or registered the rights to their land plots and buildings, constructions and other real properties located therein or may not currently own or lease land plots on which their operations are located. In particular, WGC-3 either leases the land plots, on which its generation facilities are located, or occupies them under a right of perpetual use. There can be no assurance that WGC-3 will be able to renew the lease agreements. Furthermore, some of the long-term lease agreements entered into by OKG-3 may not have undergone state registration, where such registration was required, which renders such agreements non-concluded. In addition, any substantial increase in the lease payments could have a material adverse effect on WGC-3's business, financial condition and results of operations. In addition, because of Russia's vast territory, difficulties associated with the country's transitional phase, the severe climatic conditions of, and difficult access to, the territory where the land plots and other real properties of the Power Companies are located, the process of surveying and title registration may be complicated and last for many years. These uncertainties may have a material adverse effect on their business, financial condition and results of operations.

RISKS RELATING TO RUSSIAN SECURITIES MARKETS AND THE LAWS AND REGULATIONS GOVERNING THEM

The market for Russian securities may be illiquid, which may adversely affect realizations and valuations of EnergoPolyus' investments

Because of its limited size, and as is typical of securities markets in many emerging markets, the market for Russian securities is fairly illiquid as a result of the relatively limited number of market participants and the limited free float of companies. Accordingly, there may not be a liquid trading market in the securities in which EnergoPolyus invests, as is the case with many of the securities in the Power Companies. If the investment climate in Russia deteriorates, or in periods of market uncertainty or distress, the markets for the securities in the Power Companies may become increasingly illiquid or even cease to function effectively for a period of time. In addition, because of the size of the positions that, if the Spin-off is implemented, EnergoPolyus will hold in certain of these companies, in particular those companies in which it takes significant minority stakes, the effect of a decrease in liquidity may be magnified. Furthermore, settlement of transactions may be subject to delay and uncertainty in an illiquid market. Moreover, the sale of illiquid securities may result in higher brokerage charges and dealer discounts and other selling expenses, which are already generally higher in the Russian securities market than many other more developed securities markets than the sale of more liquid securities. As a result of the above and other factors, EnergoPolyus' ability to liquidate some part of its existing positions and invest in new assets in a timely fashion and to receive or pay a fair price in response to changes in economic and other conditions may be limited. These and other factors could have a material adverse effect on EnergoPolyus and its returns.

Lack of developed corporate and securities laws and regulations in Russia may limit the ability of Russian companies to attract future investment or undertake capital markets transactions and may adversely affect EnergoPolyus' interests as shareholder in the Power Companies

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western European countries. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, while laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary or non-existent. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Federal Service for Financial Markets;
- the Ministry of Finance;
- the Federal Anti-monopoly Service;
- the Central Bank of the Russian Federation; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations and their interpretation or application can change rapidly, which may materially adversely affect the ability of Russian companies to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply. As a result, the Power Companies may face difficulties when undertaking capital markets transactions or in complying with their ongoing securities law obligations or be subject to fines or other enforcement measures despite their best efforts at compliance. These weaknesses could have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

The shares of EnergoPolyus or the Power Companies may be delisted from the RTS or the MICEX

The shares of EnergoPolyus or certain Power Companies are or may in the future be listed and traded on both the Open Joint Stock Company Stock Exchange Russian Trading System ("RTS") and the Closed Joint Stock Company Moscow Interbank Currency Exchange ("MICEX"). In accordance with current Russian listing rules enacted by the Decree of the FSFM No. 06-68/pz-n dated June 22, 2006 (as amended), a company's shares may be delisted from a stock exchange if, among others, the company's shares do not comply with the listing requirements, the company is not in compliance with Russian securities laws or the company has suffered losses in three consecutive years. If the shares of EnergoPolyus or any of the Power Companies are de-listed from the RTS or MICEX, as applicable, the liquidity or trading price of such shares may be materially adversely affected.

Corporate governance standards in Russia are less developed than those in Western Europe or the United States, and there is only limited protection of minority shareholders in Russia

Corporate governance standards in Russia are less developed than the corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and information disclosure both to the public and to shareholders, a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights. Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices.

Despite recent amendments to the Russian Joint Stock Companies Law, minority shareholders have somewhat of a limited ability under Russian law to protect their rights against majority shareholders. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. While these protections are similar, for example, to the types of protections available to minority shareholders in U.S. corporations, in practice, corporate governance standards for many Russian companies, in terms of minority shareholder rights as well as in other respects, have not always proven to be as rigorously applied as in Western companies.

In addition, as a general rule, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning less than 75% of the issued and outstanding shares of a company may have a 75% or more voting power if some minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions (including asset transfers), which could be prejudicial to the interests of minority shareholders. It is possible that the majority shareholders and management of the Power Companies may in the future not act in the best interests of minority shareholders, and this could materially and adversely affect the business, financial condition and results of operations of the Power Companies. For example, as EnergoPolyus may not have control over the Power Companies, it is possible that the management of one or more of the Power Companies in which EnergoPolyus has an investment may dispose of corporate assets at a price which is disadvantageous to the shareholders. Any such asset disposal could have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

Disclosure and reporting requirements, as well as anti-fraud legislation, have only recently been enacted in Russia. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed in Russia. Violations of disclosure and reporting requirements or breaches of fiduciary duties to the Power Companies or to their shareholders could materially adversely affect the business, financial condition and results of operations of the Power Companies.

The lack of effective insider trading regulation in Russia may place EnergoPolyus at a disadvantage to other participants in the markets for the shares of the Power Companies.

While the Joint Stock Companies Law provides that shareholders owning not less than 1% of the company's stock may bring an action for damages to the company caused by that company's managers or directors, Russian courts to date do not have much experience with respect to such lawsuits. In Russia, there is no recognized practice of class action litigation. Accordingly, EnergoPolyus' ability to pursue legal redress against the Power Companies and their managers and directors may be limited, reducing the protections available to EnergoPolyus as a holder of the shares of the Power Companies.

Reporting standards and requirements in Russia are in many respects less stringent and less consistently applied than in most Western countries, and items appearing in financial statements of a Russian company may not reflect the company's financial position or results

Accounting, auditing and financial reporting standards and requirements in Russia are in many respects less stringent and less consistently applied than in most Western countries. Less information is available to investors investing in Russian companies than to investors investing in Western companies, and historic information is not necessarily comparable or relevant. Moreover, even the Power Companies that are moving towards or that have adopted IFRS financial reporting will generally have limited experience with the application of IFRS and limited IFRS reporting history. The internal controls and disclosure controls of Russian companies may be significantly less well developed and tested than those of companies in Western countries.

Shareholder liability principles under Russian legislation could cause EnergoPolyus to become liable for the obligations of any subsidiaries of EnergoPolyus

The Civil Code and Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of "determining" the decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent". The entity whose decisions are capable of being subject to such determination is deemed an "effective subsidiary". Under the Joint Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the effective subsidiary and effective parent; and
- the effective parent gives mandatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case regardless of the basis on which the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Although EnergoPolyus does not currently own, directly or indirectly, any Russian effective subsidiaries, it could have them in future, and, in this case, it may be deemed an "effective parent" and liable in some cases for the debts of its subsidiaries. This liability could have a material adverse effect on EnergoPolyus' business, results of operations and financial condition.

Shareholder rights provisions under Russian law may impose additional costs on the Power Companies

Russian law provides that shareholders of Russian companies that vote against or do not participate in voting on certain significant matters have the right to sell their shares to the company at market value. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction", which for this purpose, in general terms, is a transaction involving property worth more than 50% of the gross book value of the company's unconsolidated assets calculated according to RAS, regardless of whether the transaction is actually consummated; and
- the amendment of the company's charter, or adoption of a new version, in a manner that limits shareholder rights.

The obligation of the Power Companies (or, as the case may be, the subsidiaries of these companies) to purchase shares in these circumstances is limited to 10% of the company's net assets calculated in accordance with RAS at the time the matter at issue is voted upon. Any such repurchases could result in the incurrence of additional material expenses and have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

If any of the minority shareholders in the Power Companies were to challenge successfully past or future interested party transactions, including the merger of the power plants into WGC-3, or fail to approve future interested party transactions or other related matters, the invalidation of such transactions or failure to approve such matters could have a material adverse effect on the business, revenues, results of operations or prospects or the value of the securities of the Power Companies

The Power Generation Companies have carried out, and continue to carry out, transactions with RAO UESR, several of RAO UESR's subsidiaries and other state-controlled entities, such as Gazprom, which, under Russian law, may be considered "interested party transactions." Interested party transactions require the approval of either disinterested directors, disinterested independent directors or disinterested shareholders of the Power Companies depending on the nature of the transaction and parties involved. On some occasions, interested party transactions involving the Power Companies, including WGC-3, which under Russian law require advance shareholder or board approval from the relevant companies, have not been submitted for such approval or have been approved after the conclusion of the transaction. The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. There can be no assurance that minority shareholders will not challenge such transactions in the future. Under Russian law, the statute of limitations for invalidation of interested party transactions made in violation of statutory requirements is one year from the date when the claimant learned or should have learned of such transaction. Although the prescription periods for most of the transactions have already expired, any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on the business, revenues, results of operations, or prospects or the value of the shares of the Power Companies. See also "— Legal and Regulatory Risks and Uncertainties in the Russian Federation — The Power Companies, including WGC-3, their predecessors or shareholders may have undertaken transactions that could be subject to legal challenge for non-compliance with applicable legal requirements".

Due to the lack of a central share registration system in Russia, transactions in respect of a company's shares may be improperly or inaccurately recorded and share registrations may be lost

Ownership of Russian joint-stock company shares is documented by entries in a share register and is evidenced by extracts from that register, or, if the shares are held through a nominee or custodian, ownership is evidenced by entries in deposit accounts with such nominee or custodian which, in turn, is registered in the share register. Currently, there is no central share registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or it so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars and custodians, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars and custodians generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. For example, Russian law does not expressly prohibit affiliation between a registrar and its shareholders, including the entities whose share registers such registrar maintains. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a shareholder's shares may be improperly or inaccurately recorded and share registration may be lost, whether through fraud, negligence, or oversight by registrars and custodians. This creates risks of loss not normally associated with investments in certain other securities markets. The registrars and custodians are likely to be incapable of compensating shareholders for registrar misconduct. Under Russian law, registrars bear liability only in case of their willful violation of procedures for keeping the share register. With respect to other breaches, liability is imposed either on the company or, if it is provided in the agreement between the company and its registrar, on the company and the registrar jointly.

ECONOMIC RISKS RELATING TO THE RUSSIAN FEDERATION

Economic instability in the Russian Federation could adversely affect EnergoPolyus' business, financial condition, results of operations or prospects

Since the dissolution of the Soviet Union, the Russian economy has at various times experienced:

- significant declines in gross domestic product and consumption;
- hyperinflation;
- an unstable currency, including periods of significant decline in its value relative to other currencies;
- high government debt relative to gross domestic product;
- significant declines in gold and foreign currency reserves;
- weak banking systems providing only limited liquidity to domestic enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings and the use of fraudulent bankruptcy actions to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank of the Russian Federation (the CBR) stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 17, 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks.

Recently, the Russian economy has experienced positive trends, such as an increase in the gross domestic product, a relatively stable currency, increasing foreign currency reserves, strong domestic demand, rising real wages and, in historic terms, a reduced rate of inflation. These trends, however, may not continue or may be abruptly reversed, and one or more of the events previously experienced by the Russian economy following the dissolution of the Soviet Union may recur. As the operations and customer base of the Power Companies generally are and will be in Russia, a decline in the Russian economy could have a material adverse effect on the their business, financial condition and results of operations.

Inflation may materially adversely affect EnergoPolyus' results of operations

The production activities of most of the Power Companies are and will be located in Russia, the majority of their direct costs are incurred in Russia and they incur or will incur all, or a significant majority of all, of their direct costs in ruble. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% that year. Notwithstanding recent reductions in the inflation rate, which in 2003 was 12.0%, in 2004 was 11.7%, in 2005 was 10.9% and in 2006 was 9% (Federal Service for State Statistics (Rosstat)), Russian companies have generally experienced inflation-driven increases in their costs that are linked to the general price level in Russia, such as for supplies and materials, as well as for salaries. If these trends continue, and to the extent that the tariffs for their services remain regulated, the Power Companies may not be able to preserve or optimize their operating margins. Accordingly, high rates of inflation in Russia could increase the costs and decrease the operating margins of the Power Companies, which could have a material adverse effect on their business, financial condition and results of operations.

The Russian banking system remains underdeveloped and another banking crisis could place severe liquidity constraints on EnergoPolyus' operations

Russia's banking and other financial systems are not well developed or well regulated, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent applications. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks.

The Russian government's default on its internal debt obligations in August 1998 triggered a substantial decline in the value of the ruble and the bankruptcy of a number of prominent Russian banks and businesses. Since then, the banking system has become operational, but is still in need of structural reform to reduce the possibility of a banking crisis in the future.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by deterioration in the credit quality of their loan portfolios. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly larger amounts of Russian corporate ruble bonds in their portfolios, and this is further deteriorating the risk profile of the assets of Russian banks. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including Russian corporate defaults that may occur during any such market downturn or economic slowdown.

The Power Companies currently owned by EnergoPolyus generally conduct their banking relationships with, and maintain accounts in, a small number of large, reputable Russian banks. Nevertheless, a banking crisis or the bankruptcy or insolvency of the banks in which EnergoPolyus or the Power Companies, respectively, hold their funds could result in the loss of the deposits of EnergoPolyus or the Power Companies, as the case may be, or affect the ability of the Power Companies to complete banking transactions, which could have a material adverse effect on the business, financial condition and results of operations of the Power Companies. Further, a banking crisis in Russia could result in the bank accounts of the consumers and customers of the Power Companies being frozen, thus these consumers and customers would be unable to pay for the power consumed and this may have a material adverse effect on the revenues and profitability of the Power Companies.

Restrictive currency regulations may have a material adverse effect on the business, financial condition and results of operations of Russian companies

Notwithstanding significant recent liberalization of the Russian currency control regime and the abolishment of certain restrictions from January 1, 2007, the current Russian currency control laws and regulations still contain a number of limitations. For example, certain currency controls restrictions were not repealed from January 1, 2007, and these include a general prohibition of foreign currency operations between Russian companies (except for the operations specifically listed in the Currency Law (as defined in "Regulation") and the operations between the authorized banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings into Russia. Restrictions on the ability of the Power Companies to conduct some of these transactions could increase costs or prevent them from continuing necessary businesses, or from successfully implementing their business strategy, which could have a material adverse effect on their business, financial condition and results of operations.

Should EnergoPolyus elect to pay a dividend, payment of any such dividends may be subject to currency control restrictions. In the event that Russian companies were again required, as they were in the past, to pay all dividends on ordinary shares in rubles, current Russian legislation would permit such ruble funds to be converted into U.S. dollars by the Depositary without restriction, although the ability to convert rubles into U.S. dollars would be subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, further development of such markets is uncertain.

As a result of the current state of the banking sector, considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia. In addition, delays may occur in converting rubles into and out of foreign currency in order to meet certain payments. Any delay or other difficulty in transferring or remitting funds, converting rubles into a foreign currency or transferring foreign currency to make a payment could limit the ability of EnergoPolyus or the Power Companies, as the case may be, to meet payment and debt obligations, which could result in the acceleration of debt obligations and cross-defaults, and, in turn, have a material adverse effect on their business, financial condition and results of operations.

Fluctuations in the global economy could materially adversely affect the Russian economy

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting those businesses and the Russian economy. In addition, the Russian economy remains poorly diversified and is largely dependent on the natural resources sector. For example, as Russia produces and exports large amounts of oil and gas, the Russian economy is especially vulnerable to the price of oil and gas on the world market, and a decline in the price of oil or gas could slow or disrupt the Russian economy. Russia is also a major producer and exporter of metal products, and its economy is vulnerable to a decline in world commodity prices and the imposition of tariffs or antidumping measures by the United States, the European Union or by other principal export markets. The occurrence of any of these developments could limit the access of Russian companies, including the Power Companies, to capital or result in general disruptions to the Russian economy, which could have a material adverse effect on the business, financial condition and results of operations of the Power Companies.

Changes in the Russian legal system or trading environment may have a material adverse effect on the business, financial condition and results of operations of the Power Companies

Russia has indicated that it has the objective of joining the World Trade Organization (WTO). Such admission of Russia would require, among other things, further revisions to the Russian legal system to make it more consistent with WTO requirements. The liberalization of trade and other business activities that has taken place in recent years is expected to continue, but a reversal of this process cannot be ruled out. Under both scenarios, companies involved in import and export activities could see drastic changes in their competitiveness and profit margins, and Russian companies selling to the domestic market could also be affected. If the Power Companies are unable to compete effectively or remain profitable following any changes in the Russian legal system or trading environment, their business, financial condition and results of operations could be materially adversely affected.

RISKS RELATING TO THE INVESTMENT STRATEGY OF ENERGOPOLYUS

Concentration of investments could cause significant losses to EnergoPolyus

EnergoPolyus will be subject to general and specific risks arising from the nature and characteristics of its investments. EnergoPolyus is expected to invest solely in the Russian power market and could, therefore, be subject to significant losses if, for example, the industry undergoes a downturn. Further, EnergoPolyus' investments will be highly concentrated in a limited number of companies within the Russian power market. It is possible that there could be a decline in the value of a particular investment, or other adverse affect, in which EnergoPolyus holds a large position, including default of the issuer of such securities. Any such downturn and consequent losses or decline in value of a particular investment could have a material adverse effect on EnergoPolyus, its investment program and returns. Similarly, because EnergoPolyus is geographically non-diversified, a crisis of confidence in Russian securities generally may be expected to adversely affect the value and liquidity of the EnergoPolyus Shares. Investors in EnergoPolyus Shares will be able and willing to bear the risks of non-diversified investment.

RISKS RELATING TO ENERGOPOLYUS

Implementation of the Spin-off depends on the approval of the Norilsk shareholders, as well as the approval of the Russian anti-monopoly authority

Approval of the Spin-off requires the affirmative vote of at least 75% of the aggregate voting power of the Norilsk Shares represented at the EGM. If the Spin-off is not approved by the shareholders at the EGM, the Spin-off will not occur, EnergoPolyus will not be established, holders of Norilsk Shares and holders of Norilsk ADRs will not receive any EnergoPolyus Shares or any EnergoPolyus ADRs, and they will remain holders of Norilsk Shares and Norilsk ADRs. Furthermore, the establishment of EnergoPolyus requires the prior approval of the Russian anti-monopoly authority, the Federal Antimonopoly Service ("FAS"). If such prior approval is not obtained, the Spin-off will not be implemented.

EnergoPolyus does not have an operating history upon which an evaluation of its likely future performance may be based

EnergoPolyus will be a recently established holding company and will not have an operating history upon which investors may base an evaluation of its likely future performance.

Shareholders have no redemption or repurchase rights and must rely on the existence of a liquid market in order to realize their investment

Shareholders will have no rights of redemption or repurchase and must rely on the existence of a liquid secondary market in order to sell their investment. While the Board of Directors retains the right to effect repurchase of the EnergoPolyus Shares, they are under no obligation to use such powers at any time, and the Shareholders should not place any reliance on the willingness of the Board of Directors to do so. Accordingly, Shareholders' ability to realize their investment is in part dependent upon the existence of a liquid market in the Shares and on the extent of its liquidity.

Shareholders should not expect that they will necessarily be able to realize, within a period that they would otherwise regard as reasonable, their investment in EnergoPolyus, nor can they be certain that they will be able to realize their investment on a basis that necessarily reflects the value of the underlying investments held by EnergoPolyus.

EnergoPolyus or its affiliates may be required to make a mandatory offer for WGC-3 when the RAO UESR reorganization is completed

Under Russian corporate law, a person that has acquired more than 30, 50 or 75% of an open joint stock company's ordinary shares and voting preferred shares, including the shares already owned by such person and its affiliates, will, except in certain limited circumstances (including reorganizations), be required to make, within 35 days of acquiring such shares, a public tender offer for the remaining shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the mandatory offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30 or, as the case may be, 50 or 75% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). It is currently expected that as a result of the RAO UESR reorganization, EnergoPolyus will receive a majority shareholding in Intergeneration, a holding company to be set up as a result of the RAO UESR reorganization, which would own, among others, a 14.08% shareholding in WGC-3, which would increase the shareholding of the EnergoPolyus Group in WGC-3 from 65.15% to 79.23% (calculated as of September 30, 2007). Although the Joint Stock Companies Law provides that the mandatory tender offer provisions do not apply to shares received in reorganizations, the relevant provisions of the law remain unclear and may be interpreted to the effect that following the completion of the above-described acquisition of further WGC-3 shares, EnergoPolyus will need to make a mandatory tender offer for all the remaining shares in WGC-3. The purchase price to be offered for the shares in the course of the mandatory offer would be either the average trading price of WGC-3's shares on the stock exchanges on which the shares are traded for the six months preceding the date of submission of the mandatory offer to WGC-3 or the highest price that EnergoPolyus or any of its affiliates paid or undertook to pay for WGC-3's shares within six months before the date of submission of the mandatory offer to WGC-3, whichever is higher. The mandatory tender offer will require additional financing, which may adversely affect the financial condition of EnergoPolyus.

WGC-3 may be required to enter into agreements that restrict its ability to adapt its investment strategy or impose payments on WGC-3 if its current investment program is not implemented

Although the Russian Federation is not a controlling shareholder of WGC-3, RAO UESR is currently contemplating plans which would allow the Russian Federation to control the implementation of the investment program of WGC-3. For example, these plans envisage that WGC-3 will be required to enter into agreements for supply of new electric capacity with the Trade System Administrator and its subsidiary CJSC Financial Settlements Centre. Although the exact terms of these agreements are still being developed by RAO UESR, WGC-3 may be required under these agreements to supply to the wholesale market the additional electric capacity that would be available in the event that the current investment program of WGC-3 is implemented, even if WGC-3 elects to modify that investment program for any reason. If WGC-3 was unable to supply such additional electric capacity in accordance with the timetable of its current investment program, WGC-3 may be subject to penalties and/or required to buy the undersupplied electric capacity on the free market, and, as a result, WGC-3 would incur additional costs. If WGC-3 is required to enter into such agreements, the investment strategy, and the operational flexibility and financial condition of WGC-3 could be materially adversely affected.

EnergoPolyus will hold minority investments in Power Companies

EnergoPolyus will hold a minority equity position in certain of the Power Companies and will not manage, operate or control these companies. Power Companies in which EnergoPolyus holds a minority interest may make business, financial or management decisions with which EnergoPolyus does not agree or the majority stakeholders of such Power Companies may act in a manner that does not serve the interests of EnergoPolyus. The actions taken by the management or the majority shareholders of the Power Companies that EnergoPolyus does not control may adversely affect the price of the EnergoPolyus Shares.

EnergoPolyus may not be able to dispose of the minority stakes it receives in the reorganization of RAO UESR

EnergoPolyus may, in the future, decide to sell the minority stakes it receives in power companies as a result of the reorganization of RAO UESR. It is possible that there may not be demand for such stakes or no available buyer at a price EnergoPolyus deems sufficient. Should this occur, EnergoPolyus would be unable to realize cash proceeds from these minority stakes and, as a minority stakeholder, will have no control over the management of these companies, and this may materially adversely affect the investment objective and strategy of EnergoPolyus.

TAXATION RISKS

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement

The Russian government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of such reforms was a complete redrafting of the tax law into a new Russian Tax Code. As well as providing greater clarity, this has included the reduction of the corporate income tax rate from 35% for most companies (43% for financial institutions, insurance and intermediary companies) to 24% for all companies from January 1, 2002 and also allowed for a broader range of expenses which are deductible from the tax base. Personal income tax has been reduced substantially for individuals who are tax residents in Russia; the current tax rate for such individuals is generally 13%. The standard rate of VAT has been reduced to 18%, and certain minor taxes have been abolished, such as the road users' tax (abolished from January 1, 2003) and sales tax (abolished from January 1, 2004).

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. For example, under certain circumstances, the three-year statute of limitations for the assessment of taxes pursuant to a tax audit can be significantly extended. According to the Constitution of the Russian Federation, laws which introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. However, there were several instances when such laws were introduced and applied retroactively.

Despite the Russian government taking steps to reduce the overall tax burden on taxpayers in recent years in line with its objectives, Russia's largely ineffective tax collection system and continuing budgetary funding requirements increase the likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on EnergoPolyus' business, financial condition and results of operations. Additionally, tax has been utilized as a tool for significant state intervention in certain key industries.

In addition to the usual tax burden imposed on Russian taxpayers, the conditions referred to above complicate tax planning and related business decisions. The uncertainties caused by such conditions could possibly expose EnergoPolyus to significant fines and penalties and to potentially severe enforcement measures despite its best efforts at compliance, could result in a greater than expected tax burden and could have a material adverse effect on EnergoPolyus' business, financial condition and results of operations.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how these measures would operate, the introduction of such measures may affect EnergoPolyus' overall tax efficiency and may result in significant additional taxes becoming payable, which could result in an increase of its tax burden. Such additional tax burden could have a material adverse effect on EnergoPolyus' results of operations and financial condition.

Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor taxpayers. EnergoPolyus, therefore, may be subject to greater than expected tax burdens that could materially adversely affect EnergoPolyus' business and results of operations

Russian tax law and practice is not as clearly established as that of more developed market economies and the practice of the Russian tax authorities may not always be in accordance with the law. It is possible that the current interpretation of the law or understanding of practice may change or that the law may be changed with retroactive effect, even though legislation with retroactive effect that cause a deterioration in taxpayer's positions is generally prohibited.

Generally, taxes payable by Russian companies are substantial and numerous. Such taxes include, among others:

- income tax;
- value-added tax ("VAT");
- transportation tax;
- excise taxes;
- land tax;
- unified social tax;
- water tax; and
- property tax.

Historically, the tax environment in the Russian Federation has been complicated by the fact that various authorities have often issued contradictory or retroactive pieces of tax legislation. For example, tax laws are unclear with respect to the deductibility of certain expenses. Despite efforts at compliance, such uncertainty potentially exposes EnergoPolyus to the risk of significant fines, penalties and enforcement measures, and could result in a greater than expected tax burden.

In practice, the Russian tax authorities often interpret the tax laws in a way that does not favor taxpayers, who often have to resort to court proceedings to defend their positions against the tax authorities. Differing interpretations of tax regulations exist both among and within governmental ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose individual fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years preceding the year in which an audit is carried out. Previous audits do not exclude subsequent claims relating to the audited period and the statute of limitations is not entirely effective. In addition, in some instances, new tax regulations have been given retroactive effect.

On July 14, 2005, the Constitutional Court of the Russian Federation issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year period if a court determines that a taxpayer has obstructed or hindered a tax inspection. Because these terms are not defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed", "hindered" or "created insurmountable obstacles" in respect of an inspection and ultimately to seek penalties beyond the three-year term.

In addition, on October 12, 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, which introduced a new concept of "unjustified tax benefit", which is defined mainly by reference to specific examples of such tax benefits (e.g. absence of business purpose), which may lead to disallowance thereof for tax purposes. There is no guidance on how the tax authorities or courts should interpret this new concept, but it is likely that the tax authorities will actively seek to apply this concept when challenging in courts tax positions taken by taxpayers. Although the intention of Ruling No. 53 was to combat abuse of tax law, in practice there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court. Furthermore, the Resolution of Plenum of Supreme Court No 64 of December 28, 2006 "About practice of the application of the responsibility for the tax crimes" is indicative of the trend to broaden the application of the criminal responsibility for tax violations.

The foregoing conditions create tax risks in the Russian Federation that are more significant than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks could impose additional burdens and costs on EnergoPolyus' operations, including management resources. Further, these risks and uncertainties complicate EnergoPolyus' tax planning and related business decisions, potentially exposing EnergoPolyus to significant fines, penalties and enforcement measures, despite their best efforts at compliance, and could materially adversely affect EnergoPolyus' businesses, financial condition and results of operations and the value of the Power Companies.

The financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of EnergoPolyus' Russian subsidiaries will pay its own Russian taxes and may not offset its profit or loss against the profit or loss of any of that subsidiary's other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9% if distributed to Russian corporate residents, and 15% if distributed to foreign residents. If the company that receives the intercompany dividend is Russian and itself pays an upstream dividend to a Russian resident, the receiving company may offset the amount of withholding tax on the dividend it receives against the tax the receiving company is required to withhold on the dividend it pays to the Russian resident shareholder. However, these rules relating to intercompany dividends are expected to be changed by new legislation, with effect from of January 1, 2008. From January 1, 2008, dividends received by the Company from its subsidiaries, are expected to be exempt from tax provided that at the time the decision is made to distribute the dividends: (a) the Company holds at least 50% of the equity of the distributing entity (or depositary receipts and the participation confers the right to receive at least 50% of the dividends distributed); (b) for an uninterrupted period of at least 365 days; (c) the cost of the acquisition or other receipt of the participation or depositary receipts, in accordance with the legislation of the Russian Federation, exceeds RUB 500 million; and (d) the jurisdiction of the subsidiary's permanent location is not included in the list to be published by the Russian Ministry of Finance of countries and territories with beneficial tax treatment and/or which do not require the disclosure and provision of information when financial operations are carried out (so called "offshore zones").

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact the EnergoPolyus' business, financial condition and results of operations

Transfer pricing legislation became effective in the Russian Federation on January 1, 1999. Such legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court practice is available) as to how these rules will be applied, and, moreover, Russian transfer pricing rules are vaguely drafted, leaving wide scope for their interpretation to the discretion of the Russian tax authorities and arbitration courts, and their use in politically motivated investigations and prosecutions. In addition, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. Due to the uncertainties in the interpretation of transfer pricing legislation, the tax authorities may challenge the prices of certain EnergoPolyus' transactions and propose adjustments. If such price adjustments relate to any EnergoPolyus' subsidiary or its subsidiaries and are upheld by the Russian arbitration courts and implemented, the relevant subsidiary's results of operations could be materially adversely affected. In addition, the EnergoPolyus's subsidiaries could face significant losses associated with the assessed amount of prior underpaid taxes and related interest and penalties, which could have a material adverse effect on the financial condition and results of operations of EnergoPolyus's subsidiaries.

Moreover, the Ministry of Finance of the Russian Federation is in the process of drafting proposed amendments to the transfer pricing legislation. Currently, a draft law is under discussion that will potentially tighten transfer pricing rules further. At this time, it cannot be predicted what the effect on taxpayers of the law, if enacted, may be.

Capital gains from the sale of the EnergoPolyus Shares or, if a Level 1 ADR Program is created, the EnergoPolyus ADRs may be subject to Russian income tax

The tax treatment of the income from the sale of Russian entities' shares or depositary receipts varies depending on whether the shares are sold by a foreign legal entity or organization or a foreign individual.

Under existing Russian tax law, the income of a foreign legal entity or organization generated from the sale of shares or depositary receipts in Russian entities is subject to withholding tax if more than 50 percent of the assets owned by the entity whose shares are being sold are comprised of immovable property located in the Russian Federation. Nevertheless, gains arising from the sale, exchange or other disposition of the foregoing types of securities listed on foreign stock exchanges on such stock exchanges by non-resident holders that are legal entities are not subject to taxation in Russia.

Subject to the foregoing, the proceeds received from the sale of EnergoPolyus Shares or EnergoPolyus ADRs by non-resident holders that are legal entities or organizations should be subject to Russian withholding tax at the rate of 20 percent on gross proceeds from sale of shares or at the rate of 24 percent on the capital gains realized from the sale, being difference between the sales price and the acquisition cost of the shares or ADRs, if more than 50 percent of EnergoPolyus' assets were to consist of immovable property located in the Russian Federation. Russian tax legislation does not provide for a tax payment or collection mechanism where the proceeds from sale of shares are not remitted by an entity, which cannot perform a Russian tax agent's obligation (e.g. a foreign legal entity not performing activity in Russia through a permanent establishment). It means that there is no guidance in the current tax legislation to how this tax should be declared and paid by a foreign legal entity or organization having no presence in Russia.

The relevant legislation does not contain a similar provision relating to personal income tax. Any income from the sale of EnergoPolyus Shares or EnergoPolyus ADRs received by a non-resident holder that is an individual holder may be subject to Russian tax in respect of such proceeds at the rate of 30 percent of the gain (gross proceeds less any available cost deduction, including the original purchase price) if the proceeds from the sale, exchange or disposal of the shares are received from a source within Russia. In the absence of a clear definition of what constitutes income from sources within Russia in the case of the sale of securities, there is a risk that income from the disposal of Russian securities (shares) may be considered as received from a Russian source.

Existing double tax treaties concluded by the Russian Federation may provide for the exemption of the above capital gains from Russian taxation. However, the procedure of advance exemption under applicable treaty provisions is relatively undeveloped for non-resident individuals, and obtaining treaty relief and subsequent tax refunds may be time-consuming and can involve considerable practical difficulties. See "Certain Tax Consequences."

If the Level 1 ADR Program is established, EnergoPolyus ADR holders may not be able to benefit from double tax treaties

In accordance with Russian legislation, dividends paid to a non-resident holder of shares or depositary receipts generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organizations and at a rate of 30% for individuals (or, from 2008, at a rate of 15%). This tax may be reduced under the United States-Russia double tax treaty for U.S. holders entitled to treaty benefits to 5-10% for legal entities and organizations and to 10% for individuals, and to 10% under the United Kingdom-Russia double tax treaty for U.K. holders entitled to treaty benefits. However, the Russian tax rules applicable to holders of depositary receipts are characterised by significant uncertainties and by an absence of official interpretive guidance by the Russian tax authorities. In the years 2005-2007, the Russian Ministry of Finance issued a number of private clarifications stating that holders of depositary receipts should be treated as the beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the holders of depositary receipts are duly confirmed. However, the Russian tax authorities have not provided official guidance of general applicability addressing how a holder of depositary receipts should demonstrate its beneficial ownership in the underlying shares. Moreover, the clarifications of the Ministry of Finance referred only to dividends and did not cover capital gains, which may provide the tax authorities scope for various interpretations. In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat holders of depositary receipts in this regard.

In view of the foregoing, EnergoPolyus may adopt a conservative approach of withholding tax at higher rates when paying dividends to holders of EnergoPolyus ADRs. U.S. and U.K. holders of EnergoPolyus ADRs may be unable to benefit from the relevant income tax treaties. See "Certain Tax Consequences — Russian tax consequences for shareholders of Norilsk" for further details.

RISKS RELATING TO THE ENERGOPOLYUS SHARES AND, IF THE LEVEL 1 ADR PROGRAM IS CREATED, THE ENERGOPOLYUSADRS AND THE TRADING MARKET

Investors in EnergoPolyus will not be able to trade the EnergoPolyus Shares prior to registration with the FSFM

Following the Formation Date and the issuance of the EnergoPolyus Shares, EnergoPolyus will be required to register its issuance of shares and report on the results of the new share issuance with the FSFM. Registration of the issuance of EnergoPolyus shares with the FSFM is not expected to occur until at least 45 days after the Formation Date. The EnergoPolyus Shares will not become transferable until the date of such registration. There are additional registration requirements in respect of the placement of shares outside the Russian Federation.

The FSFM may refuse to register the EnergoPolyus Shares if the Company and/or EnergoPolyus violated Russian law during the Spin-off process or in the issuance of the EnergoPolyus Shares. A Russian court may also hold the Spin-off or the issuance of the EnergoPolyus Shares invalid for such violations.

EnergoPolyus may not obtain approval from the FSFM for the placement of the EnergoPolyus Shares outside the Russian Federation or the Level 1 ADR Program and the registration statement relating to the EnergoPolyus ADRs may not be declared effective by the SEC

Russian law requires prior approval of the FSFM for any placement of securities by a Russian issuer (such as EnergoPolyus) outside the Russian Federation, or circulation of such securities outside the Russian Federation based on an agreement with the issuer. The approval may be granted if the issuer meets certain conditions, including that (1) the underlying securities are registered with the FSFM and are listed on a licensed stock exchange in Russia, (2) the number of shares of the class that are proposed to be placed or circulated abroad does not exceed 35% of all issued and outstanding shares of such class and (3) the agreement pursuant to which foreign securities (such as depositary receipts) are placed provides that the underlying Russian shares can only be voted in accordance with the instructions of foreign security holders. There can be no assurance that EnergoPolyus will obtain and maintain a listing on a Russian stock exchange to obtain the required FSFM approval or that EnergoPolyus will otherwise be able to obtain such approvals.

Furthermore, no assurance can be given that EnergoPolyus will obtain from the SEC an exemption from the reporting requirements of the Exchange Act, pursuant to Rule 12g3-2(b) thereunder, or that the SEC will allow a registration statement on Form F-6 to be declared effective for the EnergoPolyus ADRs.

If the Level 1 ADR Program is not established, Norilsk ADR holders who do not provide details to the Depositary of a Russian securities account will, in lieu of EnergoPolyus Shares, be entitled to receive cash from the net proceeds of sale of those EnergoPolyus Shares. No assurance can be given as to the amount of cash, if any, that such Norilsk ADR holders will receive from the net proceeds of such sales.

The Depositary may not be able to sell the EnergoPolyus Shares that would be distributed to Norilsk ADR holders that fail to provide a Russian securities account in the event that the number of EnergoPolyus ADRs issued is less than the number of Norilsk ADRs outstanding on the Spin-off Record Date, or may only be able to sell such Shares at a discount to the prevailing market price and may not be able to distribute the net proceeds to the Norilsk ADR holders

In the event that, because of Russian law restrictions, the number of EnergoPolyus ADRs issued is less than the number of Norilsk ADRs outstanding on the Spin-off Record Date, the Norilsk ADR holders will be entitled to their pro-rata share of EnergoPolyus ADRs based on the number of EnergoPolyus

ADRs being made available and to such number of EnergoPolyus Shares that would represent the difference between the Norilsk ADRs held on the Spin-off Record Date and the EnergoPolyus ADRs distributed to holders, provided that the holder of Norilsk ADRs provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or if a holder fails to provide a Russian securities account, to cash proceeds from the sale of EnergoPolyus Shares the Norilsk ADR holder would have received had it provided a Russian securities account for the deposit of the EnergoPolyus Shares, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution, including, but not limited to, any costs of conversion, taxes or governmental charges with respect to such distribution.

There is no market currently for the EnergoPolyus Shares and the Depositary may have to sell the EnergoPolyus Shares at a discount to the prevailing market prices. No assurance can be given as to the amount of cash, if any, that the Norilsk ADR holders will receive from the net proceeds of such sales. There can be no assurance that the sale of the EnergoPolyus Shares, if effected, will not also be subject to foreign exchange risks and other costs that will reduce the net proceeds available for delivery to the Norilsk ADR holders. There can be no assurance that the sale of the EnergoPolyus Shares by the Depositary will be successful, that any net proceeds will be delivered to the Norilsk ADR holders or that, if net proceeds are delivered, the amount thereof will reflect the market value of the EnergoPolyus Shares.

Norilsk ADR holders who receive cash from the net proceeds of the sale of the EnergoPolyus Shares by the Depositary may be exposed to exchange rate risks and other costs and risks of converting and repatriating such net proceeds

The Depositary may receive the proceeds of any sale of EnergoPolyus Shares in a currency other than USD. If at any time the Depositary shall determine that in its reasonable judgment the conversion of any foreign currency and the transfer and distribution of proceeds of such conversion received is not practicable or lawful, or if any approval or license of any governmental authority or agency that is required for such conversion, transfer or distribution is denied or, in the reasonable opinion of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may, in its discretion, (i) make such conversion and distribution in foreign currency to the Norilsk ADR holders for whom such conversion, transfer and distribution is lawful and practicable, (ii) distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) to Norilsk ADR holders for whom this is lawful and practicable, and (iii) hold (or cause its custodian to hold) such foreign currency (without liability for interest thereon) for the respective accounts of the Norilsk ADR holders entitled to receive the same.

The Depositary shall not be responsible for (i) any failure to determine that it may be lawful or practicable to make the net proceeds of the sale of the EnergoPolyus Shares available to the Norilsk ADR holders in general or any Norilsk ADR holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with the sale of the EnergoPolyus Shares or (iii) their inability to distribute the net proceeds, or the amount that will be distributed as such net proceeds.

There may only be a limited trading market for the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs

Following registration of EnergoPolyus' issuance of shares and report on the results of the new share issuance with the FSFM, EnergoPolyus may apply for listing and trading of the EnergoPolyus Shares on one or more Russian stock exchanges. There can be no assurance that EnergoPolyus will qualify for a listing on a Russian stock exchange. In addition, if the Level 1 ADR Program is established, it is currently intended that the EnergoPolyus ADRs issued under the Level 1 ADR Program would be tradable over-the-counter in Western Europe and in the United States and may in the future trade on one or more Western European stock exchanges. An active public market may not develop or be sustained after the issuance of the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the EnergoPolyus Shares and the EnergoPolyus ADRs does not develop, the price of the EnergoPolyus Shares and the EnergoPolyus ADRs may become more volatile and it may be more difficult to complete a buy or sell order for the EnergoPolyus Shares and the EnergoPolyus ADRs.

The trading prices, if any, of the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs may be subject to wide fluctuations in response to a number of factors, including:

- variations in EnergoPolyus' operating results and those of other electricity sector companies and these of other Russian companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations by EnergoPolyus or its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within EnergoPolyus' business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

Russian law stipulates that no more than 35% of a company's outstanding share capital may be held in the form of depositary receipts and, as a result of this limitation, a price differential may develop between the EnergoPolyus ADRs and the EnergoPolyus Shares.

In addition, the Russian stock market has experienced extreme price and volume fluctuations. These market fluctuations could adversely affect the value of the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs.

Future sales of the EnergoPolyus Shares or the EnergoPolyus ADRs may affect the market price of the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs

Sales, or the possibility of sales, of substantial numbers of the EnergoPolyus Shares or the EnergoPolyus ADRs in the public markets, including the Russian stock market, following the Trading Date could have an adverse effect on the trading prices of the EnergoPolyus Shares or could affect EnergoPolyus' ability to obtain further capital through an offering of equity securities. Subsequent equity offerings by EnergoPolyus, if any, may reduce the percentage ownership of holders of EnergoPolyus Shares. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the EnergoPolyus Shares.

Becoming an investment company would preclude EnergoPolyus from making subsequent offerings in the United States

While it is not likely that EnergoPolyus would be considered as an investment company, as defined in the U.S. Investment Company Act of 1940, as amended, and does not have any intent to become an investment company, to the extent that it acquires additional investment securities as the result of which the value of its total investment securities exceeds 40% of the value of EnergoPolyus' total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, it could become an investment company. In the future, EnergoPolyus may be required to take actions to avoid the requirement to register as an investment company, such as disposing of one or more of its minority holdings. If EnergoPolyus were to be deemed an investment company in the future, it would, among other things, effectively be precluded from making public offerings in the United States. EnergoPolyus could also be subject to administrative or legal proceedings.

Because the depositary under the Level 1 ADR Program of EnergoPolyus (the "EnergoPolyus Depositary"), if the Level 1 ADR Program is established, may be considered the beneficial holder of the EnergoPolyus Shares underlying the EnergoPolyus ADRs, these EnergoPolyus Shares may be arrested or seized in legal proceedings in Russia against the EnergoPolyus Depositary

If the Level 1 ADR Program is established, it is possible that, since Russian law may not recognize holders of EnergoPolyus ADRs as beneficial owners of the underlying EnergoPolyus Shares, holders of EnergoPolyus ADRs could lose all their rights to those EnergoPolyus Shares if the EnergoPolyus Depositary's assets in Russia are seized or arrested. If that were to occur, holders of EnergoPolyus ADRs would lose all of the value of their investment.

Russian law may treat the EnergoPolyus Depositary as the beneficial owner of the EnergoPolyus Shares underlying the EnergoPolyus ADRs. This is different from the way other jurisdictions treat Level 1 ADRs. In the United Kingdom, for example, although shares may be held in a depositary's name or to its order, making it a "legal" owner of the shares, the holders of Level 1 ADRs are the "beneficial," or real owners. In U.K. courts, an action against the EnergoPolyus Depositary, the legal owner of the EnergoPolyus Shares, would not result in the beneficial owners losing their EnergoPolyus Shares. However, Russian law may not make the same distinction between legal and beneficial ownership, and it may only recognize the rights of the EnergoPolyus Depositary in whose name the EnergoPolyus Shares are held, not the rights of holders of EnergoPolyus ADRs to the underlying EnergoPolyus Shares. Thus, in proceedings brought against the EnergoPolyus Depositary, whether or not related to the EnergoPolyus Shares underlying the EnergoPolyus ADRs, Russian courts may treat those underlying EnergoPolyus Shares as the assets of the EnergoPolyus Depositary, open to seizure or arrest. In the event that this type of suit were to be successful in the future against the EnergoPolyus Depositary, and the EnergoPolyus Shares underlying the EnergoPolyus ADRs were to be seized or arrested, the holders of EnergoPolyus ADRs involved would lose their rights to such underlying EnergoPolyus Shares.

In addition, due to the fact that Russian law may regard the Depositary as the beneficial owner of the Shares represented by the EnergoPolyus ADRs, there is a risk that the deposit of Shares with the Depositary or its nominee, may result in a breach of the notification and/or approval requirements of Russian competition law. In practice, depositary banks have not generally given such notifications or sought such approvals in connection with an issue of depositary receipts, and the authorities have not raised objections to this approach. However, there can be no assurance that the authorities might not adopt a different view in the future, and, in such circumstances, the Depositary would be subject to various sanctions, including fines, which may have a material adverse impact on the value of the EnergoPolyus ADRs. Russian antimonopoly authorities are also authorised to seek in court to invalidate the relevant transaction in violation of Russian competition law, provided, however, that it is proved that such transaction has adversely affected the Russian market.

If the Level 1 ADR Program is established, the voting rights of EnergoPolyus ADR holders with respect to the EnergoPolyus Shares represented by the EnergoPolyus ADRs will be limited by the terms of EnergoPolyus' deposit agreement for the EnergoPolyus ADRs and relevant requirements of Russian law

If the Level 1 ADR Program is established, EnergoPolyus ADR holders will have no direct voting rights with respect to the EnergoPolyus Shares represented by the EnergoPolyus ADRs. EnergoPolyus ADR holders will be able to exercise voting rights with respect to the EnergoPolyus Shares represented by the EnergoPolyus ADRs only in accordance with the provisions of EnergoPolyus' deposit agreement relating to the EnergoPolyus ADRs (which is expected to be similar to the Norilsk Deposit Agreement) and relevant requirements of Russian law. Further, there exist practical limitations on the ability of EnergoPolyus ADR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, EnergoPolyus will be required under the Joint Stock Companies Law to notify holders of EnergoPolyus Shares at least 20 days in advance of any meeting, at least 30 days in advance of any meeting involving reorganization and at least 70 days in advance of a meeting relating to any election of directors. The common shareholders of EnergoPolyus will receive notice directly from EnergoPolyus and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

EnergoPolyus ADR holders, by comparison, will not receive notice directly from EnergoPolyus. Rather, in accordance with EnergoPolyus' deposit agreement, EnergoPolyus will provide the notice to the EnergoPolyus Depositary. The EnergoPolyus Depositary will undertake, in turn, as soon as practicable thereafter, if requested by EnergoPolyus in writing in a timely manner and at EnergoPolyus' expense, to mail to EnergoPolyus ADR holders notice of such meeting, copies of voting materials (if and as received by the EnergoPolyus Depositary from EnergoPolyus) and a statement as to the manner in which instructions may be given to the EnergoPolyus Depositary by the EnergoPolyus ADR holders. To exercise their voting rights, EnergoPolyus ADR holders must then instruct the EnergoPolyus Depositary how to vote the EnergoPolyus Shares represented by the EnergoPolyus ADRs which they hold. Because of this additional procedural step involving the EnergoPolyus Depositary, the process for exercising voting rights may take longer for EnergoPolyus ADR holders than for holders of the EnergoPolyus Shares, and EnergoPolyus will not be able to assure EnergoPolyus ADR holders that they will receive voting materials in time to enable them to return voting instructions to the EnergoPolyus Depositary in a timely manner. EnergoPolyus ADRs for which the EnergoPolyus Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations currently expressly permit depositaries under Level 1 ADR Programs to split the votes with respect to the shares underlying American Depositary Shares in accordance with instructions from those holders of American Depositary Shares, such regulations remain untested, and the depositary may choose to refrain from voting at all unless it receives instructions from all holders of American Depositary Shares to vote the shares in the same manner. EnergoPolyus ADR holders may thus have significant difficulty in exercising voting rights with respect to the EnergoPolyus Shares underlying the EnergoPolyus ADRs. There can be no assurance that holders and beneficial owners of EnergoPolyus ADRs will (1) receive notice of shareholders' meetings to enable the timely return of voting instructions to the EnergoPolyus Depositary, (2) receive notice to enable the timely cancellation of EnergoPolyus ADRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

The rights of EnergoPolyus' shareholders, the reporting and disclosure requirements and the Russian Accounting Regulations to which EnergoPolyus will be subject differ significantly from those applicable to comparable companies which are listed in other jurisdictions

EnergoPolyus' corporate affairs will be governed by its charter, by its internal regulations and by laws governing companies incorporated in Russia. The rights of shareholders and the responsibilities of members of EnergoPolyus' Board of Directors under Russian law will be different from, and may be subject to certain requirements not generally applicable to, companies organized in other jurisdictions.

In accordance with Russian legislation applicable to securities issuers, EnergoPolyus will be required to file quarterly reports with the FSFM within 45 days after the end of the relevant quarter. Such reports will include certain information about EnergoPolyus, its management, subsidiaries and affiliates; and selected financial and business information (such as litigation and quarterly financial statements prepared in accordance with RAS) but will not contain all of the information contained in and will not be comparable to the information required by financial statements prepared in accordance with IFRS. There will be less publicly available information about EnergoPolyus than there is normally available for comparable companies in, for example, the United States.

The preparation of the financial statements of the Norilsk Group and the EnergoPolyus in accordance with IFRS involves complex judgments and subjective decisions, which could lead to varying interpretation of accounting principles

The preparation of the financial statements of the Norilsk Group and the EnergoPolyus in accordance with IFRS involve the interpretation of complex laws, regulations and accounting standards and principles and are invariably dependent on subjective determinations. The conversion of the financial statements of the Norilsk Group and the EnergoPolyus that are prepared under RAS into statements prepared under IFRS is a complex manual process that involves significant subjective decision-making. In addition, there is often lack of qualified personnel able to conduct such conversions and calculations. As a result, significant uncertainties can occur from the application of accounting policies used by the Norilsk Group and EnergoPolyus, and materially different results could occur in the application of those accounting policies. Additionally, materially different results may occur upon the adoption of new accounting standards promulgated by the various bodies which formulate accounting standards.

INDICATIVE TIMETABLE

The following timetable identifies the key dates and time periods for the implementation of the Spin-off, assuming that the Spin-off is approved. This timetable has been prepared based on the best estimates of Norilsk's management of when the following events will occur. The dates in the timetable are indicative only. There can be no assurance that these events will occur or that the timing of these events will be as described below. Significant delays may be caused by the granting of regulatory consents, actions by third persons, changes to Russian law or due to other circumstances.

September 24, 2007	Meeting of the Board of Directors of Norilsk at which it was resolved to call the EGM for shareholder approval of the Spin-off and recommend to the shareholders to vote in favor of the Spin-off. At the meeting, the Board of Directors also set the price at which the Norilsk Shares may be redeemed by dissenting and non-voting shareholders if the Spin-off is approved.
October 26, 2007	EGM Record Date.
October 30, 2007	Last day on which shareholders holding 2% or more of the shares of Norilsk as at the EGM Record Date were entitled to nominate members of the Board of Directors and audit commission and candidates for General Director of EnergoPolyus.
November 2, 2007	Meeting of the Board of Directors of Norilsk approving the candidates to the Board of Directors, approving members of the internal audit commission and the General Director of EnergoPolyus, the Information Statement and materials to the EGM, including the voting ballot.
November 14, 2007	EGM materials, including redemption materials, are made available to Norilsk shareholders of record and to holders of record of Norilsk ADRs.
December 7, 2007	Deadline for holders of record of Norilsk ADRs to deliver EGM voting instructions to the Depositary.
December 14, 2007	EGM is held.
December 21, 2007	Distribution by the Depositary of redemption materials to holders of record of Norilsk ADRs who voted against or did not vote on the Spin-off proposal.
January 30, 2008	Last day for holders of record of Norilsk ADRs to deliver redemption requests to the Depositary.
February 6, 2008	End of Redemption Election Period.
March 7, 2008	Last day (as of 6 p.m. Moscow time) for Norilsk to redeem and pay for shares tendered by dissenting and non-voting shareholders and holders of Norilsk ADRs.
March 19, 2008	The Spin-Off Record Date.
March 2008	State registration of EnergoPolyus in the USRLE (this is also referred to in this Information Statement as the Formation Date) with subsequent transfer by Norilsk of the Power Companies and assumption of debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and possibly TGK-14, to EnergoPolyus. The EnergoPolyus Shares are distributed to the shareholders but not to holders of Norilsk ADRs unless the holder of Norilsk ADRs notifies the Depositary on or after the Formation Date, but in any event prior to the date advised by the Depositary, that it wishes to receive EnergoPolyus Shares and provides a Russian securities account into which the EnergoPolyus Shares may be deposited.

	The EnergoPolyus Shares that would be distributed to Norilsk ADR holders will be held by the Custodian on the account of the Depositary and, upon the receipt of instructions from the Depositary at the time when the Level 1 ADR Program is established, will be converted into EnergoPolyus ADRs and distributed to the holders, or in the event that, because of Russian law restrictions, the number of EnergoPolyus ADRs issued is less than the number of Norilsk ADRs outstanding, be entitled to its pro rata share of EnergoPolyus ADRs based on the number of EnergoPolyus ADRs being made available and to such number of EnergoPolyus Shares that would represent the difference in number between the Norilsk ADRs it holds on the Spin-off Record Date and the EnergoPolyus ADRs distributed to it, provided that it provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or if it fails to provide a Russian securities account, to cash proceeds from the sale of EnergoPolyus Shares it would have received, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution.
April-May 2008	The FSFM registers EnergoPolyus' issuance of shares, share prospectus and report on the results of the new share issuance, and the EnergoPolyus Shares become transferable; this is also referred to in this Information Statement as the Trading Date; EnergoPolyus applies for a listing on one or more Russian stock exchanges.
May 2008	Approval of the admission to trading and listing on one or more Russian stock exchanges by the relevant stock exchange and listing of the EnergoPolyus Shares.
June 2008	Obtain FSFM approval for the Level 1 ADR Program.
June-July 2008	Registration statement on Form F-6 relating to the EnergoPolyus ADRs is declared effective by the SEC, subject to obtaining a Rule 12g3-2(b) exemption from the reporting requirements of the Exchange Act; issuance by the Depositary of the EnergoPolyus ADRs.

THE SPIN-OFF

Background to and the reasons for the Spin-off

At its meeting on May 15, 2007, Norilsk's Board of Directors resolved to initiate steps which, subject to shareholder approval, would lead to the spin-off of Norilsk's stakes in five Russian thermal power generation companies, comprising as at September 30, 2007 (i) a 65.15% shareholding in WGC-3; (ii) a 1.72% shareholding in OGK-5; (iii) a 7.37% shareholding in TGK-1; (iv) a 1.63% shareholding in TGK-5; and (v) a 27.69% shareholding in TGK-14 and the Portfolio Companies (comprising Norilsk's shares in various other power sector companies) and debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and, possibly, in TGK-14. The stakes indicated in this Information Statement as the stakes to be received by EnergoPolyus in the Power Companies are calculated as of September 30, 2007.

If the Spin-off is implemented, a new independent Russian power company, EnergoPolyus will be created, which is expected to hold power generating assets comprising approximately 6% of total installed electric generation capacity in Russia. According to forecasts of RAO UESR, some regions of Russia will experience energy supply deficits by 2008 as a result of anticipated increases in demand, and, based on current government plans for the reform of the power sector, it is also expected that prices for sales of electricity on the Russian wholesale market will be fully liberalized by 2011. See "Electricity Industry Overview — Overview of the Market — Wholesale Market — New Wholesale Power Market (since September 1, 2006)".

In the opinion of Norilsk's Board of Directors, if the Spin-off is approved by the shareholders and implemented as proposed, it would allow each of Norilsk and EnergoPolyus to focus on its core area of activity, resulting in enhanced opportunities for EnergoPolyus to participate in the continuing restructuring and consolidation of the Russian power sector and the unlocking of substantial value for all of Norilsk's shareholders.

It is currently contemplated that EnergoPolyus will seek a listing on one or more Russian exchanges, will set up a Level 1 ADR Program and may eventually consider an international listing of its ADRs.

On September 24, 2007, the Board of Directors of Norilsk unanimously proposed the Spin-off described in this Information Statement for approval to Norilsk's shareholders and recommended to shareholders to vote in favor of the Spin-off. Norilsk's shareholders will have an opportunity to vote on the Spin-off at the EGM to be held on December 14, 2007 and Norilsk ADR holders will be entitled to deliver voting instructions to the Depositary under the terms of the Norilsk Deposit Agreement. See "Indicative Timetable". If the Spin-off is not approved at the EGM, the Spin-off will not occur.

Overview of the Spin-off

The proposed Spin-off will result in the creation of EnergoPolyus established by Norilsk and the issuance of shares in EnergoPolyus to shareholders of record of Norilsk as of the Spin-off Record Date. As a result of the Spin-off, EnergoPolyus, when established, is expected to be one of the largest independent investors in the Russian power industry. In the Spin-off, EnergoPolyus will receive shares in the Power Generation Companies comprising (i) a 65.15% shareholding in the Russian wholesale power generation company WGC-3, (ii) a 1.72% shareholding in the Russian wholesale power generation company OGK-5, (iii) a 7.37% shareholding in the Russian territorial power generation company TGK-1 (calculated as of September 30, 2007), (iv) a 1.63% shareholding in the Russian territorial power generation company TGK-5, and (v) a 27.69% shareholding in the Russian territorial power generation company TGK-14 and shares in the Portfolio Companies comprising (i) a 3.52% shareholding in the Russian state-controlled power utility company RAO UESR; (ii) a 24.83% shareholding in the Russian energy sales company Kola Power Supply Company; (iii) a 24.87% shareholding in the Russian energy distribution company Kolenergo; (iv) a 25.70% shareholding in the Russian energy distribution company Krasnoyarskenergo; (v) a 25.47% shareholding in the Russian holding company Tyvaenergo-Holding; (vi) a 24.83% shareholding in the Russian electricity trunk-grid transmission company Kola Transmission Network Company; (vii) a 25.47% shareholding in the Russian electricity trunk-grid transmission company Krasnoyarsk Transmission Network Company; and (viii) a 74.00% shareholding in NIC NEP, and assume debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and, possibly, in TGK-14. See "— Description of the Spin-off". EnergoPolyus will not be able to dispose of its holding in RAO UESR until the completion of the reorganization of RAO UESR by way of a spin-off (or a spin-off combined with a merger), following which RAO UESR will merge into the FSK and, as a result of the merger of RAO UESR into the FSK, which is expected to occur in July 2008, the shareholding of EnergoPolyus in RAO UESR will be converted into shares of the FSK. The proposed business and operations of EnergoPolyus are described in this Information Statement. See "EnergoPolyus".

Norilsk will continue to exist and to engage in the mining and production of base and precious metals, including nickel, copper, platinum and palladium. In addition, the Norilsk Group will retain certain strategic power assets that provide energy to its mining operations on the Taimyr peninsula in Northern Russia. See "Norilsk Group".

Shareholder approval

The Board of Directors of Norilsk voted unanimously on September 24, 2007 to propose the Spin-off to Norilsk's shareholders for their approval at the EGM to be held on December 14, 2007 and recommended to shareholders to approve the proposed Spin-off. Approval of the Spin-off requires the affirmative vote of at least 75% of the aggregate voting power of the Norilsk Shares represented at the EGM. As of November 2, 2007, there were 190,627,747 outstanding shares (including 7,498,950 shares held directly by Norilsk as treasury shares; the voting rights otherwise represented by them will not be exercised at the EGM. It is currently contemplated that Norilsk will sell the 7,498,950 treasury shares held by it during the fourth quarter of 2007. The timing of any such sale will depend on market conditions and other factors. If such sale were not to occur, such shares will be cancelled and Norilsk's charter capital will be decreased accordingly, as required by Russian law.). All persons who held Norilsk Shares on October 26, 2007 (the EGM Record Date), are entitled to vote at the EGM either in person or by submitting a voting ballot, which must be received by the Company at least 2 days prior to the EGM in order for the vote to be counted, and all persons who held Norilsk ADRs on the EGM Record Date will be entitled to deliver voting instructions to the Depositary under the terms of the Norilsk Deposit Agreement.

If the Spin-off is not approved at the EGM, the Spin-off will not occur, EnergoPolyus will not be established, holders of Norilsk Shares and holders of Norilsk ADRs will not receive any EnergoPolyus Shares or any EnergoPolyus ADRs, and they will remain holders of Norilsk Shares and Norilsk ADRs.

Description of the Spin-off

If the Spin-off is approved by the shareholders of Norilsk and all regulatory requirements under Russian law are satisfied, the Spin-off will be implemented by Norilsk creating a newly-formed Russian open joint stock company, EnergoPolyus. The proposed Spin-off involves Norilsk distributing EnergoPolyus Shares to holders of Norilsk Shares and EnergoPolyus ADRs, provided that the Level 1 ADR Program is established, to holders of Norilsk ADRs, unless they elect to receive EnergoPolyus Shares and provide a Russian securities account where such shares may be credited. The key steps in the Spin-off are as follows:

- On the Formation Date, EnergoPolyus will be established as a new and separate Russian open joint stock company with a fully independent legal existence and full capacity to own and dispose of its assets. Its initial assets will comprise (i) a 65.15% shareholding in WGC-3; (ii) a 1.72% shareholding in OGK-5; (iii) a 7.37% shareholding in TGK-1 (calculated as of September 30, 2007); (iv) a 1.63% shareholding in TGK-5; (v) a 27.69% shareholding in TGK-14; (vi) shareholdings in the Portfolio Companies; and (vii) debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and, possibly, in TGK-14, that will be transferred by Norilsk to EnergoPolyus, as shown in the RAS separation balance sheet attached as Exhibit VI. It is possible that Norilsk will dispose of its shareholdings or a portion thereof in certain of the Power Companies, other than WGC-3, before the Spin-off is implemented and in the event of such disposals, EnergoPolyus would receive smaller stakes than indicated above or no stakes at all in the relevant Power Companies. If a disposition of holdings in a Power Company take place before the Spin-off is implemented, Norilsk will transfer to EnergoPolyus the cash received by Norilsk in the sale. It is currently contemplated that certain Portfolio Companies, including Krasnoyarskenergo, Tyvaenergo-Holding, Kolenergo, Kola Transmission Network Company and Krasnoyarsk Transmission Network Company, will be reorganized by way of a merger into MRSK of Siberia (with respect to Krasnoyarskenergo and Tyvaenergo-Holding), MRSK of North-West (with respect to Kolenergo), and the FSK (with respect to Kola Transmission Network Company and Krasnoyarsk Transmission Network Company), respectively. If such mergers are completed prior to the Formation Date, EnergoPolyus will receive shares in the respective surviving companies, MRSK of Siberia, MRSK of North-West and the FSK. If the reorganization of RAO UESR is completed before the Spin-off is implemented, EnergoPolyus will not receive shares in RAO UESR, but in the entities created in, or surviving, the reorganization of RAO UESR pursuant to the terms and conditions of the RAO UESR reorganization approved by RAO UESR shareholders on October 26, 2007. On the Formation Date, each holder of Norilsk Shares and the Depositary, on behalf of holders of record of Norilsk ADRs, as at the Spin-off Record Date will (a) receive a number of EnergoPolyus Shares equal to the number of Norilsk Shares or Norilsk ADRs, as the case may be, held by such holder as at the Spin-off Record Date and (b) continue to own the same number of Norilsk Shares or Norilsk ADRs as such holder held immediately preceding the Formation Date. The EnergoPolyus Shares that would be distributed to Norilsk ADR holders will be held by the Custodian on the account of the Depositary unless the holder of Norilsk ADRs notifies the Depositary on or after the Formation Date, but in any event prior to the date advised by the Depositary, that it wishes to receive EnergoPolyus Shares and provides a Russian securities account into which the EnergoPolyus Shares may be deposited and, upon the receipt of instructions from the Depositary at the time when the Level 1 ADR Program, if any, is established, will be converted into EnergoPolyus ADRs, subject to restrictions under Russian law, and distributed to the holders. In the event that, because of Russian law restrictions, the number of EnergoPolyus ADRs issued is less than the number of Norilsk ADRs outstanding on the Spin-off Record Date, the Norilsk ADR holders will be entitled to their pro-rata share of EnergoPolyus ADRs based on the number of EnergoPolyus ADRs being made available and to such number of EnergoPolyus Shares that would represent the difference between the Norilsk ADRs held and the EnergoPolyus ADRs distributed to holders, provided that the Norilsk ADR holder provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or if a holder fails to provide a Russian securities account, to cash proceeds from the sale of EnergoPolyus Shares the Norilsk ADR holder would have received had it provided a Russian securities account for the deposit of the EnergoPolyus Shares, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution, including, but not limited to, any costs of conversion, taxes or governmental charges with respect to such distribution. **Holders of Norilsk ADRs as at the Spin-off Record Date will not receive EnergoPolyus ADRs or be able to sell or otherwise transfer any such EnergoPolyus ADRs unless and until a Level 1 ADR Program is established after the Trading Date**. Following the Trading Date, and if the Level 1 ADR Program is established, Norilsk expects that the EnergoPolyus ADRs will trade over-the-counter in Western Europe and the United States and may in the future trade on one or more Western European stock exchanges. The summary of the separation balance sheet, prepared in accordance with RAS, in Exhibit VI sets forth further information concerning the assets to be held by EnergoPolyus and Norilsk following the Spin-off, as required by applicable Russian legislation.

- **Until the Trading Date (which is not expected to occur until approximately 45 days after the Formation Date), holders of EnergoPolyus Shares will not be able to sell or otherwise transfer their EnergoPolyus Shares.** On the Trading Date, the EnergoPolyus Shares will become tradable over-the-counter in Russia and may become tradable on one or more Russian stock exchanges, subject to listing and the approval of the relevant Russian exchange.

- Following the listing of EnergoPolyus Shares on a Russian stock exchange, subject to EnergoPolyus obtaining a Rule 12g3-2(b) exemption from the reporting requirements of the Exchange Act, and subject to FSFM approval and a registration statement on Form F-6 relating to the EnergoPolyus ADRs being declared effective by the SEC, the Level 1 ADR Program will be established as soon as practicable after the Trading Date, pursuant to which EnergoPolyus Shares to which holders of Norilsk ADRs are entitled as a result of the Spin-off will be converted into EnergoPolyus ADRs, subject to restrictions under Russian law. If the Level 1 ADR Program is established, one EnergoPolyus ADR will represent the right to receive one EnergoPolyus Share on deposit with the Custodian. In the event that, because of Russian law restrictions, the number of EnergoPolyus ADRs issued is less than the number of Norilsk ADRs outstanding, the Norilsk ADR holders will be entitled to their pro-rata share of EnergoPolyus ADRs based on the number of EnergoPolyus ADRs being made available and to such number of EnergoPolyus Shares that would represent the difference between the Norilsk ADRs held and the EnergoPolyus ADRs distributed to holders, provided that the Norilsk ADR holder provides a Russian securities account into which the EnergoPolyus Shares may be deposited, or to cash proceeds from the sale of EnergoPolyus Shares the Norilsk ADR holder would have received had it provided a Russian securities account for the deposit of the EnergoPolyus Shares, net of fees and charges of, and expenses incurred by, the Depositary in effecting such distribution, including, but not limited to, any costs of conversion, taxes or governmental charges with respect to such distribution. See "The Level 1 ADR Program". If the Level 1 ADR Program is established, the EnergoPolyus ADRs are currently anticipated to be tradable over-the-counter in Western Europe and the United States and may in the future be traded on one or more Western European stock exchanges. There is no assurance that the Level 1 ADR Program will be established or that the EnergoPolyus ADRs will be tradable over-the-counter in Western Europe or the U.S. or that the EnergoPolyus ADRs in the future be tradable on one or more Western European stock exchanges. Even if the EnergoPolyus ADRs become tradable over-the-counter, no assurance can be given that a public trading market will develop.

- If the Level 1 ADR Program is not established within 90 days of the Trading Date or if FSFM approval and SEC registration of the Level 1 ADR Program is not obtained, each holder of Norilsk ADRs who held Norilsk ADRs as at the Spin-off Record Date will be asked to provide a Russian securities account to the Depositary within 14 calendar days following such 90-day period and, if such an account is so provided, will be entitled to receive EnergoPolyus Shares equal to the number of EnergoPolyus ADRs it would have received had a Level 1 ADR Program been set up. Holders who do not provide to the Depositary a Russian securities account within 14 calendar days following such 90-day period will (a) be entitled to receive the cash proceeds from the sale of the EnergoPolyus Shares it would have received, net of fees and charges of, and expenses incurred by the Depositary in effecting such a distribution and (b) continue to own the same number of Norilsk ADRs after the Spin-off as before. The cash distribution to those Norilsk ADR holders who did not provide a Russian securities account to the Depositary is expected to be by way of sale of the EnergoPolyus Shares, either directly or acting through a broker or placing agent. Approximately ten days following the date on which the Depositary has received proceeds from the sale of such EnergoPolyus Shares, the Depositary will distribute the net cash proceeds to holders of Norilsk ADRs pro rata to the number of EnergoPolyus Shares to which they would be entitled. These are solely indicative measures that the Company and the Depositary would take if the Level 1 ADR Program is not established, and detailed procedures to be followed will be made available to Norilsk ADR holders if the Level 1 ADR Program is not established within 90 days following the Trading Date and in connection with the sale in certain circumstances of EnergoPolyus shares. No assurance can be given as to the amount of the proceeds, if any, received by the Depositary from the sale of the EnergoPolyus Shares. If the Depositary is unable to sell the EnergoPolyus Shares, no proceeds will be distributed to Norilsk ADR holders participating in the cash-out.
- The Norilsk Shares will continue to trade on the RTS and/or MICEX and the Norilsk ADRs will continue to trade over-the-counter on the IOB of the London Stock Exchange, on the OTC market in the U.S. (NASDAQ) and on the Berlin Stock Exchange.
- The Company is likely to consider options available under applicable law to enhance liquidity for the EnergoPolyus Shares between the Formation Date and the Trading Date, and, in respect of the EnergoPolyus Shares that would be converted into EnergoPolyus ADRs if the Level 1 ADR Program, if any, is set up, between the Formation Date and the establishment of the Level 1 ADR Program, if any. There can be no assurance that any such option will be implemented or that all Norilsk shareholders and EnergoPolyus ADR holders will be able to participate.

Opinion of the Company's financial advisor regarding the Spin-off

Citigroup Global Markets Limited ("Citigroup" or the "Advisor") have acted as financial advisor to Norilsk in connection with the proposed Spin-off.

The Board of Directors of Norilsk asked the Advisor to opine as to the fairness, from a financial point of view, of the proposed Spin-off to Norilsk's shareholders relative to the financial interests that such shareholders possessed as at the date of the opinion.

The Advisor provided the Board of Directors of Norilsk on November 2, 2007 with an opinion that the proposed Spin-off was fair, from a financial point of view, as at the date of the opinion and based upon and subject to the matters, the work and certain assumptions described therein, Advisor's experience as an investment bank and other factors Advisor deemed relevant, to Norilsk's shareholders relative to the financial interests that such shareholders possessed as at the date of the opinion (the "Opinion").

The Opinion is addressed to, and solely for the information of, the Board of Directors of Norilsk in its evaluation of the proposed Spin-off, and is not a recommendation to any person, including, without limitation, Norilsk or its Board of Directors or shareholders, as to any actions it or they should take in connection with the Spin-off and may not be relied upon by any third party or used for any other purpose.

The Advisor has not expressed any opinion as to what the value of the Norilsk Shares, the EnergoPolyus Shares or the EnergoPolyus ADSs (to the extent the Level 1 ADR program is established) will actually be when the EnergoPolyus Shares or the EnergoPolyus ADSs are issued or the price at which any such shares or ADSs will trade at any time. The Advisor has expressed no opinion as to the merits of the underlying decision of Norilsk to engage in the Spin-off. The Advisor made clear in the Opinion that it should not be used for any other purposes. The Opinion is subject to the assumptions, limitations and other matters referred to therein.

For the avoidance of doubt, the services provided by the Advisor do not constitute "Appraisal Activity" for the purposes of the Russian Federal Law on Licensing of Certain Types of Activity, the Federal Law on Evaluation Activity in the Russian Federation and the Government Resolution on Licensing of Evaluation Activity.

The Advisor will receive a fee for its services as financial advisor to Norilsk in connection with the proposed Spin-off, which is contingent upon the consummation of the Spin-off.

Transitional arrangements following the Spin-off

Norilsk acquired a controlling interest in WGC-3 in July 2007, and it does not hold a controlling interest in the other Power Companies. It is not expected that the change of ownership of WGC-3 that will result from the Spin-off will lead to the termination, or variation in a materially adverse manner, of any of the contracts that are currently material to the business and operations of WGC-3.

Creditors' rights

Under Russian law, if the Spin-off is approved, Norilsk must notify its creditors about the Spin-off within 30 days of the EGM. Within 30 days of such notification, Norilsk's creditors may demand the early termination or performance of Norilsk's obligations to them and, in addition, may demand that Norilsk compensate them for any damages caused by such early termination or performance. Norilsk does not anticipate that any exercise by creditors of these rights would have a material adverse effect on Norilsk's continuing business and operations or on the implementation of the Spin-off.

Procedure for the election of the Board of Directors of EnergoPolyus

In accordance with Russian corporate law, the Board of Directors of EnergoPolyus will be elected at the EGM. Shareholders who on the EGM Record Date own (and holders of Norilsk ADRs whose Norilsk ADRs represent) in the aggregate two percent or more of the shares of Norilsk were entitled to nominate persons to be members of the Board of Directors. Members of the Board of Directors of EnergoPolyus will be elected by cumulative voting.

Regulatory filings, approvals and consents

Prior to the EGM, and in any event prior to the Formation Date, Norilsk will apply, as required by applicable law, for an approval of FAS for the establishment of EnergoPolyus in the course of the Spin-off. In addition, as discussed above, EnergoPolyus will be required to record its state registration in the USRLE and register its shares with the FSFM. There can be no assurance that any such registration will be granted or received on a timely basis.

Promptly following the EGM Date, the shareholders' resolutions from the EGM will be published on Norilsk's website at http://www.nornik.ru/en and the newspaper *Izvestia* and, in accordance with the requirements of Russian law, will be published in the FSFM journal *Vestnik*. The text of the resolutions will also appear in two newswires, AKM and Interfax.

Redemption rights of dissenting and non-voting shareholders and Norilsk ADR holders

Under Russian law, Norilsk shareholders entitled to vote at the EGM who either vote against the Spin-off or do not participate in voting on the Spin-off proposal may elect during the Redemption Election Period to have Norilsk redeem their Shares if the Spin-off is approved. Shareholders marking the "abstain" box on voting ballots are not considered to be "non-voting" within the meaning of Russian law, and, accordingly, shareholders marking the "abstain" box will not be able to exercise redemption rights if the Spin-off is approved. Holders of Norilsk Shares who wish to exercise their redemption rights must tender their shares to Norilsk during the Redemption Election Period.

Within the 30-day period following the end of the Redemption Election Period, Norilsk will redeem any Norilsk Shares tendered by holders of Norilsk Shares, including any shares tendered by the Depositary on behalf of holders of Norilsk ADRs in accordance with the procedure described below, at a price of RUB 5,300 per share. In accordance with the requirements of Russian law, this price has been set by the Board of Directors of Norilsk, based on the market price (without taking into account the effects, if any, on the market price resulting from the redemption rights) as determined by LLC Rosexpertisa (MRI), an independent appraiser. Under Russian law, Norilsk may use no more than 10 per cent of its net assets (as of the EGM Date, as calculated in accordance with RAS) to redeem Norilsk Shares. For purposes of illustration, based on the net assets of Norilsk as at June 30, 2007, which constituted RUB 327.2 billion, the redemption limit equaled RUB 32.72 billion, meaning that, if the EGM had been held on June 30, 2007, Norilsk would have been entitled to redeem approximately 3.37% of the Norilsk Shares outstanding based on the purchase price of RUB 5,300 per one share.

Russian shareholders will receive detailed information regarding the procedures and time limits of the redemption process together with other materials that will be distributed in connection with the EGM.

In the event that holders tender more Norilsk Shares than Norilsk is permitted to redeem, tendered Norilsk Shares will be redeemed on a pro rata basis. Pursuant to Russian corporate law, all Norilsk Shares that are redeemed will be held by Norilsk as treasury shares and will need to be either sold at a price equal to or exceeding their market value or cancelled within one year of their acquisition by Norilsk. In case of cancellation, Norilsk will need to reduce its charter capital to account for the cancelled Norilsk Shares. Norilsk expects to finance the costs of any redemption of Norilsk Shares with its own resources and, to the extent necessary, with borrowings.

Redemption rights will also be available to holders of Norilsk ADRs. Promptly following the EGM Date, holders of Norilsk ADRs who either vote against the Spin-off or do not participate in voting on the Spin-off proposal will be provided with materials from the Tender and Exchange Agent detailing the procedures to be followed if such holders wish to exercise their redemption rights and appointing the Tender and Exchange Agent to act on their behalf. Holders of Norilsk ADRs marking the "abstain" box on voting ballots are not considered to be "non-voting" within the meaning of Russian law, and accordingly holders of Norilsk ADRs marking the "abstain" box will not be able to exercise redemption rights if the Spin-off is approved. Holders who elect to exercise their redemption rights will be required to tender their Norilsk ADRs during the Redemption Election Period. Holders of Norilsk ADRs who elect to exercise their redemption rights should follow the instructions regarding the exercise of such rights included in the redemption materials. Holders of Norilsk ADRs should ensure that all required certifications for eligibility are duly executed and returned to the Tender and Exchange Agent. The Tender and Exchange Agent will calculate the number of Norilsk ADRs presented for redemption, surrender that number of Norilsk ADRs to the Depositary and instruct the Depositary to instruct its custodian in Russia to deliver the equivalent number of Norilsk Shares to Norilsk for redemption. Upon receipt of the cash proceeds from Norilsk, the Tender and Exchange Agent will distribute the net proceeds to Norilsk ADR holders who tendered Norilsk ADRs for redemption.

REGARDING THE TAX CONSEQUENCES OF THE HOLDERS OF NORILSK SHARES AND NORILSK ADRs ARISING FROM A REDEMPTION OF SHARES, PLEASE SEE "CERTAIN TAX CONSEQUENCES". HOLDERS OF NORILSK SHARES AND NORILSK ADRs SHOULD CONSULT WITH THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THE REDEMPTION ARISING UNDER FOREIGN, STATE AND LOCAL LAWS.

EXCHANGE RATES

Exchange rate policy is formulated by the Russian Government in consultation with the CBR and is implemented by the CBR. The CBR sets the official exchange rate on the basis of the market exchange rate and its efforts continue to be aimed at smoothing excessive short-term fluctuations in the U.S. dollar-ruble exchange rate and supporting Russia's international reserves.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the CBR (rounded to two decimal places). These rates may differ from the actual rates used in the preparation of the financial statements appearing in this Information Statement.

	Rubles per U.S. dollar			
Years ended December 31,	**High**	**Low**	**Average**(1)	**Period end**
2002	31.86	30.14	31.35	31.78
2003	31.88	29.25	30.69	29.45
2004	29.45	27.75	28.81	27.75
2005	29.00	27.46	28.31	28.78
2006	28.78	26.18	27.14	26.33

Source: CBR web-site

(1) The weighted average of the exchange rates on each day of each full month during the relevant period.

	Rubles per U.S. dollar	
Period	**High**	**Low**
Six months ended June 30, 2007	26.58	25.69
July 2007	25.82	25.39
August 2007	25.84	25.34
September 2007	25.70	24.95
October 2007	25.06	24.70

Source: CBR web-site

The exchange rate between the ruble and the U.S. dollar on October 31, 2007 was RUB 24.72 per USD 1.00.

No representation is made that the ruble or the U.S. dollar amounts in this Information Statement could have been converted into U.S. dollars or rubles, as the case may be, at any particular rate or at all. The ruble is generally not convertible outside Russia. A market exists within Russian for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to discount their values relative to the ruble.

ENERGOPOLYUS

The Spin-off will result in the establishment of EnergoPolyus, a new Russian open joint stock company. EnergoPolyus, when established, is expected to be one of the largest independent investors in the Russian power industry. EnergoPolyus will focus on the strategic management of the shareholdings it receives in the Spin-off and the expansion of its portfolio of Russian power assets. EnergoPolyus will receive the entire shareholdings of the Norilsk Group in each of the Power Companies, including WGC-3, and assume debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and, possibly, in TGK-14. The electricity generating facilities of WGC-3 currently comprise approximately 4% of total installed electricity generation capacity in Russia, and, as a result of EnergoPolyus' controlling stake in WGC-3, it is expected that EnergoPolyus will become one of the leading participants in the Russian electricity generating sector. The business of WGC-3 and the other Power Generation Companies is described below, together with a brief summary of the Portfolio Companies. See "— Business".

Company	Percentage (calculated as at September 30, 2007) of shares held in entities to be spun-off to EnergoPolyus	Market Value as at September 30, 2007[1] (in USD millions)
Power Generation Companies		
OJSC "WGC-3"	65.15%	4,594.5
OJSC "OGK-5"	1.72%	94.5
OJSC "TGK-1"	7.37%	273.9
OJSC "TGK-5"	1.63%	22.7
OJSC "TGK-14"	27.69%	84.0
Portfolio Companies		
OJSC RAO UESR	3.52%	1,762.4
OJSC "Kola Power Supply Company"	24.83%	6.5
OJSC "Kolenergo"	24.87%	33.5
OJSC "Krasnoyarskenergo"	25.70%	153.7
OJSC "Tyvaenergo-Holding"[2]	25.47%	4.7
OJSC "Kola Transmission Network Company"	24.83%	18.0
OJSC "Krasnoyarsk Transmission Network Company"[2]	25.47%	17.4
LLC "National Innovation Company New Energy Projects"[2]	74.00%	33.5
Total		**7,099.3**

Source: Norilsk, RTS

1 Calculations based on the closing price as of September 30, 2007 or as of the last trading date up to September 30, 2007.

2 These companies are not publicly traded, the value assigned is their net asset value.

The map below shows the geographical location of EnergoPolyus' assets.

EnergoPolyus will not be able to dispose of its holding in RAO UESR until the completion of reorganization of RAO UESR by way of a spin-off (or a spin-off combined with a merger), following which RAO UESR will merge into the FSK, which is currently expected to take place in July 2008, and shares of RAO UESR will be converted into shares of the FSK as a result of the merger of RAO UESR into the FSK. Furthermore, in the reorganization of RAO UESR, which is currently expected to take place in July 2008, EnergoPolyus will receive, among others, an additional 14.08% shareholding in WGC-3 through its holding of the majority of shares of Intergeneration, increasing the shareholding of EnergoPolyus Group in WGC-3 to 79.23%. It is possible that Norilsk will dispose of its stakes or a portion thereof in certain of the Power Companies, other than WGC-3, before the Spin-off is implemented, and, in the event of such disposals, EnergoPolyus would receive smaller stakes than indicated above or no stakes at all in the relevant Power Companies. If a disposition of holdings in a Power Company takes place before the Spin-off is implemented, Norilsk will transfer to EnergoPolyus the cash received by Norilsk in the sale. According to the current plans of the electricity industry restructuring, certain Portfolio Companies, including Krasnoyarskenergo, Tyvaenergo-Holding, Kolenergo, Kola Transmission Network Company and Krasnoyarsk Transmission Network Company, will be reorganized by way of a merger into MRSK of Siberia (with respect to Krasnoyarskenergo and Tyvaenergo-Holding), MRSK of North-West (with respect to Kolenergo), and the FSK (with respect to Kola Transmission Network Company and Krasnoyarsk Transmission Network Company). If such mergers are completed prior to the Formation Date, EnergoPolyus will receive shares in the respective surviving companies, MRSK of Siberia, MRSK of North-West and the FSK. If the reorganization of RAO UESR is completed before the Spin-off is implemented, EnergoPolyus will not receive shares in RAO UESR but will receive shares in the entities created in, or surviving, the reorganization of RAO UESR pursuant to the terms and conditions of the RAO UESR reorganization approved by RAO UESR shareholders on October 26, 2007. EnergoPolyus will become the legal successor of Norilsk with respect to an agreement between Norilsk and RAO UESR, under which Norilsk undertakes not to dispose of its stake in RAO UESR until state registration of Intergeneration, as well as with respect to any agreements ancillary thereto.

The Strategy of EnergoPolyus

EnergoPolyus' strategy is to be one of the leading investors in the Russian power sector, with a portfolio of generation assets balanced in terms of both geographic exposure and fuel type and with the ability to participate fully in the liberalization of the Russian power sector. Following the Spin-off, EnergoPolyus will operate in the Russian power sector, which is one of the largest and fastest growing energy markets in the world, with demand expected to grow at 4.9-6% per annum as forecast by the Russian Government. The recent restructuring and on-going privatization and liberalization of the Russian power sector are creating significant growth opportunities, primarily in the power generation sector and wholesale and retail market. EnergoPolyus is expected to be one of the leading players in the Russian power market, ranking, upon its establishment, among the three largest private Russian generation companies. EnergoPolyus will own a generation asset base of approximately 9.0 GW of installed electric capacity, located in the largest and fastest growing markets of Siberia, the Urals, Central Russia, and the North-West. EnergoPolyus is expected to be well-positioned to capture existing market opportunities. It is currently expected that EnergoPolyus will seek to strengthen its position further as one of the leading independent investors in power generation and in the wholesale electricity market in the regions where it has presence and will likely consider opportunities to expand its power business in regions adjacent to its current operating assets both in Russia and abroad.

In furtherance of this strategy, EnergoPolyus currently intends to focus on:

- **Enhancing EnergoPolyus' Leading Position in the Russian Power Sector** — EnergoPolyus will seek to grow and enhance its market position. EnergoPolyus will support WGC-3's substantial planned development program to upgrade WGC-3's existing generation fleet and build new generation plants. EnergoPolyus will also seek acquisions of additional generation plants, which may be effected by either WGC-3 or EnergoPolyus. EnergoPolyus intends to focus its growth plans principally on the regions where it is already present, which account for around 80 percent of power generation capacity in Russia.
- **Maximizing the Value of Assets** — EnergoPolyus will seek to develop its business and support the implementation of best practice operations to maximize the value of its existing assets. EnergoPolyus will support the securing of long-term supplies of both coal and gas, and, if appropriate, it may consider the acquisition of coal mines by either WGC-3 or itself for its business in order to ensure fuel supply and minimize the risk of a disruption in fuel supply. EnergoPolyus will also support the development of wholesale trading capabilities and will explore opportunities in end-user energy supply in order to mitigate existing commercial risks and to capture additional margin.
- **Optimizing the Value of Portfolio Assets** — EnergoPolyus will seek to dispose of non-core holdings, which will not include WGC-3, so as to be able to focus on its main operations, which are electricity generation. In developing its disposal strategy, EnergoPolyus will seek to enhance shareholder value and further EnergoPolyus' strategic objectives.
- **Robust Financial Targets** — EnergoPolyus will implement rigorous criteria for its financial performance and for that of its business with respect to ongoing operations and new investment decisions. Management of EnergoPolyus and its businesses will be incentivized to meet and exceed benchmarks.
- **Strong Corporate Governance and Financial Reporting Standards** — EnergoPolyus and its businesses will implement international best practice standards of corporate governance and financial reporting.

By realizing these growth opportunities, EnergoPolyus is currently expected to be among the leading and most competitive independent power companies in Russia by 2015.

If the Spin-off is implemented as currently planned, it is expected that EnergoPolyus will acquire in the future from the Norilsk Group at market price a 49.995% shareholding in Smart Hydrogen which as at September 30, 2007 held a 34.88% shareholding in the U.S. fuel cell technology company Plug Power, Inc., although there can be no assuarance if this will take place or when this may take place.

In addition, EnergoPolyus may also seek an international listing of EnergoPolyus ADRs, subject, among other things, to obtaining all applicable approvals.

Capital structure of EnergoPolyus

EnergoPolyus will initially have only ordinary shares. The number of ordinary shares of EnergoPolyus will initially be the same as the number of Norilsk ordinary shares outstanding on the EGM Date. The rights of the ordinary shares of EnergoPolyus, including in relation to dividends and voting rights, are determined in accordance with the Joint Stock Companies Law.

Management

In accordance with Russian legislation governing joint stock companies and EnergoPolyus' charter, EnergoPolyus' principal governance bodies following the Spin-off will be the shareholders' meeting, the board of directors and the General Director (Chief Executive Officer).

As approved by the Board of Directors of Norilsk on November 2, 2007, the General Director of EnergoPolyus indicated in the draft resolution of the EGM will be Tazin, Sergei Afanasievich, Executive Director of WGC-3.

The table below shows the candidates to the Board of Directors of EnergoPolyus to be elected on the EGM.

Name	Position
Basova, Yulia Vasilievna	No information available
Bougrov, Andrei Evgenievich	Managing Director of CJSC HC Interros
Bulavskaya, Elena Evgenievna	Head of Administration of ONEXIM Group LLC
Dumnov, Aleksandr Nikolaievich	Retired
Klekovkin, Anton Igorevich	Executive Director of CJSC HC Interros
Kostoev, Dmitri Ruslanovich	Managing Director for Investments of CJSC HC Interros
Kuskov, Dmitri Aleksandrovich	Director for Investments of CJSC HC Interros
Matveev, Pavel Borisovich	Senior Manager of the Investments Department of CJSC HC Interros
Matvienko, Aleksei Vasilievich	Investments Manager of CJSC HC Interros
Parinov, Kirill Yurievich	Deputy General Director of CJSC HC Interros
Razumov, Dmitry Valerievich	General Director of ONEXIM Group LLC
Raskatov, Aleksandr Viktorovich	Director of the Investments Department of CJSC HC Interros
Sablukov, Yuri Stepanovich	General Director of WGC-3
Salnikova, Ekaterina Mikhailovna	No information available
Sosnovski, Michael Aleksandrovich	Deputy General Director of ONEXIM Group LLC
Stefanovich, Sergei Anatolievich	Director of ONEXIM Group LLC
Tazin, Sergei Afanasievich	Executive Director of WGC-3
Herne, David Alexander	Chairman of the Strategy and Reformation Committee of the RAO UES of Russia Board of Directors

It is expected that EnergoPolyus will establish and comply with corporate governance standards no less rigorous than those of Norilsk, including the appointment of independent directors and an audit committee.

It is currently expected that WGC-3, OGK-5, TGK-1, TGK-5 and TGK-14 will retain their current management structure following the Spin-off.

Board of Directors

The Board of Directors will be responsible for general management matters with the exception of those matters that are designated by law and EnergoPolyus' charter as being the exclusive responsibility of the shareholders' meeting.

It is currently expected that at least three directors of EnergoPolyus will be independent in accordance with the criteria established by the corporate governance code recommended by the FSFM. The first Board of Directors will be elected at the EGM. It is expected that the first Board of Directors will be composed of nine members and will be elected by cumulative voting.

Holders as at the EGM Record Date of an aggregate 2% or more of the shares of Norilsk were entitled to nominate, by no later than October 30, 2007, members of the Board of Directors and internal audit commission of EnergoPolyus and candidates for the position of General Director of EnergoPolyus. Instructions on the method of submitting nominations were made available to shareholders of Norilsk who are entitled to participate in the EGM on October 4, 2007.

General Director

Following the Spin-off, the General Director will be responsible for EnergoPolyus' day-to-day management and administration except in relation to matters reserved as the exclusive responsibility of the General Shareholders' Meeting and the Board of Directors in accordance with the Joint Stock Companies Law and the charter of EnergoPolyus. EnergoPolyus will not have a management board.

Business

This section contains certain publicly available Russian statistical information, including, in particular, information published by RAO UESR and other Power Companies (other than WGC-3), which the Company has not independently verified. In addition, there can be no assurance that where categories of data or other information relating to different companies are set forth in this section, such data or information has been prepared on a uniform or comparable basis.

Power Generation Companies

WGC-3

Overview

WGC-3 is one of the six thermal OGKs created during the restructuring of the Russian state-controlled electricity holding company RAO UESR. WGC-3's core business comprises the generation of electricity and the sale of electricity and electric capacity on the Russian wholesale electricity market, as well as the generation and sale of heat.

WGC-3 is headquartered in Moscow and has six branches in various regions of Russia. Each branch operates one of WGC-3's six thermal power plants. As at June 30, 2007, WGC-3's total installed electric generation capacity amounted to 8,497 MW, representing approximately 4% of the total installed electric generation capacity in Russia, according to Minpromenergo. WGC-3 also had a total installed heat generation capacity of 1,615 Gcal/h as at June 30, 2007. The length of WGC-3's heat network spans 594,255 kms and is owned by WGC-3 (except for the heat network located on Gusinoozerskaya GRES's land, which is leased by WGC-3).

For the year ended December 31, 2006, WGC-3 increased its output of electricity by 6.1%, as compared to 2005, to 30,614 million kW/h, representing approximately 3.1% of the total electricity output produced by thermal generation in Russia in 2006, according to information published by Rosstat. In the six-month period ended June 30, 2007, WGC-3 produced 14,400 million kW/h of electricity, 5.3% less than in the same period of 2006. In 2006, WGC-3 produced 1,653.1 thousand Gcal of heat, as compared to 1,688.7 thousand Gcal in 2005, representing a decrease of approximately 2.1%. In the six months period ended June 30, 2007, WGC-3 produced 902 thousand Gcal of heat, which is 9.5% less than in the same period of 2006. This was due to the fact that Russia experienced a considerably milder winter in 2007 than in 2006.

Due to the geographical locations of WGC-3's generating facilities, which are located in the Central IES, North-West IES, Urals IES and Siberia IES of the Russian Federation, WGC-3 operates in the European part of Russia and the Urals region, which form the first pricing zone of the wholesale electricity market of the Russian Federation, and in the Siberian region, which forms the second pricing zone, as well as in the Komi region, which, due to its limited grid connections, is not part of either of these pricing zones. The first pricing zone of the wholesale electricity market of the Russian Federation, as a result of its reliance on generation by thermal power plants, typically has electricity prices that are, on average, based on six months 2007 results, twice as high as electricity prices in the second pricing zone, in which a significant part of output derives from lower cost hydrogeneration. WGC-3's generating facilities are located in regions where expected increases in electricity demand are currently forecast to exceed available capacity, particularly in the Urals region and the European part of Russia, while WGC-3's two Siberian facilities may in the future be able to sell electricity in the Chinese market and to domestic customers.

WGC-3 has a diversified fuel mix and in 2006, the cost of its gas and coal comprised 52.8% and 35.9%, respectively, of its total fuel expenses. Among the OGKs, WGC-3 currently has the highest proportion of coal consumption out of its total fuel mix requirements. Yuzhnouralskaya GRES, which is the only power plant of WGC-3 that operates on a mixture of gas and coal in an approximate ratio of 1.5:1, is able to optimize costs by varying its fuel mix in accordance with gas and coal pricing trends. Cherepetskaya GRES is the largest coal-fired power plant in the Central IES, and, consequently, fulfills a strategic role in maintaining electricity supply in that region in the event of any disruption to supplies of gas. In addition, Gusinoozerskaya GRES and Kharanovskaya GRES are also coal-fired power plants. In 2006, Cherepetskaya GRES obtained its coal supplies mainly from LLC PromTekResurs; Gusinoozerskaya GRES — from OJSC SUEK and LLC KrasnoyarskTopUgol; Kharanorskaya GRES — from OJSC SUEK and CJSC Tvel-Invest-Technologies; and Yuzhnouralskaya GRES — from OJSC Chelyabinsk Coal Company. WGC-3's gas-fired power plants currently obtain approximately 60% of their gas supplies from Gazprom.

In 2006, WGC-3 derived 96.9% of its total revenue from electricity and capacity sales (96.1% for the six months ended June 30, 2007), primarily to electricity supply companies and large industrial consumers through the wholesale electricity market. WGC-3's remaining revenue was attributable to heat (2.2%) and other (0.9%) sales in 2006 (2.3% and 1.6%, respectively, in the six month ended June 30, 2007). WGC-3 sold 34,055 million kW/h of electricity in 2006 (20,789 million kW/h in the six months ended June 30, 2007). The electricity industry in Russia is subject to a substantial degree of governmental regulation (see "Electricity Industry Overview"). As at June 30, 2007, WGC-3 was required to sell a prescribed volume of its total output of electricity at the FTS-set tariffs under Regulated Contracts. The FTS tariffs are calculated by reference to WGC-3's operating costs (determined in accordance with RAS), and, as a result, have historically resulted in reduced operating margins, although the current basis of tariff calculation is expected to be replaced by a cost indexation formula from 2008. WGC-3 is permitted to sell at free market prices all output in excess of the volumes that it has agreed with the FTS to sell under Regulated Contracts and, in accordance with the current timetable for the liberalization of the wholesale market electricity, WGC-3 currently expects to be able to sell an annually increasing proportion of its electricity output at free market prices until 2011, when sales of wholesale electricity are expected to be no longer subject to tariff regulation (other than electricity required for residential consumption). See "Electricity Industry Overview — Overview of the Market — Wholesale Electricity Market — New Wholesale Power Market (since September 1, 2006)" and "Operating and Financial review of WGC-3".

For the six months ended June 30, 2007, WGC-3 had a total revenue of RUB 15,099 million, operating profit of RUB 1,627 million, EBITDA of RUB 2,237 million and EBITDA margin of 14.8%. For the year ended December 31, 2006, WGC-3 had a total revenue of RUB 23,070 million, operating profit of RUB 6,187 million, EBITDA of RUB 7,280 million and EBITDA margin of 31.6%.

History and Development

On October 1, 2004, the Board of Directors of RAO UESR passed a resolution to establish WGC-3 as a wholly-owned subsidiary of RAO UESR and to contribute to its charter capital the shares held by RAO UESR in JSC Kostromskaya GRES, JSC Pechorskaya GRES, JSC Gusinoozerskaya GRES, JSC Kharanorskaya GRES and JSC Cherepetskaya GRES. On December 15, 2005, the shares of JSC Kostromskaya GRES, JSC Pechorskaya GRES, JSC Cherepetskaya GRES and JSC Yuzhnouralskaya GRES were exchanged for shares of WGC-3, and, as a result, the percentage of RAO UESR shares in WGC-3's authorized share capital decreased to 63.78%. The remaining portion of the shares in these entities, as well as in JSC Kharanorskaya GRES and JSC Gusinoozerskaya GRES, was converted into WGC-3 shares in March 2006 and on April 1, 2006 Kostromskaya GRES, Cherepetskaya GRES, Pechorskaya GRES, Kharanorskaya GRES, Yuzhnouralskaya GRES and Gusinooszerskaya GRES became production branches and WGC-3 became an integrated operating company.

On December 27, 2006, Norilsk acquired 4,104,526,563 ordinary shares of WGC-3, and, thereby, became the holder of a 13.92% shareholding in the charter capital of WGC-3 (which, together with 200,000,000 shares held in trust management for the benefit of Norilsk by Deutsche Bank, constituted 14.6% of WGC-3 shares). In March 2007, the 200,000,000 shares held in trust management for the benefit of Norilsk were transferred to Norilsk's account. On March 26, 2007, a company within the Norilsk Group acquired a further 17,836,343,101 newly-issued ordinary shares of WGC-3, whereby Norilsk's direct shareholding in WGC-3 was diluted to 9.06% as a result of such additional share issuance and an additional 122,083,562 WGC-3 shares, or 0.26%, were acquired to be held in trust management for the benefit of Norilsk. As result of such acquisitions, total shareholding of the Norilsk Group in WGC-3 increased to 46.62% (which together with WGC-3 shares held in trust management for the benefit of Norilsk by Deutsche Bank constituted 46.88%). Following completion in August 2007 of a mandatory tender offer by a company within the Norilsk Group to minority shareholders of WGC-3 and the subsequent acquisition of shares of WGC-3 from RAO UESR, the Norilsk Group increased its total shareholding in WGC-3 to 64.89% (which together with WGC-3 shares held in trust management for the benefit of Norilsk by Deutsche Bank constituted 65.15% as of September 30, 2007). Shares of WGC-3 held in trust management for the benefit of Norilsk by Deutsche Bank were transferred to the account of Norilsk in October 2007. As a result, Norilsk is currently the controlling shareholder of WGC-3, while RAO UESR currently holds 26.02% of WGC-3's issued share capital (see "Major Shareholders of WGC-3"). If the Spin-off is implemented, Norilsk will transfer its entire shareholding in WGC-3 to EnergoPolyus. See "The Spin-off". As at September 30, 2007, WGC-3's issued share capital comprised 47,487,999,252 ordinary shares, each with a par value of RUB 1.00. WGC-3 may issue additional shares if OJSC WGC-3 Holding merges, as currently planned, into WGC-3. In the case of such issuance, Norilsk's share in WGC-3 may be slightly diluted. A general shareholders' meeting of WGC-3 to vote on the merger is scheduled for November 30, 2007. The shares of WGC-3 are listed on RTS and MICEX.

RAO UESR is currently contemplating a disposal by way of a spin-off (or a spin-off combined with a merger) of its shareholding in all of its subsidiaries, including its shareholding in WGC-3. Upon the RAO UESR reorganization, which is currently expected to take place in July 2008, the EnergoPolyus shareholding in WGC-3 is expected to increase to 79.23% (calculated as of September 30, 2007) through its majority shareholding in Intergeneration, a holding company to be set up in the course of the reorganization of RAO UESR, which will hold, among others, a 14.08% shareholding in WGC-3. See "Electricity Industry Overview — Final Steps in the Creation of the Post-Reform Industry Structure — Dissolution of RAO UESR".

WGC-3 operates its electricity generation assets through its six branches. In addition, WGC-3 has various subsidiaries and is the holding company of its group. As of the date of this Information Statement, none of these subsidiaries are material to WGC-3's business.

Strategy

WGC-3 operates in the Russian power sector, which is one of the largest and fastest growing energy markets in the world with demand expected to grow at 3 percent per annum as forecast by RAO UESR. The recent restructuring, as well as ongoing privatization and liberalization of the Russian power sector, are creating significant growth opportunities, primarily in generation and wholesale supply.

WGC-3 was the first generation company in which shares were sold to a private investor and is a leading player in the Russian power market. It has a generation asset base located in the largest and fastest growing markets in the Siberia IES, the Urals IES, the North-West IES and the Central IES. WGC-3 intends to strengthen further its position as a leading private player in power generation in the regions where it is already present and is considering opportunities to expand into additional segments of the power market businesses. In furtherance of this strategy, WGC-3 currently intends to implement the following programs:

- *Grow and Enhance WGC-3's Generation Portfolio:* Building on its position as one of the main players in the market, WGC-3 seeks to grow and enhance its installed asset base further by effectively deploying its financial resources to make investments to rehabilitate its existing generation fleet and build new generation plants. WGC-3 will also consider acquiring additional generation plants. WGC-3 intends to focus its growth plans principally on the regions where it is already present, in which regions generation plants account for around 80 percent of electric generation capacity in Russia.
- *Minimize Fuel Supply Risk:* WGC-3 will also focus on securing long-term supplies of both coal and gas, and, if appropriate, it may consider acquiring coal mines to supply current and future power plants. This will improve WGC-3's ability to manage the risk associated with fuel supply inherent in its business.
- *Develop Wholesale and End-User Supply and Trading Capabilities:* With the expected privatization of the supply business and the on-going liberalization of the wholesale electricity market, WGC-3 currently expects the wholesale electricity market, where it expects significant growth in prices relative to those today, to be the main source of value creation. To capitalize on these opportunities and to manage risks, WGC-3 intends to build strong wholesale trading capabilities. In addition, WGC-3 is considering building a position in the end-user supply business in order to capture additional margin and mitigate existing commercial risks.
- *Implement Best Practice Operations:* Further building on its competitive advantage as a frontrunner in the industry, WGC-3 is focusing on the most efficient use of human, financial, and technological resources. To accomplish this, WGC-3's management is seeking to capture significant productivity gains in its current and potential new assets, primarily by improving load factors, reducing costs in operations through a wide range of measures and improving maintenance effectiveness.
- *Robust Financial Targets:* WGC-3 will implement rigorous criteria for financial performance with respect to ongoing operations and new investment decisions. Management of WGC-3 will be incentivized to meet and exceed benchmarks.
- *Strong Corporate Governance and Financial Reporting Standards:* WGC-3 will implement international best practice standards of corporate governance and financial reporting.

By realizing these opportunities to enhance and grow its business, WGC-3 sees itself among the leading and most competitive private players in the Russian power sector by 2015.

Operations

WGC-3's principal business comprises the generation of electricity and the sale of electricity and electric capacity, as well as the generation and sale of heat. WGC-3's operations are subject to various regulations, including regulation of the electricity tariffs at which generating companies sell electricity and capacity under Regulated Contracts, in accordance with the rates established by the FTS and in the manner established by federal law entitled "On State Regulation of Electricity and Heating Tariffs in the Russian Federation" and regulated tariffs for heat sales. See "Electricity Industry Overview — Current Industry Structure".

Generating Facilities

WGC-3 has six power generating facilities located in the Central IES, North-West IES, Siberia IES and Urals IES.

The map below shows the geographical location of WGC-3's power plants, as well as the location of the power plants of the other OGKs, including the HydroOGK.

Source: RAO UESR

WGC-3's generating facilities had a total installed electric capacity of 8,497 MW and a total installed heat capacity of 1,615 Gcal/h as at June 30, 2007. The table below summarizes some key indicators of WGC-3's generation facilities.

Branch	Location	Installed Electric Capacity as at December 31, 2006 (MW)	Installed Electric Capacity as at June 30, 2007 (MW)	Installed Heat Capacity as at December 31, 2006 (Gcal/h)	Installed Heat Capacity as at June 30, 2007 (Gcal/h)	Electricity Output for the year ended December 31, 2006 (million kW/h)	Electricity Output for the six months ended June 30, 2007 (million KW/h)	Heat Output for the year ended December 31, 2006 (Gcal thousands)	Heat Output for the six months ended June 30, 2007 (Gcal thousands)	Primary Fuel
Kostromskaya GRES	Central IES	3,600.0	3,600.0	450.0	450.0	12,736.0	5,832.0	223.0	128.0	Gas
Cherepetskaya GRES	Central IES	1,425.0	1,425.0	94.0	94.0	3,429.0	1,450.0	200.3	106.0	Coal
Gusinoozerskaya GRES	Siberia IES	1,100.0	1,100.0	221.0	221.0	3,491.0	1,800.0	337.5	171.0	Coal
Pechorskaya GRES	North-West IES	1,060.0	1,060.0	327.0	327.0	3,480.0	1,798.0	344.0	193.0	Gas
Yuzhnouralskaya GRES	Urals IES	882.0	882.0	395.0	395.0	5,502.0	2,357.0	410.3	233.0	Gas, Coal
Kharanorskaya GRES	Siberia IES	430.0	430.0	128.0	128.0	1,976.0	1,163.0	138.0	71.0	Coal
Total		**8,497.0**	**8,497.0**	**1,615.0**	**1,615.0**	**30,614.0**	**14,400.0**	**1,653.1**	**902.0**	

Source: WGC-3

WGC-3 is currently planning to construct new, and upgrade and modernize existing, generating units. The purpose of installing new capacity is to increase the volume of electricity and capacity sales on the wholesale electricity and capacity market and to make the power plants more competitive by improving performance efficiency, and to install electric capacity that will replace depleted equipment to be decommissioned and meet anticipated demand for electricity and capacity. As a result of the construction of new generating units, WGC-3 expects that its overall installed electric capacity will increase by up to 2,725 MW by 2012. See "— Business — Power Generation Companies — WGC-3 — New Construction".

Kostromskaya GRES

Kostromskaya GRES, located in the Kostroma region in the North-Western part of European Russia, is part of the Central IES. Kostromskaya GRES is among the three largest thermal power plants in Russia in terms of installed capacity and electricity output, according to RAO UESR. Since there is currently excess electric capacity in the Kostroma region, Kostromskaya GRES sells electricity on the wholesale market in more than 50 regions in Russia, including regions in the Central IES.

As at June 30, 2007, Kostromskaya GRES had an installed electric capacity of 3,600 MW, as well as an installed heat capacity of 450 Gcal/h. In the six months ended June 30, 2007, Kostromskaya GRES had a weighted average fuel rate of 307.6 goe/kW/h, which was significantly below the industry average for thermal generation in Russia during that period. In 2006, Kostromskaya GRES was the third most efficient thermal power plant in Russia in terms of fuel rate, according to the FTS. The electricity output of Kostromskaya GRES for the six months ended June 30, 2007 was 5,832 million kW/h and for the year ended December 31, 2006 was 12,736 million kW/h, an increase of 6% as compared with 2005.

Kostromskaya GRES is gas-fired, and its electricity output currently has technical limitations relating to the gas output in peak load hours and gas supply volumes due to the inability to increase pressure in the gas pipeline without limiting or terminating supplies to other users connected to the pipeline.

Kostromskaya GRES's internal use of electricity amounted to 3.1% of its electricity output in the first six months of 2007, and its load factor for the same period was 37.3%. Certain key operating data of Kostromskaya GRES are set forth in the table below:

	Year ended December 31		Six months ended June 30,
	2005	2006	2007
Load factor (%).	38.0	40.4	37.3
Fuel rate (goe/kW/h)	307.3	310.9	307.6
Electricity output (million kW/h).	11,987	12,736	5,832

Source: WGC-3

The generation facilities of Kostromskaya GRES were commissioned between 1969 and 1980 and are listed in the table below.

Generation Plant	Installed Electric Capacity (MW)	Year of Commissioning
Units 1-8	300 each	1969-1973
Unit 9	1,200	1980
Total	**3,600**	

Source: WGC-3

Cherepetskaya GRES

Cherepetskaya GRES, located in the Tula region, is part of the Central IES. According to current forecasts of RAO UESR, the Central IES is likely to experience the second largest energy deficits in the near future. Cherepetskaya GRES sells electricity and electric capacity primarily to electricity supply companies in Tula and the surrounding regions, and, in addition, it sells electricity and electric capacity to meet the peak consumption demand in the Moscow electricity supply system.

As at June 30, 2007, Cherepetskaya GRES had an installed electric capacity of 1,425 MW, as well as an installed heat capacity of 94 Gcal/h. As at June 30, 2007, Cherepetskaya GRES had a weighted average fuel rate of 419.0 goe/kW/h.

Cherepetskaya GRES is currently the largest coal-fired plant in the Central IES in terms of installed electric capacity. As a result, Cherepetskaya GRES fulfills a key strategic role in maintaining electricity supply in that region in the event of a disruption in gas supply. If gas prices are liberalized, as currently contemplated by the Russian government's gas liberalization schedule, the operating costs of Cherepetskaya TTP would likely be significantly lower than that of its gas-fired competitors.

Cherepetskaya GRES's internal use of electricity amounted to 11.5% of its electricity output in the first six months of 2007, and its load factor for the same period was 23.4%. Certain key operating data of Cherepetskaya GRES are set forth in the table below:

	Year ended December 31		Six months ended June 30,
	2005	2006	2007
Load factor (%)	20.9	27.5	23.4
Fuel rate (goe/kW/h)	422.3	406.2	419.0
Electricity output (million kW/h)	2,618	3,429	1,450

Source: WGC-3

The generation plant of Cherepetskaya GRES was commissioned between 1953 and 1966 and is summarized in the table below.

Generation Plant	Installed Electric Capacity (MW)	Year of Commissioning
Units 1-4[(1)]	140 each	1953-1958
Units 5 and 6	300 each	1963-1964
Unit 7	265	1966
Total	**1,425**	

Source: WGC-3

1 WGC-3 currently expects that Unit 4 at Cherepetskaya GRES (140 MW of existing installed capacity), which has not been in use since 2004, will be decommissioned in 2008-2009.

Gusinoozerskaya GRES

Gusinoozerskaya GRES, located in the Republic of Buryatiya in the southeast of Siberia, is part of the Siberia IES. Demand for electricity has been increasing in this area in the past several years, and RAO UESR has forecast that the neighbouring Chita region may experience energy supply deficits by 2008. Gusinoozerskaya GRES may in the future have the opportunity to supply electricity and electric capacity to customers in China and Mongolia, subject to a proposed project to construct power transmission lines extending to these two countries from the Chita region being implemented. Currently, Gusinoozerskaya GRES does not export any significant amount of electricity and electric capacity to any of China and Mongolia or any other market.

As at June 30, 2007, Gusinoozerskaya GRES had an installed electric capacity of 1,100 MW, as well as an installed heat capacity of 221 Gcal/h. In the six months ended June 30, 2007, it had a weighted average fuel rate of 371.4 goe/kW/h.

Gusinoozerskaya GRES's internal use of electricity amounted to 10.8% of its electricity output in the first six months of 2007, and its load factor for the same period was 37.7%. Certain key operating data of Gusinoozerskaya GRES are set forth in the table below:

	Year ended December 31		Six months ended June 30,
	2005	2006	2007
Load factor (%)	35.2	36.2	37.7
Fuel rate (goe/kW/h)	361.2	368.5	371.4
Electricity output (million kW/h)	3,392	3,491	1,800

Source: WGC-3

The generation facilities of Gusinoozerskaya GRES were commissioned between 1976 and 1993 and are listed in the table below.

Generation Plant	Installed Electric Capacity (MW)	Year of Commissioning
Units 1 and 3	170 each	1976-1978
Units 2 and 4[(1)]	180 each	1977-1979
Units 5 and 6	200 each	1988-1992
Total	**1,100**	

Source: WGC-3

1 Unit 4 at Gusinoozerskaya GRES with installed electric capacity of 180 MW has not been in use in recent years and is in need of a major overhaul.

Pechorskaya GRES

Pechorskaya GRES is located in the Komi region in Northern Russia. Pechorskaya GRES is located in a "non-pricing zone" outside of the IES network and, therefore, it currently operates, as required by law, in accordance with the pre-September 2006 wholesale power market rules (see "Electricity Industry Overview — Former Wholesale Power Market (prior to September 1, 2006)"). As a result of limitations in the grid connections with surrounding regions of the Komi region, Pechorskaya GRES sells almost exclusively to local purchasers, and its ability to utilize its generation capacity to its maximum potential is restricted. The grid limitations also restrict the access of potential competitors to the Komi region, where in 2006 Pechorskaya GRES provided approximately 42% of electricity supply requirements.

As at June 30, 2007, Pechorskaya GRES had an installed electric capacity of 1,060 MW, as well as an installed heat capacity of 327 Gcal/h. In the six months ended June 30, 2007, it had a weighted average fuel rate of 328.6 goe/kW/h.

Pechorskaya GRES's internal use of electricity amounted to 7.3% of its electricity output in the first six months ended June 30, 2007, and its load factor for the same period was 39.1%. Certain key operating data of Pechorskaya GRES are set forth in the table below:

	Year ended December 31		Six months ended June 30,
	2005	2006	2007
Load factor (%)	34.3	37.5	39.1
Fuel rate (goe/kW/h)	329.6	330.3	328.6
Electricity output (million kW/h)	3,182	3,480	1,798

Source: WGC-3

The generation facilities of Pechorskaya GRES were commissioned between 1979 and 1991 and are listed in the table below.

Generation Plant	Installed Electric Capacity (MW)	Year of Commissioning
Units 1, 2 and 3	210 each	1979-1984
Units 4 and 5	215 each	1987-1991
Total	**1,060**	

Source: WGC-3

Yuzhnouralskaya GRES

Yuzhnouralskaya GRES, located in the industrial Chelyabinsk region in the Urals region, is part of the Urals IES. A substantial amount of Russia's metallurgical industry is located in the Chelyabinsk region and the surrounding regions, and, as a result of increasing demand for electricity due to economic growth since 1998, the Urals IES currently experiences electric capacity deficits.

As at June 30, 2007, Yuzhnouralskaya GRES had an installed electric capacity of 882 MW, as well as an installed heat capacity of 395 Gcal/h. In the six months ended June 30, 2007, Yuzhnouralskaya GRES had a weighted average fuel rate of 386.5 goe/kW/h.

Yuzhnouralskaya GRES utilizes both gas and coal, which allows it to vary its fuel consumption in response to pricing and other market conditions. However, currently at Yuzhnouralskaya GRES the price for one tonne of fuel equivalent when using gas is considerably lower than one tonne of fuel equivalent when using coal. Therefore, for production purposes (the production of electricity and heat), it is more economically efficient to use gas. However, gas consumption is restricted by the throughput capacity of the gas distribution station at Yuzhnouralsk, which amounts to 130,000 m^3/hour. This volume of gas does not meet the plant's production fuel needs, and the shortage of fuel required for production is supplemented by the use of coal. The major suppliers of coal for Yuzhnouralskaya GRES are OJSC Chelyabinsk Coal Company and CJSC Complex Systems. Since most power plants in the Urals region use gas as their primary fuel, Yuzhnouralskaya GRES would have a competitive advantage relative to the gas-fired electricity generators in that region in the event of a disruption in gas supply or in the event that the price of gas continues to increase at a greater rate as compared to the price of coal.

Yuzhnouralskaya GRES's internal use of electricity amounted to 11.5% of its electricity output in the first six months ended June 30, 2007, and its load factor for the same period was 61.5%. Certain key operating data of Yuzhnouralskaya GRES are set forth in the table below:

	Year ended December 31		Six months ended June 30,
	2005	2006	2007
Load factor (%)	69.2	71.2	61.5
Fuel rate (goe/kW/h)	392.7	389.9	386.5
Electricity output (million kW/h)	5,857	5,502	2,357

Source: WGC-3

The generation facilities of Yuzhnouralskaya GRES were commissioned between 1952 and 1996 and are listed in the table below.

Generation Plant	Installed Electric Capacity (MW)	Year of Commissioning
Turbogenerators 2 and 3	50 each	1952
Turbogenerator 4	35	1953
Turbogenerator 5	83	1996
Turbogenerator 6	100	1954
Turbogenerators 7 and 8	82 each	1956
Turbogenerator 9 and 10	200 each	1961
Total	**882**	

Source: WGC-3

Kharanorskaya GRES

Kharanorskaya GRES, located in the Chita region in the southeast of Siberia, is part of the Siberia IES. Kharanorskaya GRES was the largest thermal power plant in terms of installed electric capacity as at June 30, 2007 in the Chita region. Demand for electricity has been increasing in this area, and RAO UESR has forecast that this region may experience energy supply deficits by 2008. Kharanorskaya GRES may in the future have the opportunity to supply electricity to customers in China and Mongolia, subject to the implementation of a proposed project to construct power transmission lines to these two countries from the Chita region. Currently, Kharanorksaya GRES does not export any significant amount of electricity to China, Mongolia or any other market.

The load of Kharanorskaya GRES is dependent to a large extent on seasonal factors, including the availability of water flow for the hydrogeneration plants located in the Siberia IES. Major hydroelectric power plants that are base priority generators dispatched before any thermal power plants also sell their output into the Siberia IES and, thus, sometimes significantly decrease the volume of demand for which thermal stations of the wholesale generators compete.

As at June 30, 2007, Kharanorskaya GRES had an installed electric capacity of 430 MW, as well as an installed heat capacity of 128 Gcal/h. In the six months ended June 30, 2007, Kharanorskaya GRES had a weighted average fuel rate of 352.9 goe/kW/h.

Kharanorskaya GRES's internal use of electricity amounted to 9.6% of its electricity output in the first six months ended June 30, 2007, and its load factor for the same period was 62.3%. Certain key operating data of Kharanorskaya GRES are set forth in the table below:

	Year ended December 31		Six months ended June 30,
	2005	2006	2007
Load factor (%)	48.4	52.4	62.3
Fuel rate (goe/kW/h)	366.8	353.7	352.9
Electricity output (million kW/h)	1,821	1,976	1,163

Source: WGC-3

The generation facilities of Kharanorskaya GRES were commissioned between 1995 and 2001 and are listed in the table below.

Generation Plant	Installed Electric Capacity (MW)	Year of Commissioning
Units 1 and 2	215 each	1995-2001
Total	**430**	

Source: WGC-3

Electricity Production and Sales

Output

For the year ended December 31, 2006, WGC-3 produced approximately 30,614 million kW/h of electricity, which constituted 3% of the total electricity output in Russia in 2006. For the year ended December 31, 2006, according to Minpromenergo, total electricity production in Russia reached 991,420 million kW/h (an increase of approximately 4% from 2005), including approximately 659.4 million kW/h of thermal power plant generation (an increase of approximately 4.9% from 2005). For the same period, WGC-3 increased its production by approximately 6%. WGC-3 produced 14,400 million kW/h of electricity for the first six months ended June 30, 2007, representing a decrease of 5.4% compared to the same period of 2006.

The table below shows the output of electricity for each of WGC-3's six branches for the periods indicated.

Branch	Year ended December 31 2005 Electricity	2005 Percentage of Total (%)	2006 Electricity	2006 Percentage of Total (%)	Six months ended June 30 2006 Electricity	2006 Percentage of Total (%)	2007 Electricity	2007 Percentage of Total (%)
	(amounts in million kW/h, except where percentages indicated)							
Kostromskaya GRES.	11,987	41.5%	12,736	41.6%	6,225	40.9%	5,832	40.5%
Cherepetskaya GRES	2,618	9.1%	3,429	11.2%	1,765	11.6%	1,450	10.1%
Gusinoozerskaya GRES . .	3,392	11.8%	3,491	11.4%	2,007	13.2%	1,800	12.4%
Pechorskaya GRES	3,182	11.0%	3,480	11.4%	1,729	11.4%	1,798	12.5%
Yuzhnouralskaya GRES . .	5,857	20.3%	5,502	18.0%	2,470	16.2%	2,357	16.4%
Kharanorskaya GRES	1,821	6.3%	1,976	6.4%	1,007	6.7%	1,163	8.1%
Total.	**28,857**	**100.0%**	**30,614**	**100.0%**	**15,203**	**100.0%**	**14,400**	**100.0%**

Source: WGC-3

WGC-3's total output of electricity increased by 6.1% to 30,614 million kW/h in 2006, as compared with 2005. Electricity output increased at five of WGC-3's six branches in 2006 from 2005. Electricity output increased at Cherepetskaya GRES by 30.9%, at Pechorskaya GRES by 9.3%, at Kharanorskaya GRES by 8.5%, at Gusinoozerskaya GRES by 2.9% and at Kostromskaya GRES by 6.2%. Yuzhnouralskaya GRES reduced its output of electricity in 2006 from 2005 by 6% due to production to dispatch schedule.

The increase in output in 2006, as compared with 2005, was reflected in increased electric capacity utilization rates at five of WGC-3's six branches.

Capacity utilization rates increased in 2006, as compared with 2005, at all of WGC-3's generating facilities with the exception of Yuzhnouralskaya GRES. In 2006, Yuzhnouralskaya GRES continued to record the highest capacity utilization rates, as compared to WGC-3's other power plants and, although Yuzhnouralskaya GRES comprises only approximately 10% of WGC-3's total installed electric capacity, it provided 18% of WGC-3's total electricity output in 2006.

In addition, the weighted average load of WGC-3's generation facilities increased by 6.5% in 2006, as compared to 2005, to 4,018.2 MW. The table below sets out for each plant the load factor and the availability factor for the periods indicated:

Branch	Load factor (%)[1] Year ended December 31, 2005	Load factor Year ended December 31, 2006	Load factor Six months ended June 30, 2007	Availability Factor (%) Year ended December 31, 2005	Availability Factor Year ended December 31, 2006	Availability Factor Six months ended June 30, 2007
Kostromskaya GRES.	38.0	40.4	37.3	62.0	59.6	62.7
Cherepetskaya GRES	20.9	27.5	23.4	79.1	72.5	76.6
Gusinoozerskaya GRES	35.2	36.2	37.7	64.8	63.8	62.3
Pechorskaya GRES	34.3	37.5	39.1	65.7	62.5	60.9
Yuzhnouralskaya GRES	69.2	71.2	61.5	30.8	28.8	38.5
Kharanorskaya GRES	48.4	52.5	62.3	51.6	47.5	37.7
Total weighted average	**38.1**	**41.1**	**39.0**	**61.9**	**58.9**	**61.0**

Source: WGC-3

1 The load factor is defined as actual production of electricity as a percentage of theoretical maximum production and is based on the total installed electric capacity of WGC-3's power plants.

The table below shows peak loads for each branch of WGC-3 for the periods indicated.

Branch	Year ended December 31		Six months ended June 30	
	2005	2006	2006	2007
	(amounts in MW)			
Kostromskaya GRES	3,391	2,786	2,786	2,494
Cherepetskaya GRES	678	1,226	1,226	691
Gusinoozerskaya GRES	754	819	819	691
Pechorskaya GRES	520	590	590	570
Yuzhnouralskaya GRES	880	872	850	727
Kharanorskaya GRES	426	430	349	405

Source: WGC-3

Load factors are typically subject to significant seasonal variations. The demand for electricity typically increases during the colder months of the winter period from October to March, while demand generally decreases in response to the warmer temperatures of the April to September period. The demand for WGC-3's output, particularly at its Siberian generation facilities, is also influenced by fluctuations in supply volumes from non-thermal electricity generators. In particular, hydrogeneration plants, which typically have lower operating costs than thermal generation plants, operate intensively at the time of the spring thaw in Russia in late April and continue to generate until September, while nuclear plants suspend operations in the summer months to allow repairs and maintenance work. WGC-3 typically reduces output over the summer months in response to the reduced demand and lower prices and uses that period to implement the majority of its repairs and maintenance works.

Capital Expenditure

WGC-3 seeks to maintain, expand and increase the capacity and efficiency of its generation facilities, particularly in the regions where capacity deficits are expected, as well as to lessen the environmental impact of its operations. WGC-3 made an aggregate capital expenditure of RUB 844,928 million in 2005 and RUB 1,035,929 million in 2006 for the construction of new facilities and upgrading of the existing equipment. WGC-3's investments in 2005 and 2006 focused on maintaining high reliability in power generation, increasing power plant efficiency, introducing new (advanced) technologies and implementing prospective investment projects for the future, including the development of business plans, feasibility studies and regional dispatch office work.

The table below shows WGC-3's aggregate amounts of expenditure for the construction of new facilities and upgrading of the existing equipment for the periods indicated.

	Year ended December 31,		Six months ended June 30,	
	2005	2006	2006	2007
	RUB	RUB	RUB	RUB
	(amounts in thousands)			
Construction of new facilities and upgrading of the existing equipment	844,928	1,035,929	235,289	501,731

Source: WGC-3

The future capital expenditures of WGC-3 are being also further discussed by WGC-3's shareholders. See "Operating and Financial Review of WGC-3 — Liquidity and Capital Resources — Investments and Capital Needs".

New Construction

In accordance with its business strategy to increase output in regions where capacity deficits are forecast to occur and to develop its participation in the unregulated wholesale electricity market, in January 2007 the Board of Directors of WGC-3 approved an investment program for new generation units at four of its six plants. This investment program is focused on the construction of new units employing modern technology and high-quality equipment. The management and the Board of Directors of WGC-3 are currently reviewing this investment program with a view to improving it and expect to update the estimates of the capital expenditures in November 2007 and may amend the investment program initially approved in January 2007. WGC-3 is also evaluating a number of approaches to build new generation capacity in addition to those already included in the approved investment program. If the current investment program is implemented, WGC-3 currently expects that its overall installed capacity will increase by up to 2,725 MW by 2012. In accordance with current regulations, WGC-3 will be permitted to sell all electricity generated by any facilities commissioned after 2007 at unregulated prices rather than at the FTS-set tariffs. See "Electricity Industry Overview — Tariffs". The table below shows WGC-3's investment program as it was approved by WGC-3's Board of Directors in January 2007.

Branch	Investment project	Installed Capacity (MW)	Total investment, incl. VAT (RUB mln)	Primary Fuel	Commissioning deadline
Kostromskaya GRES	Combined Cycle Unit -800 No.1	800	18,641	Gas	2010
Kostromskaya GRES	Combined Cycle Unit -800 No.2	800	18,641	Gas	2012
Cherepetskaya GRES.	Construction of two 225 MW generation units with CKS (Cirkuliruyusiy Kipyashiy Sloy) boilers	450	12,905	Coal	2010
Yuzhnouralskaya GRES . .	Construction of two 225 MW generation units with CKS boilers No.1	225	7,931	Coal	2010
Yuzhnouralskaya GRES . .	Construction of two 225 MW generation units with CKS boilers No.2	225	7,605	Coal	2012
Kharanorskaya GRES	Construction of 225 MW Generation	225	6,986	Coal	2010
Total		**2,725**	**72,709**		

Source: WGC-3

It is possible that actual expenditures and production output will differ, perhaps to a significant extent, from these estimates. See "Risk Factors — Risks relating to the Nature and Characteristics of the Russian Power Industry — The business, revenues and results of operations of the Power Companies are dependent on the ability of their management and information systems to meet the changes in the power market". WGC-3's management is currently preparing several new construction projects to replace projects from the WGC-3's current investment program in the event that any of those are not approved by WGC-3's Board of Directors.

Sales of Electricity and Electric Capacity

WGC-3 sells electricity and electric capacity and heat power in the Russian wholesale market. See "— Sales of Heat". WGC-3 does not currently participate in any retail markets. For the year ended December 31, 2006, revenues from sales of electricity and electric capacity comprised 70.4% and 26.5%, respectively, of WGC-3's total revenue (69.7% and 26.4%, respectively, in the six months ended June 30, 2007).

Electric capacity and electricity are sold as two distinct products on the Russian wholesale electricity market. A sale of capacity represents the obligation to maintain sufficient generation capability to satisfy a target level of potential demand, while a sale of electricity represents an actual delivery of electricity to its purchaser. See "— Sales of Electricity and Electric Capacity — Capacity Sales". Electricity is transmitted from WGC-3's generation facilities through federal and regional electricity trunk transmission grids. See "Electricity Industry Overview — Current Industry Structure — Transmission Companies".

Prior to September 1, 2006, WGC-3 sold electricity and capacity pursuant to the Former Wholesale Power Market Rules, and, as a result, the description of the sales of WGC-3 below includes details of sales prior to and following the introduction of the New Wholesale Market Rules on September 1, 2006. Since the introduction of the New Wholesale Market Rules, WGC-3 has been selling its electricity output primarily under Regulated Contracts for tariffs set by the FTS and sells the electricity not sold under Regulated Contracts on the new "one-day-ahead" spot market and the balancing market. Although the volume of electricity that WGC-3 may sell at free market prices continues to be subject to restrictions, in accordance with current legislation the percentage of electricity sales under Regulated Contracts is scheduled to continue to decrease annually, and the percentage of sales at free unregulated prices on the wholesale electricity market will increase accordingly to 100% by 2011 (other than electricity required for residential consumption). As a result, WGC-3 currently expects that it will be selling an increasing portion of its output at free market prices. For the year ended December 31, 2006, WGC-3 supplied approximately 22 million MW/h of electricity under Regulated Contracts, which represented 76% of WGC-3's total sales, and 7 million MW/h of electricity on the unregulated market. Sales in the unregulated market have increased from 13% to 14% as a result of the introduction of the New Wholesale Market Rules on September 1, 2006. The electric capacity market was also reformed by the New Wholesale Market Rules. See "- Sales of Electricity and Electric Capacity — Capacity Sales". Pechorskaya GRES continues to sell electricity and electric capacity according to the Former Wholesale Power Market Rules that were in force prior to September 1, 2006, since it operates in a "non-pricing zone" as a result of its relative isolation in terms of grid connections with the neighbouring areas of the Komi region where it is located.

WGC-3's generating facilities that are located in the Central IES, North-West IES and Urals IES form part of the first pricing zone of the wholesale electricity market of Russia, while the generating facilities in the Siberia IES form part of the second pricing zone. In the first pricing zone, the price of electricity is determined by base load power plants operating on gas or coal. In the second pricing zone, which has prevailing obligatory price-confirmation bids on the part of hydroelectric power plants and thermal power plants in order to ensure reliability of the system, in the period September 1, 2006 to June 30, 2007, the average price was at 0.50 rubles/MW/h, as a result of which, the average sale price of Gusinoozerskaya GRES and Kharanorskaya GRES on the spot market during this period was 160-170 rubles/MW/h.

The table below shows electricity volumes produced and sold by WGC-3 for the periods indicated (with a breakdown among the relevant branches).

	Year ended December 31, 2005		2006 (January-August)[1]		2006 (September-December)[1]		Six months ended June 30, 2007	
Branch	**Volume**	**Percentage of Total (%)**	**Volume**	**Percentage of Total (%)**	**Volume**	**Percentage of Total (%)**	**Volume**	**Percentage of Total (%)**
	(amounts in million kW/h, except percentages)							
Kostromskaya GRES	11,627	43.0	7,463	42.0	4,669	45.0	5,681	42.1
Cherepetskaya GRES	2,301	8.5	2,077	11.3	986	9.5	1,284	9.5
Gusinoozerskaya GRES	3,023	11.2	2,054	11.2	1,072	10.3	1,616	11.9
Pechorskaya GRES	2,992	11.1	2,105	11.6	1,157	11.2	1,687	12.6
Yuzhnouralskaya GRES	5,419	20.1	3,246	17.7	1,828	17.6	2,168	16.1
Kharanorskaya GRES	1,654	6.1	1,138	6.2	662	6.4	1,064	7.8
Total	**27,016**	**100**	**18,083**	**100**	**10,374**	**100**	**13,500**	**100**

Source: WGC-3

1 Sales volumes for 2006 have been broken down into the periods January to August (prior to the introduction of the New Wholesale Market Rules) and September to December (following the introduction of the New Wholesale Market Rules). See "Electricity Industry Overview - Overview of the Market — Wholesale Electricity Market". The sales volumes for September to December do not include sales of electricity that the Company had purchased on the "one-day-ahead" spot market.

Electricity Tariffs

The table below shows the tariffs for electricity and electric capacity of each branch of WGC-3 for the periods indicated.

	Electricity tariff (RUB/MW/h)		
Branch	**2005**	**2006**	**2007**
Kostromskaya GRES	380.0	426.4	529.3
Cherepetskaya GRES	729.7	805.2	894.7
Gusinoozerskaya GRES	397.4	423.3	418.2
Pechorskaya GRES	327.6	359.6	395.3
Yuzhnouralskaya GRES	579.1	543.7	573.8
Kharanorskaya GRES	413.8	359.6	321.4

Source: WGC-3's 2005 and 2006 Annual Reports

Electricity tariffs for Cherepetskaya GRES were higher in 2005 and 2006, as compared with WGC-3's other generating facilities, as a result of high average heat rates and high costs of coal transportation due to the very large distance to Cherepetskaya GRES from the coal-producing regions. Electricity tariffs for Kharanorskaya GRES and Yuzhnouralskaya GRES decreased in 2006, as compared with 2005, largely due to the reduction of fuel consumption, with respect to Kharanorskaya GRES, and the applicability of one-rate tariffs, including both electricity and installed capacity tariffs, with respect to Yuzhnouralskaya GRES.

Capacity tariffs for WGC-3's two Siberian generating facilities, particularly Kharanorskaya GRES, were significantly higher in 2005 and 2006 as compared with WGC-3's other generating facilities due to the large proportion of depreciation charges in the total fixed costs of Kharanorskaya GRES.

The New Wholesale Electricity Market (since September 1, 2006)

In September 2006, the Russian Government adopted a resolution on the New Wholesale Market Rules, which introduced significant changes to the former regulated wholesale market for the transitional period prior to the anticipated full liberalization of the wholesale electricity market. The former regulated sector of the wholesale market was replaced in September 2006 with a system of Regulated Contracts as an interim step in the transition from a regulated environment to a fully liberalized wholesale electricity market. Under Regulated Contracts, WGC-3 agrees to supply an agreed volume of electricity and electric capacity at a regulated price. The tariff is currently set by the FTS on a cost-plus basis, although from 2008 it is anticipated that tariffs will be calculated according to an indexation formula which would take into account WGC-3's operational costs. WGC-3 is required to satisfy its contractual obligations with regard to electricity volumes either through its own generation of electricity or through the purchase of electricity on the spot market at prevailing market prices. WGC-3's customers receive contracted electricity volumes at regulated prices and, in the event that those customers need electricity in addition to the volumes in the relevant bilateral contract, they are required to buy it on the spot market or under unregulated contracts at the then prevailing free market price. See "Electricity Industry Overview — Overview of the Market — "One-day-ahead" spot market". Regulated agreements operate on a "take or pay" basis, and, therefore, if a customer fails to consume the volume agreed under the contract, it is still obliged to pay WGC-3 in full, although it may seek to sell the excess contracted volumes on the spot market at the then current prevailing prices.

Pursuant to the New Wholesale Market Rules, the volumes of electricity that had to be sold by WGC-3 and other generators under Regulated Contracts for September-December 2006 were set in accordance with the projected electricity output for the period and covered 95-100% of the planned generation output of each generator for that period.

According to the New Wholesale Market Rules, for the first half of 2007 and for the second half of 2007, 90-95% and 85-90%, respectively, of planned annual output (based on the FTS forecast balance for 2007) of WGC-3 and other generators must be covered by Regulated Contracts. Starting in 2008, the volumes of electricity to be covered by Regulated Contracts are scheduled to decline in accordance with the timetable that was approved under Resolution No. 205 on April 7, 2007. This schedule envisages an accelerated liberalization timetable under which the volume of planned annual output (based on the FTS forecast balance for 2007) will decrease according to the schedule below:

- from 1 January 2008 — up to 80-85%;
- from 1 July 2008 — up to 70-75%;
- from 1 January 2009 — up to 65-70%;
- from 1 July 2009 — up to 45-50%;
- from 1 January 2010 — up to 35-40%;
- from 1 July 2010 — up to 15-20%;
- from 1 January 2011 — the wholesale electricity market will be fully liberalized.

The table below shows the FTS planned annual output of each branch of WGC-3 for 2007, which will be used to determine the volume of electricity that WGC-3 will be required to sell under Regulated Contracts.

Branch	2007 FTS Planned Output (thousand MW/h)
Kostromskaya GRES	13,500.90
Cherepetskaya GRES	3,500.00
Gusinoozerskaya GRES	3,385.53
Yuzhnouralskaya GRES	4,837.28
Kharanorskaya GRES	2,158.60
Pechorskaya GRES	3,440.00

Regulated Contracts

The table below shows the main customers, in terms of volume of sales, under WGC-3's 2007 Regulated Contracts. A substantial majority of the purchasers of electricity and electric capacity from WGC-3 are affiliates of RAO UESR. See "Transactions with Related Parties of WGC-3".

Customer	Volume of sales for the six months ended June 30, 2007	Total agreed volume of sales for 2007
	(amounts in thousands kW/h)	
Chelyabenergosbyt	298,944	299,417
Sverdlovenergosbyt	83,923	85,468
Karachaevo-Cherkesenergo	34,210	34,210
Rusenergosbyt	29,785	29,785
Kalmenergosby	12,236	12,238

Source: WGC-3

For the six months ended June 30, 2007, sales in the Regulated Market with Nizhny Novgorod Supply Company, Vladimir Supply Company and Vologda Supply Company comprised, in aggregate, 40.7% of total sales in the Regulated Market in terms of volume of Kostromskaya GRES, while sales in the Regulated Market with Belgorod Supply Company, Bryansk Supply Company and Ulyanovskenergo comprised, in aggregate, 2.1% of total contracted sales in terms of volume of Cherepetskaya GRES. For the six months ended June 30, 2007, sales under Regulated Contracts with Kuzbass Electricity Supply Company, Buryatenergosbyt and JSC Novosibirskenergo comprised, in aggregate, 53.9% of total contracted sales in terms of volume of Gusinoozerskaya GRES, while sales in the Regulated Market with Chita Electricity Supply Company, Buryatenergosbyt and Kuzbass Electricity Supply Company comprised, in aggregate, 98.6 of total sales in the Regulated Market of Kharanorskaya GRES for the six months ended June 30, 2007. For the six months ended June 30, 2007, sales of electricity and capacity to Komi Electricity Supply Company and Arkhangelsk Electricity Supply Company comprised, in aggregate, 100% of total sales of electricity and capacity in terms of volume of Pechorskaya GRES, while sales in the Regulated Markets with Sverdlovenergosbyt, Chelyabenergosbyt and JSC Chelyabinsk Electrometallurgical Combine comprised, in aggregate, 80.7% of contracted total sales in terms of volume of Yuzhnouralskaya GRES. Pechorskaya GRES entered into contracts for the supply, delivery and payment for electricity and electricity capacity and the provision of electricity in the wholesale market with Archenergosbyt and Komi Energosbytovaya Kompaniya.

For the six months ended June 30, 2007, approximately 35.1% of WGC-3's electricity sales by volume was in the "one-day-ahead" spot market, while 62.3% was on the Regulated Market and 37.7% on the unregulated market.

The New Wholesale Market Rules also allow wholesale market participants to enter into unregulated bilateral contracts for the sale of electricity. Electricity sale prices and volumes sold under unregulated bilateral contracts are regulated between the supplier and the purchaser. WGC-3 does not currently have any unregulated bilateral contracts due to the fact that they are currently economically not viable. From 2008, all electricity produced by newly commissioned generation facilities or receiving equipment will be sold or purchased at unregulated prices (either on the spot market or on the unregulated market). The New Wholesale Market Rules allow sales of electricity in the balancing sector. In the balancing sector, the System Operator and the Trade System Administrator are balancing supply and demand of electricity in real time based on currently quoted price offers from generators and bids from consumers. This market is a significant segment of the power market characterized by significant price volatility and is a real time market for electricity based on competitive bids, which is extended to regulate the deviations of actual generated or consumed values from planned volumes. In the six months ended June 30, 2007, out of its sales outside Regulated Contracts, WGC-3 sold approximately 3% in the balancing sector.

"One-Day-Ahead" Spot Market

The New Wholesale Market Rules introduced a spot market based on the variable costs of electricity production for those suppliers and consumers who wish to buy or sell electricity on a free market basis. For the six months ended June 30, 2007, 35.1% of WGC-3 electricity sales by volume was in the "one-day-ahead" spot market.

Electricity Volumes

Prior to the launch of the New Wholesale Market Rules, if consumers were unable to buy electricity in the free trade sector, they were guaranteed the necessary volumes in the regulated sector. For this reason only power plants with minimal variable costs sold electricity in the free-trade sector. After the New Wholesale Market Rules were launched, the regulated sector was transformed into sets of Regulated Contracts with an ever decreasing share of the supply of electricity under such contracts as the market is liberalized. Any electricity volume in excess of the amount set forth in the Regulated Contracts is sold on the spot market. The table below shows the volume of electricity sold in the free trade sector and under Regulated Contracts for each branch of WGC-3 for the periods indicated.

	2005				January 1 to August 31, 2006			
Branch	**Regulated Sector**	**Percentage of Total (%)**	**Free-trade Sector**	**Percentage of Total (%)**	**Regulated Sector**	**Percentage of Total (%)**	**Free-trade Sector**	**Percentage of Total (%)**
	(amounts in MW/h, except where percentages indicated)							
Kostromskaya GRES	8,481	35.5	3,145	100.0	5,804	36.3	1,659	79.0
Cherepetskaya GRES	2,301	9.6	—	—	2,077	13.0	—	—
Gusinoozerskaya GRES	3,022	12.7	—	—	1,989	12.4	64	3.1
Pechorskaya GRES	2,992	12.5	—	—	2,105	13.2	—	—
Yuzhnouralskaya GRES	5,419	22.7	—	—	2,930	18.3	317	15.1
Kharanorskaya GRES	1,654	7.0	—	—	1,079	6.8	59	2.8
Total	**23,869**	**100.0**	**3,145**	**100.0**	**15,984**	**100.0**	**2,099**	**100.0**

Source: WGC-3

The table below shows a breakdown of sales of electricity in the unregulated market, as compared to regulated sales, for each branch of WGC-3 for the periods indicated.

	September-December 31, 2006				Six months ended June 30, 2007			
Branch	**Regulated Market**	**Percentage of Total (%)**	**Unregulated Market**	**Percentage of Total (%)**	**Regulated Market**	**Percentage of Total (%)**	**Unregulated Market**	**Percentage of Total (%)**
	(amounts in MW/h, except where percentages indicated)							
Kostromskaya GRES	5,366	50.0	2,759	52.7	5,702	44.0	3,696	47.1
Cherepetskaya GRES	871	8.1	633	12.1	1,335	10.3	857	10.9
Gusinoozerskaya GRES	1,097	10.2	204	3.9	1,512	11.7	915	11.7
Yuzhnouralskaya GRES	1,701	15.9	1,371	26.2	1,777	13.8	1,855	23.7
Kharanorskaya GRES	540	5.0	273	5.1	960	7.4	494	6.3
Pechorskaya GRES	1,157	10.8	—	—	1,661	12.8	25	0.3
Total	**10,732**	**100.0**	**5,240**	**100.0**	**12,947**	**100.0**	**7,842**	**100.0**

Source: WGC-3

WGC-3 was able sell a portion of its output at free market prices in excess of the nominal limits under the New Wholesale Market Rules due to its increased output levels for the year ended December 31, 2006 and the first half of 2007 relative to planned production for those periods. See "— Electricity Production and Sales — Output". WGC-3 also purchased 5,597 MW/h of electricity on the spot market in the period between September and December 2006 (7,289 MW/h in the six months ended June 30, 2007). When the spot-market prices are lower than WGC-3's costs of production, including, for example, at times of increased fuel costs, WGC-3 usually seeks to purchase electricity on the spot-market to fulfill its contractual obligations to supply electricity to its customers. Conversely, when prices are at higher levels, WGC-3 usually aims to increase sales on the spot-market through increasing load factors at its generation facilities.

WGC-3's market strategy takes into account the impact on pricing of both daily and seasonal fluctuations. Electricity prices typically increase at the times of peak demand in the morning and the evening. The seasonal variations in demand and supply also have a significant influence on pricing (see "— Electricity Production and Sales — Output"). Prices generally reach peak levels in the winter period of mid-January to mid-April. In addition, prices are also high in late April and early September, when the level of demand resulting from relatively low temperatures is high relative to the volume of supply, which, due to the limited operations of hydrogeneration and nuclear plants during these periods, is provided mainly by thermal generation plants. Prices typically reach their lowest levels in May and June as a result of reduced demand due to milder temperatures and increased supply from hydrogeneration plants.

Capacity Sales

Prior to the introduction of the New Wholesale Market Rules, WGC-3 received payment for only 85% of the installed electric capacity of its generation facilities. Under the New Wholesale Market Rules, WGC-3 receives payment for 100% of its available electric capacity. WGC-3 sells electric capacity at tariffs set by the FTS in rubles per MW of electric capacity.

The table below shows capacity tariffs for each branch of WGC-3 for the periods indicated.

	Capacity tariff (RUB/MW of installed capacity per month)		
Branch	**2005**	**2006**	**2007**
Kostromskaya GRES	38,631.74	50,109.3	61,449.8
Cherepetskaya GRES	37,918.07	47,775.5	65,780.9
Gusinoozerskaya GRES	76,580.28	90,698.6	104,042.5
Pechorskaya GRES	54,341.59	60,815.1	70,142.9
Yuzhnouralskaya GRES	one-rate tariff	63,515.2	95,541.1
Kharanorskaya GRES	164,044.43	186,141.9	199,202.7

Source: WGC-3

Capacity tariffs for WGC-3's branch Kharanorskaya GRES were significantly higher in 2005 and 2006 as compared with WGC-3's other generating facilities due to a large proportion of depreciation charges in the total fixed costs of the branch: 23% in 2005 and 37% in 2006. For other branches of WGC-3, such proportion was as follows: Gusinoozerskaya GRES: 14% in 2005, 14% in 2006; Kostromskaya GRES: 17% in 2005, 16% in 2006; Pechorskaya GRES: 12% in 2005, 10% in 2006; Cherepetskaya GRES: 7% in 2005, 6% in 2006; Yuzhnouralskaya GRES: 19% in 2005, 19% in 2006.

Under the regulated tariff system, electric capacity tariffs are designed to cover the fixed costs of a power plant. The increase in tariffs in 2006, as compared to 2005, was attributable to an increase in fixed costs. According to the New Wholesale Market Rules, in order to encourage investment, electric capacity commissioned after 2007, as well as electric capacity in excess of the forecasted FTS volumes for 2007, may be traded in the wholesale market at unregulated prices. Accordingly, WGC-3 expects that the 2,725 MW of new and replacement electric capacity that it plans to commission in 2010-2012 will be sold at free-market prices. See "Electricity Industry Overview — New Wholesale Power Market (since September1, 2006) — Capacity Market". The framework for the unregulated electric capacity market has not yet been formulated, and, as a result, as at the date of this information statement, all sales of electric capacity by WGC-3 continue to be at regulated tariffs.

Heat

In addition to WGC-3's electricity generation operations, WGC-3 produces and sells heat, from which it derived approximately 2.7% of its revenues in 2006. WGC-3 has 594,255.4 kms of heat network it owns (except for the heat network WGC-3 leases located on Gusinoozerskaya GRES land). The table below shows the installed heat capacity of each of WGC-3's six branches as at June 30, 2007.

	As at June 30, 2007	
Branch	Installed Heat Capacity (Gcal/h)	Percentage of WGC-3's Total Installed Heat Capacity (%)
Kostromskaya GRES	450.0	27.9
Cherepetskaya GRES	94.0	5.8
Gusinoozerskaya GRES	221.0	13.7
Pechorskaya GRES	327.0	20.2
Yuzhnouralskaya GRES	395.0	24.5
Kharanorskaya GRES	128.0	7.9
Total	**1,615.0**	**100.0**

Source: WGC-3

Heat Production

WGC-3's generating facilities produce only small volumes of heat, as compared to volumes of electricity, since they generate most of their electricity output (96.42% in 2006) in condensing mode, which, unlike the alternative combined co-generation cycle, does not produce heat power. The table below shows the output of heat for each of WGC-3's six branches for the periods indicated.

	Year ended December 31				Six months ended June 30			
	2005		2006		2006		2007	
Branch	Volume	Portion of Total (%)	Volume	Portion of Total (%)	Volume	Portion of Total (%)	Volume	Portion of Total (%)
	(amounts in thousand Gcal, except where percentages indicated)							
Kostromskaya GRES	214.9	12.7	223.0	13.5	133.9	13.4	128.0	14.1
Cherepetskaya GRES	227.6	13.5	200.3	12.1	125.1	12.5	106.0	11.8
Gusinoozerskaya GRES	362.3	21.5	337.5	20.5	214.2	21.5	171.0	19.0
Pechorskaya GRES	330.4	19.6	344.0	20.8	201.2	20.2	193.0	21.4
Yuzhnouralskaya GRES	414.5	24.5	410.3	24.8	241.8	24.2	233.0	25.8
Kharanorskaya GRES	139.0	8.2	138.0	8.3	81.5	8.2	71.0	7.9
Total	**1,688.7**	**100.0**	**1,653.1**	**100.0**	**997.7**	**100.0**	**902.0**	**100.0**

Source: WGC-3

WGC-3 typically varies its output of heat in accordance with the contractual delivery obligations it has with its customers.

Sales of Heat

The volume of heat power that WGC-3 is able to sell has decreased by 9.5% over the last three years due to the loss of heat in transmission. As a result of this loss of heat, supply of heat power is restricted to customers which are located near WGC-3's generation facilities. Those customers also require a connection to WGC-3's heat transmission network through which heat is transmitted in the form of hot water or steam. The largest purchaser of heat from WGC-3 in terms of sales in the six months ended June 30, 2007 was MU Sluzhba Zakazchika, which is located in Yuzhnouralsk.

The table below shows sales of heat by each branch of WGC-3 for the periods indicated.

	Year ended December 31				Six months ended June 30			
	2005		2006		2006		2007	
Branch	**Volume**	**Percentage of Total (%)**	**Volume**	**Percentage of Total (%)**	**Volume**	**Percentage of Total (%)**	**Volume**	**Percentage of Total (%)**
	(amounts in thousand Gcal, except where percentages indicated)							
Kostromskaya GRES	165.0	11.5	169.0	12.5	90.0	12.5	94.0	13.6
Cherepetskaya GRES	228.0	15.9	200.0	14.8	124.0	14.1	104.0	14.0
Gusinoozerskaya GRES	346.0	24.1	231.0	17.1	151.0	23.1	125.0	17.0
Pechorskaya GRES	295.0	20.6	180.0	22.7	179.0	20.4	150.0	22.1
Yuzhnouralskaya GRES	221.0	19.5	326.0	24.1	194.0	21.9	187.0	25.2
Kharanorskaya GRES	115.0	8.4	119.0	8.8	71.0	8.0	60.0	8.1
Total	**1,420.0**	**100.0**	**1,225.0**	**100.0**	**809.0**	**100.0**	**720.0**	**100.0**

Source: WGC-3

Sales of heat significantly increase during winter months. Sales of heat are subject to regulated tariffs established by the regional authority for the region in which the relevant generation facility of WGC-3 is located within the minimum and maximum limits approved by the FTS. See "Electricity Industry Overview — Tariffs".

The table below shows regulated tariffs for sales of heat power for each branch of WGC-3 for the periods indicated.

	Year ended December 31		Six months ended June 30
Branch	**2005**	**2006**	**2007**
	(amounts in RUB/Gcal)		
Kostromskaya GRES	326.6	367.8	413.9
Cherepetskaya GRES	493.3	541.6	541.6
Gusinoozerskaya GRES	368.5	592.3	323.9
Pechorskaya GRES	283.05	324.9	335.8
Yuzhnouralskaya GRES	287.9	592.9	413.8
Kharanorskaya GRES	380.9	420.7	420.7

Source: WGC-3

The creation of a free market for heat is not currently subject to the proposed reforms of the Russian power sector.

Fuel

The primary operating expense of WGC-3 is the purchase of fuel, which, for the year ended December 31, 2006, comprised 53.4% of WGC-3's total operating expenses (44.5% for the six months ended June 30, 2007). For the year ended December 31, 2006, WGC-3's fuel mix comprised 52.8% of gas, 35.9% of coal and 11.1% of fuel oil. For the six months ended June 30, 2007, the WGC-3's fuel mix comprised 61.2% of gas, 37.1% of coal and 1.7% of fuel oil. Yuzhnouralskaya GRES uses both gas and coal in an approximate ratio of up to 1.5:1, and, therefore, has the option to optimize costs by varying its fuel mix based on the relative pricing dynamics of gas and coal. In addition, each of WGC-3's branches may use fuel oil as a back-up fuel in the event that it does not have sufficient quantities of their primary fuel, although this fuel is relatively expensive to use as compared to gas or coal. In addition, the generation facilities also typically use fuel oil as start-up fuel. The following table indicates the principal types of fuel burned by each of the WGC-3's power plants.

Branch	Primary Fuel	Reserve Fuel
Kostromskaya GRES	Gas	Fuel Oil
Cherepetskaya GRES	Coal	Fuel Oil
Gusinoozerskaya GRES	Coal	Fuel Oil
Pechorskaya GRES	Gas	Fuel Oil
Yuzhnouralskaya GRES	Coal/Gas	Fuel Oil
Kharanorskaya GRES	Coal	Fuel Oil

Each of WGC-3's generation facilities has a primary fuel for standard production and a reserve fuel. A reserve fuel is used to maintain production levels in the event of a disruption to the usual supplies of primary fuel, through, for example, an alternative supply source or, in relation to coal-fired plants, the use of stocks. Each of WGC-3's generation facilities may use fuel oil to continue production on a temporary basis in the event that its primary fuel is unavailable, although the use of fuel oil is not cost-efficient as compared to the usual types of fuel. Fuel oil is also used as starting fuel to restart generating equipment.

The table below shows the breakdown of fuel consumed by each branch of WGC-3 for the periods indicated.

	Year ended December 31						Six months ended June 30					
	2005			2006			2006			2007		
Branch	Gas	Coal	Fuel oil	Gas	Coal	Fuel oil	Gas	Coal	Fuel oil	Gas	Coal	Fuel oil
		(%)			(%)			(%)			(%)	
Kostromskaya GRES	99.3	0.0	0.7	94.0	0.0	6.0	94.1	0.0	5.9	100	0.0	0.05
Cherepetskaya GRES	0.0	85.4	14.6	0.0	87.7	12.3	0.0	88.4	11.6	0.0	85.7	14.3
Gusinoozerskaya GRES	0.0	99.8	0.3	0.0	99.5	0.5	0.0	99.6	0.2	0.0	99.7	0.3
Pechorskaya GRES	99.7	0.0	0.3	98.3	0.0	1.7	99.8	0.0	0.2	100	0.0	0.0
Yuzhnouralskaya GRES	57	42.8	0.1	59.4	40.5	0.1	62.2	37.70	0.1	68.00	31.9	0.1
Kharanorskaya GRES	0.0	99.8	0.2	0.0	99.8	0.2	0.0	99.81	0.2	0.0	99.9	0.1

Source: WGC-3

Gas

The table below shows the volume of gas consumption by each gas-fired branch of WGC-3 for the periods indicated.

	Year ended December 31		Six months ended June 30	
Branch	2005	2006	2006	2007
		(amounts in million m^3)		
Kostromskaya GRES	3,152	3,205	1,558	1,545
Pechorskaya GRES	869	947	480	498
Yuzhnouralskaya GRES	1,116	1,086	513	533
Total	**5,137**	**5,238**	**2,551**	**2,576**

Source: WGC-3

Consumption of gas increased in 2006, as compared with 2005, largely as a result of increased load factors at all of WGC-3's gas-fired power plants in response to higher demand. The increase was partially offset by the decision of Yuzhnouralskaya GRES to increase the percentage of coal in its fuel mix due to the rate of increase of the price of gas exceeding the rate of increase of the price of coal in 2006.

The supply of gas to electricity generation plants in Russia by Gazprom is subject to substantial regulation, including quota limits and fixed tariffs. See "Electricity Industry Overview — Fuel Supply — Gas Supply". The table below shows the main gas suppliers for each gas-fired branch of WGC-3 for the periods indicated.

			Amount Supplied			
			Year ended December 31,			Six months ended June 30,
Branch	**Type of gas**	**Gas supplier**	**2005**	**2006**	**2006**	**2007**
			(*million m*^{3})			
Kostromskaya GRES	Limit	Kostromaregiongas LLC	2,684.4	2,831.5	1,496.3	1,461.6
	Commercial	General Fuel Energy Company LLC	465.0	373.2	61.7	0.0
		CJSC Gala-produkt	2.6	0.0	0.0	0.0
		OJSC NOVATEK	0.0	0.0	0.0	83.2
	Total:		**3,152.0**	**3,204.7**	**1,558.0**	**1,544.8**
	Limit	Komiregiongas LLC	680.8	730.2	377.7	405.8
		Energygascompany LLC	172.8	0.0	0.0	0.0
Pechorskaya GRES	Commercial	Komiregiongas LLC	15.2	30.0	9.0	0.0
		PromRegionGas LLC	0.0	186.5	93.7	92.0
	Total:		**868.8**	**946.7**	**480.4**	**497.8**
	Limit	Chelyabinskregiongas LLC	499.8	728.4	363.6	375.6
		OJSC NOVATEK	216.2	0.0	0.0	133.4
Yuzhnouralskaya GRES	Commercial	Chelyabinskregiongas LLC "	241.3	0.0	0.0	0.0
		CJSC Complex Systems	158.5	357.2	149.4	0.0
		PromRegionGas LLC	0.0	0.0	0.0	24.2
	Total:		**1,115.5**	**1,085.6**	**513.0**	**533.2**

Source: WGC-3

Kostromskaya GRES, Pechorskaya GRES and Yuzhnouralskaya GRES obtained their gas supplies mostly from Gazprom in 2005, 2006 and the first six months of 2007. Although these supplies are sold at regulated tariffs, the volume of these supplies is limited to a pre-agreed quota set by the FTS, which is typically less than the annual fuel requirements of these plants, particularly since gas quotas have not increased in line with the growth in electricity demand in Russia since 1998. Gas required in excess of such quotas is purchased in the market at prevailing domestic unregulated prices, both from Gazprom through the electronic gas trading system of Gazprom's subsidiary Mezhregiongaz or, subject to availability, from independent suppliers, including LLC PromRegionGas, OJSC NOVATEK and OJSC LUKOIL. The pre-agreed quote for the volume of supplies from Gazprom to Kostromskaya GRES, Pechorskaya GRES and Yuzhnouralskaya GRES is subject to a pre-agreed quota set by the FTS which in 2006 was 2967.5 million m^3, 740.2 million m^3 and 744.1 million m^3, respectively. The ability of WGC-3 to obtain supplies from independent suppliers depends to a large extent on Gazprom, which controls the UGTS, through which those supplies are delivered. WGC-3 typically enters into short-term gas supply agreements with regional suppliers controlled by Gazprom for the purchase of gas in excess of the Gazprom limits.

Mid-term contracts for the supply of gas in 2008-2011 and letters of intent for additional supplies of gas up to 2011 to the WGC-3 branches, Kostromskaya GRES and Yuzhnouralskaya GRES, have been signed with OJSC NOVATEK.

The price of gas purchased on the free market is considerably higher than gas supplied under quotas by Gazprom to Kostromskaya GRES, Pechorskaya GRES and Yuzhnouralskaya GRES by approximately 20-25%, 40-46% and 3-5%, respectively. In November 2006, the Russian government approved a gas liberalization schedule, which aims to increase gradually the regulated natural gas prices until the price is equivalent to European gas prices (net of export tariffs, excised duties and transportation costs) by 2011.

The table below shows regulated gas prices for each gas-fired branch of WGC-3 for the periods indicated.

	Average gas price			
	Year ended December 31		Six months ended June 30	
Branch	**2005**	**2006**	**2006**	**2007**
	RUB/thousand m^3		*RUB/thousand m^3*	
Kostromskaya GRES	1,178.9	1,322.0	1,298.9	1,460.0
Pechorskaya GRES	1,000.9	1,145.8	1,137.4	1,375.0
Yuzhnouralskaya GRES	995.3	1,196.9	1,188.0	1,350.4

Source: WGC-3

Coal

Each of Cherepetskaya GRES, Gusinoozerskaya GRES and Kharanorskaya GRES uses coal as its primary fuel source, while Yuzhnouralskaya GRES can use either gas or coal. The maximum ratio of gas in the fuel mix of Yuzhnouralskaya GRES is limited by the throughput capacity of the Yuzhnouralsk gas distribution station to 130,000 m^3/hour. The table below shows the volume of coal consumed by each of these four branches for the periods indicated.

	Year ended December 31		Six months ended June 30,	
Branch	**2005**	**2006**	**2006**	**2007**
		(thousand tones of natural fuel)		
Cherepetskaya GRES	1,169.0	1,313.0	668.0	560.0
Gusinoozerskaya GRES	2,021.0	2,082.0	1,212.0	1,106.0
Kharanorskaya GRES	1,163.0	1,320.0	654.0	763.0
Yuzhnouralskaya GRES	2,397.0	2,053.0	856.0	645.0

Source: WGC-3

At present, WGC-3's coal-fired power plants can only operate using a specified grade of coal. Yuzhnouralskaya GRES uses a particular type of coal (3Br) from Chelyabinsk and Maikubensk open-pit mines; Cherepertskaya GRES uses two types of coal (SS and T) and obtains its coal from a Kuznetsky open-pit mine; Gusinoozerskaya GRES operates on two types of coal (3Br and D) from Pereyaslavsk and Tugnuisk open-pit mines, and Kharanorskaya GRES uses a particular type of coal (2Br) from Kharanorskaya and Urtuisk open-pit mines. In 2006, Cherepetskaya GRES obtained its coal supplies mainly from LLC PromTekResurs; Gusinoozerskaya GRES — from OJSC SUEK and LLC KrasnoyarskTopUgol; Kharanorskaya GRES — from OJSC SUEK and CJSC Tvel-Invest-Technologies; and Yuzhnouralskaya GRES from OJSC Chelyabinsk Coal Company.

Contracts for the supply of coal to WGC-3's branches are generally for a one-year term. The quantities of coal supplied under the contracts are based on the estimated consumption of coal by the branches as set forth in the approved WGC-3 budget, but may be increased if the actual demand exceeds the estimated amounts. The current coal supply agreements of Cherepertskaya GRES, Gusinoozerskaya GRES, Kharanorskaya GRES and Yuzhnouralskaya GRES will expire on December 31, 2007. For most of the contracts, the payment terms for coal deliveries are 30 days after delivery. The coal is transported by rail from the respective mines and, at the power plants, is transferred from the main rail line of the Russian Railways to a branch line for delivery to the power plant. Power plants typically maintain a stock of coal that would be sufficient for the efficient and reliable operation of the plants and the scheduled production of electricity and heat. The generation facilities of Yuzhnouralskaya GRES and Kharanorskaya GRES would require modification in order to operate on another grade of coal.

The use of coal in electricity generation produces large quantities of ash, approximately 1.5 million tonnes annually. Most of the ash cinder waste is placed in ash dumps at the branches, which require special permits issued by area branches of Rostekhnadzor of Russia, and some is sold to various customers. The respective permits will expire at the end of 2007 and beginning of 2008.

As a result of the planned liberalization of gas prices in Russia, WGC-3 is currently planning to increase its coal-fired installed electric capacity through the construction of new generation units at Kharanorskaya GRES and the substitution of the generation units at other plants. See "— Capital Expenditure".

Fuel Oil

Each of WGC-3's generation facilities also use fuel oil as a reserve fuel and as a starter fuel. Due to its high price, fuel oil is generally used only in periods of peak load when all other fuel sources have been exhausted, particularly in the winter period. Electricity generators that use fuel oil as a reserve fuel are required by law in Russia to retain a mandatory level of fuel oil stocks during the winter period in order to be able to maintain production in the event of unexpected high increases in electricity demand.

The table below shows the volumes of fuel oil purchased by each branch of WGC-3 for the periods indicated.

Branch	Year ended December 31, 2005	Year ended December 31, 2006	Six months ended June 30, 2006	Six months ended June 30, 2007
	(tonnes)			
Kostromskaya GRES	20,591.2	28,419.6	84,051.8	0.0
Cherepetskaya GRES	115,706.0	135,827.6	61,391.0	61,720.1
Gusinoozerskaya GRES	1,548.0	5,068.6	2,261.3	652.5
Pechorskaya GRES	6.6	16,905.6	3,107.3	0.0
Yuzhnouralskaya GRES	1,478.5	1,767.6	364.4	126.3
Kharanorskaya GRES	467.2	1,203.7	411.3	429.4
Total	**139,797.5**	**189,192.7**	**151,587.1**	**62,928.3**

Source: WGC-3

The volume of fuel oil consumed by WGC-3's branches, except Yuzhnouralskaya GRES, increased in 2006, as compared with 2005, as a result of the below-average temperatures in Russia in 2006, which led to a significant increase in the demand for electricity. This increase in demand resulted in a shortage of gas supplies and the use of fuel oil in order to maintain production levels.

The principal suppliers of fuel oil to WGC-3 for the years ended December 31, 2005, 2006, and the first six months ended June 30, 2007 were LLC Agrotek, CJSC Ufaoil, LLC Energygascompanyresource, LLC Industrial.

Fuel rates

Fuel rates are generally the most common means for assessing the economic efficiency of a power plant or one of its generation units. According to RAO UESR, for the year ended December 31, 2006, WGC-3's average fuel rate weighted by capacity was 346.4 goe/kW/h for electricity produced and 180.1 kgoe/Gcal for heat produced, as compared to the thermal generation industry average for the year ended December 31, 2006 of 324.9 goe/kW/h for electricity and 148.6 kgoe/Gcal for heat. WGC-3's fuel rate for electricity production in 2006 was slightly higher than the thermal generation industry average as a result of the use of coal as the primary fuel at four of WGC-3's six branches. The fuel rates of WGC-3's branches have remained relatively constant in 2005, 2006 and the six-months ended June 30, 2007. The table below shows the fuel rates of each branch of WGC-3 for the production of electricity and heat power for the periods indicated.

	Year ended December 31,				Six months ended June 30,			
	2005		2006		2006		2007	
Branch	Fuel rate for electricity produced	Fuel rate for heat produced	Fuel rate for electricity produced	Fuel rate for heat produced	Fuel rate for electricity produced	Fuel rate for heat produced	Fuel rate for electricity produced	Fuel rate for heat produced
	(goe/kW/h)	*(kgoe/Gcal)*	*(goe/kW/h)*	*(kgoe/Gcal)*	*(goe/kW/h)*	*(kgoe/Gcal)*	*(goe/kW/h)*	*(kgoe/Gcal)*
Kostromskaya GRES	307.3	170.6	310.9	168,1	307,9	169,2	307.6	170.6
Cherepetskaya GRES	422.3	205.7	406.2	199,4	401,3	195,5	419.0	201.8
Gusinoozerskaya GRES	361.2	176.3	368.5	187,2	362,9	185,9	371.4	187.1
Pechorskaya GRES	329.6	166.4	330.3	166,7	329,1	166,3	328.6	167.7
Yuzhnouralskaya GRES	392.7	181.1	389.9	180,6	386,3	179,5	386.5	178.7
Kharanorskaya GRES	366.8	186.0	353.7	185,8	350,5	185,2	352.9	185.8

Source: WGC-3

In 2006, Kostromskaya GRES was the third most efficient thermal power plant in Russia in terms of fuel rate, according to WGC-3.

Environment

WGC-3 regards sustainable development as one of its key objectives, and it has recently developed an environmental protection policy. WGC-3 monitors current Russian environmental regulations in order to facilitate compliance with current regulations and the implementation of any necessary remedial actions. WGC-3 has increased expenses related to environmental protection measures to RUB 276.8 million for the year ended December 31, 2006 from RUB 271.1 million for the year ended December 31, 2005. WGC-3's investments for the year ended December 31, 2006 included the installation of upgraded gas purification units at Youzhnouralskaya GRES. WGC-3's total atmospheric pollutant emissions for the year ended December 31, 2006 were 181,668 tonnes, representing a decrease of 0.8% as compared with 2005 despite an overall increase in production of 6% over the same period, and it remained within the emission limits of 399,246 tonnes/year that are permitted by applicable Russian regulations. This decrease is largely due to the decreased emissions of coal ash as a result of the plant upgrade at Yuzhnouralskaya GRES.

WGC-3's power plants have in the past failed to comply with and violated applicable environmental legislation, in particular, that relating to air protection and discharge of wastes. Liability was assessed on several occasions for environmental violations, however, no significant fines were imposed. WGC-3 was also required on several occasions to remedy breaches of environmental laws. WGC-3 currently expects that the 2007 waste discharge limits set by competent Russian authorities (Rostechnadzor) will not be exceeded.

Total negative environmental impact fines for the year ended December 31, 2006 decreased by 46% from the fines charged for the year ended December 31, 2005.

WGC-3 continues to be the subject of environmental investigations from time to time by the Russian authorities although the findings of those investigations have not previously had a material adverse effect on WGC-3's business or results of operations. WGC-3 has also engaged a consultant to assist it in developing a program for selling quotas for greenhouse gas emissions according to the Kyoto Protocol. See "Legal and Regulatory Matters applicable to the EnergoPolyus Group — Environmental Regulations".

Properties

WGC-3 does not currently own the land plots on which its generation facilities are located. WGC-3 either leases such plots or occupies them on the basis of the right of perpetual use. WGC-3 will be required to either lease the land plots it currently occupies on the basis of the right of perpetual use or acquire them by January 1, 2010.

Management and Corporate Governance

Board of Directors

WGC-3's Board of Directors is responsible for general management matters, with the exception of those matters designated by the Russian Joint Stock Companies Law and WGC-3's charter as being the exclusive responsibility of the General Meeting of Shareholders.

WGC-3's Board of Directors currently consists of 11 members (the "Directors"). Ten members of WGC-3's Board of Directors are independent directors in accordance with the criteria set out in the Joint Stock Companies Law and the RTS Rules.

The table below shows the current members of WGC-3's Board of Directors. The current Directors were elected on May 8, 2007. Their term of office is due to expire at the 2008 annual shareholders' meeting.

Name	Position
Bougrov, Andrey Evgenievich	Chairman of the Board of Directors; Managing Director of CJSC Interros Holding Company; Member of the Board of Directors of RAO UESR
Blagodyr, Ivan Valentinovich	Director
Basova, Yulia Vasilievna	Deputy Chairman of the Board of Directors
Abramov, Evgeny Yurievich	Director; Head of Gas Complex; Power Complex Directorate of Norilsk; Member of the Board of Directors of: OJSC NTEK and TGK-14
Gabov, Andrey Vladimirovich	Director; Head of Department of Corporate Governance and Investments, Corporate Center of RAO UESR; Chairman of the Board of Directors of LLC Depositary, Corporate Technologies and OJSC Zagorskaya GAES; Member of the Board of Directors of OJSC "AEK Komienergo", OJSC Permenergo, OJSC Pskovenergo, SGK TGK-8, OJSC Institute of Corporate Governance, MRSK of Northern Caucasia and OJSC Tverelectrosetremont
Herne, David Alexander	Director; Managing Director of Halcyon Advisors, Member of the Board of Directors of HydroOGK, TGK-1 and TGK-2
Katasonov, Viktor Ivanovich	Director; General Director of OJSC Norilsk-Taimyr Energy Company
Klekovkin, Anton Igorevich	Director; Director for Investments of CJSC Interros Holding Company
Panina, Alexandra Gennadievna	Director; Head of Power Industry Participants Organization Center of RAO UESR (Business Unit No. 1); Member of the Board of Directors of OJSC Mosenergosbyt, OJSC Tula Sales Company and OJSC Bryansk Sales Company
Samarenko, Oleg Vyacheslavovich	Director; Head of Power Complex Technical Maintenance, Directorate of Power Complex of Norilsk; Member of the Board of Directors of OJSC Kolenergo
Tikhonov, Viktor Valentinovich	Director; Head of Subsidiaries and Dependent Companies Division, Corporate Department of Norilsk

Management Board

WGC-3's management board comprises its collective executive body, and each member is appointed by the Board of Directors. The management board is principally responsible for the day-to-day management of WGC-3's business. The General Director exercises executive authority over all activities, except for issues assigned to the exclusive competence of a General Meeting of Shareholders, the Board of Directors or the management board.

The table below shows the current members of the management board.

Name	Year of Birth	Position
Sablukov, Yuri Stepanovich	1957	General Director
Tazin, Sergei Afanasievich	1961	Executive Director
Kalabin, Yuri Yurievich	1963	Director for Supplies
Katiev, Dmitry Mikhailovich	1976	Financial Director
Vorobiev, Andrei Anatolievich	1974	Director for Corporate Affairs

Corporate Governance

Corporate governance of WGC-3 has historically been carried out in accordance with the Joint Stock Companies Law, other regulatory acts governing operations of joint stock companies in the Russian Federation, WGC-3's charter and other internal documents. WGC-3 complies with the corporate governance regime of the Russian Federation, although many concepts of corporate governance that are prevalent in Western Europe and the United States are considerably less developed in Russia. For example, securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, and laws relating to anti-fraud safeguards, insider trading and fiduciary duties are rudimentary. As a result, there are fewer safeguards for minority shareholders under Russian law, regulations and practices than are in existence for shareholders in Western Europe or the United States.

Employees

The number of personnel employed by WGC-3 totalled 5,393 as at December 31, 2006 (5,291 as at June 30, 2007). Personnel as at December 31, 2006 comprised workers (61.6%), specialists (22.7%) and management (15.7%).

WGC-3 does not currently maintain a research and development division since those activities are currently conducted on a centralized basis for all OGKs by their parent company, RAO UESR. Following the completion of the planned restructuring and dissolution of RAO UESR (see "Electricity Industry Overview — Final Steps in the Creation of the Post-Reform Industry Structure — Dissolution of RAO UESR"), WGC-3 currently expects that it will outsource research and development activities.

In 2007, WGC-3 entered into collective agreements in accordance with Russian labor laws with the respective employees of each of its six branches. WGC-3 is planning to conclude a new collective agreement for the year 2008.

WGC-3's staff remuneration structure consists of a base component, calculated according to the qualifications and experience of the employee, and a performance-related bonus. WGC-3 increased wage levels at an annual rate of 21.7% in 2006, compared to 2005. The renumeration package that WGC-3 offers to its employees also includes medical insurance and membership of a non-state pension fund scheme. WGC-3 has established a non-state pension fund programme with non-state pension fund of electric energy. As of June 30, 2007, 4,768 of WGC-3's employees were members of the pension fund. For the year ended December 31, 2006 and in the six months ended June 30, 2007, pension benefits paid by WGC-3 to its employees totalled to RUB 26,489 thousand and RUB 14,648 thousand, respectively.

In 2006, WGC-3 invested approximately RUB 45,235 thousand in its industrial health and safety program, an increase of approximately RUB 9,466 thousand from 2005, and, in the six months ended June 30, 2007, WGC-3 invested RUB 29,778 thousand in that program. There were no "industrial accidents at WGC-3's facilities in 2005, 2006 and in the six months ended June 30, 2007. See "Legal and Regulatory Matters applicable to the EnergoPolyus Group — Employment and Labor".

Insurance

The insurance industry in Russia is not well developed. Many forms of insurance protection that are common in more economically developed countries are not yet available in Russia on comparable terms, including coverage for business interruption. As a part of its insurance policy, WGC-3 has entered into a number of insurance contracts with the leading Russian insurers, including Open Joint Stock Insurance Company Ingosstrakh, OJSC ROSNO, OJSC AlfaStrakhovanie. The property insurance programme of WGC-3 covers various risks, primarily risks of loss and damage of WGC-3's property. For the year ended December 31, 2006, WGC-3 has obtained property insurance in relation to all of its generating facilities with a total insured value of RUB 26,555.2 million (approximately USD 1,008.5 million) with a single event unconditional deductible of RUB 0.03 million or 0.1 million for each insured facility.

WGC-3 also maintains, in accordance with the requirements of Russian law, insurance against third-party liability for injuries and losses, including environmental damage caused by dangerous substances and accidents on its production sites. For the year ended December 31, 2006, WGC-3 paid annual premiums of approximately RUB 121.7 million in total.

Litigation

WGC-3 has been and continues to be the subject of legal proceedings and adjudications from time to time, as well as regulatory and administrative investigations, inquiries and actions regarding tax, labor, environmental and other matters, which, in the past, have resulted in awards of damages, settlements or administrative sanctions, including fines.

WGC-3 is not the subject of, and is not aware of, any pending legal or regulatory action which, in the opinion of its management, severally or jointly, could have a material adverse effect on WGC-3, its results of operations or financial condition. WGC-3 is currently involved in 23 judicial proceedings in which it estimates its potential aggregate liability to be RUB 210 million.

Due to uncertainties in the legal and regulatory process, there can be no assurance that WGC-3 will not become subject to proceedings or adjudications in the future that could have a material adverse effect on WGC-3, its results of operations or its financial condition. See "Risk Factors — Legal and Regulatory Risks and Uncertainties in the Russian Federation — Weaknesses relating to the Russian legal system create an uncertain environment for investment and business activity".

OGK-5

OGK-5 is one of the six thermal OGKs created during the restructuring of RAO UESR. OGK-5's core business comprises the generation and sale of electricity and the generation and sale of heat on the Russian wholesale electricity market. OGK-5 is the third largest OGK in terms of installed electric capacity as at December 31, 2006. OGK-5 is headquartered in Moscow and operates four production branches around Russia: Konakovskaya GRES (Central IES), Nevinnomysskaya GRES (South IES), Reftinskaya GRES and Sredneuralskaya GRES (Urals IES).

History

OGK-5 was established by its then sole shareholder, RAO UESR, and registered on October 27, 2004. OGK-5's main assets consist of four power plants: Konakovskaya GRES, Nevinnomysskaya GRES, Reftinskaya GRES and Sredneuralskaya GRES. The assets of Reftinskaya GRES and Sredneuralskaya GRES were historically owned by RAO UESR, while OJSC Konakovskaya GRES was 51% owned by RAO UESR and Nevinnomysskaya GRES was 100% minus one share owned by RAO UESR. On September 3, 2004, the board of directors of RAO UESR decided to establish OGK-5 by contributing the assets and shareholding it held in these companies to OGK-5's share capital.

At the EGM held on December 6, 2006, the shareholders of RAO UESR voted in favor of the proposed spin-off of OGK-5 from RAO UESR, which was completed on September 3, 2007. As at September 30, 2007, the share capital of OGK-5 comprised 35,371,898,370 ordinary shares, each with a par value of RUB 1.00, and Norilsk held a 1.72% shareholding in OGK-5 (see "Norilsk Group — History and Development") (including 212,866 shares, reports on the results of issuance of which were registered in October 2007). If the Spin-off is implemented, Norilsk will transfer its entire shareholding to EnergoPolyus (see "The Spin-off").

In early June 2007, RAO UESR sold a blocking stake of 25.0% in OGK-5 in open auction for USD 1.5 billion to Enel Investment Holding B.V. In late June 2007, Enel Investment Holding B.V. acquired an additional 5.0% stake in OGK-5 in the open market for approximately USD 281 million. On October 25, 2007, Enel agreed to purchase a further 7.15% stake in OGK-5, bringing its total holding to 37.15%. The acquisition was completed on October 26, 2007. On October 29, 2007 Enel submitted a mandatory tender offer for the remaining shares of OGK-5 to the FSFM, as required by Russian law. Norilsk may consider selling its current 1.72% shareholding in OGK-5 to Enel.

Generating Facilities and Production

OGK-5's principal business comprises the generation and sale of electricity, as well as the generation and sale of heat.

The table below shows the installed electric and heat capacity, respectively, of each of OGK-5's power plants as at December 31, 2006.

Generation Unit	As at December 31, 2006 Installed Electric Capacity (MW)	Installed Heat Capacity (Gcal/h)
Konakovskaya GRES	2,400	120
Nevinnomysskaya GRES	1,290	729
Reftinskaya GRES	3,800	350
Sredneuralskaya GRES	1,182	1,193
Total	**8,672**	**2,392**

Source: OGK-5 2006 Annual Report

The table below shows the electricity and heat output, respectively, of each of OGK-5's four power plants for the periods indicated.

Generation Unit	Year ended December 31, 2006 Electricity Output (million kW/h)	Heat Output (Gcal thousand)
Konakovskaya GRES	8,451	254
Nevinnomysskaya GRES	6,640	1,882
Reftinskaya GRES	18,965	475
Sredneuralskaya GRES	6,585	4,402
Total	**40,441**	**7,013**

Source: OGK-5 2006 Annual Report

Sales and Tariffs

OGK-5 derives substantially all of its revenue from the sale of electricity, electric capacity and heat on the wholesale market. The wholesale electricity market in the Russian Federation is currently being reformed and, at this time, remains subject to numerous rules and regulations, including rules relating to pricing. OGK-5 sells electricity within the pricing zones of the European part of the Russian Federation and the Urals.

In the year ended December 31, 2006, OGK-5 sold 38,352 million kW/h of electricity, as well as 7,002 thousand Gcal of heat.

The table below shows OGK-5's average electricity, capacity and heat tariffs broken down by power plant for the first six months ended June 30, 2007.

Generation Unit	Six months ended June 30, 2007 Average Electricity Tariffs (RUB/MW/h)	Capacity (RUB/MW/month)	Heat (RUB/Gcal)
Konakovskaya GRES	496.47	97,108.78	n/a
Nevinnomysskaya GRES	563.37	108,311.29	220.1(1)
Reftinskaya GRES	395.46	89,186.83	268.45(1)
Sredneuralskaya GRES	448.29	79,697.65	215.2(1)

Source: OGK-5 2006 Annual Report

1 Set for hot water

Fuel

OGK-5 has a diversified fuel mix. Purchases of fuel comprise the principal operating expense of OGK-5. For the year ended December 31, 2006, according to the RAO Factsheet, gas and coal comprised approximately 53.58% and 44.60%, respectively, as measured by installed electric capacity, of OGK-5's total fuel supply. OGK-5 obtains its gas supplies primarily from Gazprom and International Group of Companies "ITERA" and its coal supplies primarily from LLP "Bogatyr Access Komir."

Management and Employees

OGK-5's board of directors is responsible for general management matters, with the exception of those matters designated by the Joint Stock Companies Law and its charter as being the exclusive responsibility of the general meeting of shareholders.

The table below shows the current members of OGK-5's board of directors. The current directors were elected on August 31, 2007. Their term of office is due to expire at the 2008 annual shareholders' meeting.

Name	Position
Orudzhev, Eldar Valerievich	Chairman of the Board of Directors; Deputy Managing Director of Business Unit No. 1 of RAO UESR
Fache, Dominique	Deputy Chairman of the Board of Directors; ENEL's Country Manager and Chief Operations Officer for Russia and CIS
Akhanov, Dmitry Sergeevich	Member of the Board of Directors; Head of the Strategy Department of the Reform Management Center of RAO UESR
Bruti, Marcello	Member of the Board of Directors; Head of Combined Cycle Plants and Turbogas Department of ENEL
Bushin, Anatoly Vladimirovich	Member of the Board of Directors; General Director of OGK-5 and the Chairman of the Management Board; General Director of OJSC Kostromskaya GRES
Cimini, Georgio	Member of the Board of Directors; General Director of LLC ENEL-ESN ENERGO
Glazkov, Grigory Yurievich	Member of the Board of Directors; Independent Consultant
Kulikov, Denis Viktorovich	Member of the Board of Directors, Independent Director; Expert of the Investors' Rights Protection Association
Rohan, Gerald Joseph	Member of the Board of Directors, Independent Director; Member of the Association of Independent Directors
Vasilyev, Sergei Vyacheslavovich	Member of the Board of Directors; Head of Legal Department of RAO UESR
Zweguintsow, Stephane	Member of the Board of Directors; Local Representative of ENEL in Russia

Management Board

OGK-5's management board is its collective executive body, and each member is appointed by the board of directors. OGK-5's management board is principally responsible for the day-to-day management of OGK-5's business. The general director exercises executive authority over all activities, except for issues assigned to the exclusive competence of the general meeting of shareholders, the board of directors or the management board.

The table below shows the current members of OGK-5's management board.

Name	Position
Bushin, Anatoly Vladimirovich	Chairman of the Management Board; the General Director
Antipov, Maxim Viktorovich.	Chief Accountant
Grechenkov, Nikolay Valerievich	Deputy General Director; Technical Director
Krupin, Mikhail Lvovich	First Deputy General Director; Financial Director
Vologzhanin, Dmitry Evgenievich	Deputy General Director; Commercial Director

The number of employees of OGK-5 totaled 4,346 as at December 31, 2006.

TGK-1

TGK-1 is one of 14 TGKs created during the restructuring of RAO UESR. TGK-1's principal business comprises the generation of electricity and the sale of electricity and capacity, as well as the generation and sale of heat in the North-West IES. TGK-1 is the third largest territorial generating company in Russia in terms of installed electric capacity. It operates 55 electric generating stations in four regions in the North-West IES: the Nevsky Branch (St. Petersburg and Leningrad region), the Kolsky Branch (Murmansk region) and the Karelsky Branch (the Republic of Karelia). TGK-1's generation assets include thermal, hydroelectric, diesel and co-generation power plants, and it has a heating network of 946 kms. TGK-1 sells electricity primarily on the domestic wholesale market, although it also exports a portion of its output to neighboring Finland and Norway.

History

TGK-1 was established by its then sole shareholder, RAO UESR, and registered on March 25, 2005, and, following a restructuring of the vertically integrated AO-Energos, JSC Lenergo, JSC Kolenergo and JSC Karel-energogeneratsiya, acquired control of Peterburgskaya Generating Company, Kolskaya Generating Company, Apatitskaya Generating Company and Karelenergogeneration. On November 1, 2006, these four companies merged into TGK-1, and TGK-1 reorganized its operations into three branches. In 2007, TGK-1 acquired a 84.06% equity stake in OJSC Murmanskaya TES in exchange for shares in TGK-1. In addition to the four power plants, TGK-1 also holds in trust management the shares of three electricity sales companies, which are mostly engaged in the sale of electricity, primarily that produced by TGK-1 and its subsidiaries. As of September 30, 2007, RAO UESR held 55.69% of the issued share capital of TGK-1. As at September 30, 2007, Norilsk held a 7.37% shareholding in TGK-1 (see "Norilsk Group — History and Development"). If the Spin-off is implemented, Norilsk will transfer its entire shareholding in TGK-1 to EnergoPolyus. See "The Spin-off". Following TGK-1's charter capital increase, which was completed in October 2007, the issued share capital of TGK-1 comprises 3,850,959,750,205 ordinary shares, each with a par value of RUB 0.01. Due to such charter capital increase, the shareholding of Norilsk in TGK-1 decreased to approximately 5.6%.

On October 29, 2007 an extraordinary general meeting of TGK-1 voted on TGK-1's reorganization in the form of a merger of OJSC TGK-1 Holding into it, with TGK-1 being the surviving entity. The agenda of the extraordinary general shareholders' meeting included, among other things, the increase of TGK-1's charter capital by issuing additional 4,056,160,466 ordinary shares. As a result of such issuance, Norilsk's or EnergoPolyus' shareholding in TGK-1 may be diluted. As of the date of this Information Statement, the minutes of such extraordinary general shareholders' meeting have not been drawn up and it is not known whether the reorganization was approved. Furthermore, on October 26, 2007, the shareholders of RAO UESR approved the final phase of the RAO UESR reorganization, which will involve RAO UESR shareholders receiving shares directly in RAO UESR subsidiaries, including TGK-1, or in newly-created holding companies. See "Electricity Industry Overview — Final Steps in the Creation of the Post-Reform Industry Structure — Dissolution of RAO UESR".

Generating Facilities and Production

TGK-1's principal business comprises the generation of electricity and the sale of electricity and electric capacity, as well as the generation and sale of heat.

The table below shows the installed electric and heat capacity, respectively, of each of TGK-1's four generation units as at December 31, 2006.

Branch	As at December 31, 2006 Installed Electric Capacity (MW)	Installed Heat Capacity (Gcal/h)
Nevsky Branch	**3,407**	**12,200**
Central TES	78.5	1,414
Pravoberezhnaya TES-5	244	1,432
Vasileostrovskaya TES-7	85	1,084
Dubrovskaya TES-8	192	185
Pervomayskaya TES-14	330	1,773
Avtovskaya TES-15	291	1,814
Vyborgskaya TES-17	255	1,060
Severnaya TES-21	500	1,188
Yuzhnaya TES-22	800	2,250
Narvskaya GES-13	125	n/a
Cascade of Vyokinski GES	164.3	n/a
Volhovskaya GES-6	83	n/a
Cascade of Svirski GES	259	n/a
Karelsky Branch	**914**	**689**
Cascade of Sunskiy GES	50.6	n/a
Cascade of Vygskiy GES	240	n/a
Cascade of Kemskiy GES	330	n/a
Petrozavodskaya TES	281	689
Group of small GES	12.3	n/a
Kolsky Branch	**1,916**	**735**
Cascade of Nivskiy GES	569.5	n/a
Cascade of Pazskiy GES	187.9	n/a
Cascade of Tulomskiy GES	324	n/a
Cascade of Serebryanskiy GES	511.4	n/a
Apatitskaya TES	323	735
Murmanskaya TES	**12**	**1,111**
Total TGK-1 (including Murmansk TES)	**6,248**	**14,735**

Source: TGK-1 2006 Annual Report

The table below shows the electricity and heat output, respectively, of each of TGK-1's four generation units for the year ended December 31, 2006.

Branch	Year ended December 31, 2006 Electricity Output (million kW/h)	Heat Output (Gcal thousand)
Nevsky Branch	13,048	20,822
Karelsky Branch	3,361	1,715
Kolsky Branch	6,834	284
Murmanskaya TES	34.2	2,270
Total TGK-1 (including Murmanskaya TES)	**23,377**	**25,091**

Source: RAO Factsheet

Sales and Tariffs

TGK-1 derives substantially all of its revenue from the sale of electricity, electricity capacity and heat. TGK-1 sells substantially all of its electricity and electricity capacity in the Russian wholesale market, and it does not currently participate in any retail markets. See "Electricity Industry Overview — New Wholesale Power Market — Retail Market".

According to TGK-1's annual report for 2006 and quarterly report for the second quarter of 2007, for the year ended December 31, 2006, TGK-1 sold 23,527 million kW/h of electricity (14,751 million kW/h for the six months ended June 30, 2007), as well as 22,190 thousand Gcal of heat (13,867 thousand Gcal for the six months ended June 30, 2007).

The table below shows the average electricity, capacity and heat tariffs broken down by power plants for six months ended June 30, 2007.

	Six months ended June 30, 2007		
Branch	**Average Electricity Tariffs (RUB/MW/h)**	**Capacity (RUB/MW/month)**	**Heat (RUB/Gcal)**
	0.4510[(1)]	74,360.5[(1)]	475.1[(1)]
Nevsky Branch	0.2060[(2)]	86,145.6[(2)]	703.5[(2)]
Karelsky Branch	0.3825	79,706.9	327.1
Kolsky Branch	0.2089	61,757.6	805.0
Murmanskaya TES	0.0499	62,342.76	805.0

Source: TGK-1

1 In St. Petersburg

2 In Leningrad region

Fuel

Purchases of fuel comprise the principal operating expense of TGK-1. TGK-1 uses gas as its primary fuel (according to RAO's Factsheet, gas comprised 90.87% of its fuel balance for the year ended December 31, 2006), and it consumed 5,237 million m^3 of gas for the year ended December 31, 2006. TGK-1 obtains its gas supplies primarily from Peterburgregiongaz, a subsidiary of Gazprom.

Management and Employees

TGK-1's board of directors is responsible for general management matters, with the exception of those matters designated by the Russian Joint Stock Companies Law and its charter as being the exclusive responsibility of the general meeting of shareholders.

The table below shows the current members of TGK-1's board of directors. The current directors were elected on June 19, 2007. Their term of office is due to expire at the 2008 annual shareholders' meeting.

Name	Position
Chikunov, Aleksandr Vasilyevich	Chairman of the Board of Directors; Member of the Management Board of RAO UESR; Managing Director of RAO UESR (Business Unit No. 1); Chairman of the Board of Directors of OJSC Far East Energy Company and TGK-9; Member of the Board of Directors of GRES-4, Lenenergo, Moscow City Electric Grid Company, Chelyabinsk Generation Company and MRSK of Center
Akhanov, Dmitry Sergeevich	Member of the Board of Directors; Head of Strategy Department, Reform Management Center of RAO UESR; Member of the Board of Directors of OGK-5, SGK TGK-8, OJSC Rostovenergo, OJSC Kamchatskenergo and OJSC Mosenergosbyt and OGK-1
Bougrov, Andrey Evgenievich	Member of the Board of Directors; Member of the Board of Directors of RAO UESR; Managing Director and Member of the Board of Directors of CJSC Holding Company Interros
Chukhlebov, Vitaly Stepanovich	Member of the Board of Directors; Executive Secretary of the Board of Directors of RAO UESR
Grave, Irina Vladimirovna	Member of the Board of Directors; Vice-President of Fortum Power and Heat Oy
Herne, David Alexander............	Member of the Board of Directors; Managing Director of Halcyon Advisors; Member of the Board of Directors of WGC-3, TGK-2 and HydroOGK
Kuula, Tapio	Member of the Board of Directors; President of Fortum Power and Heat Oy
Matvienko, Valentina Ivanovna......	Member of the Board of Directors; Governor of St. Petersburg, Member of the Board of Directors of CJSC Lenergo
Novoselov, Dmitry Borisovich	Member of the Board of Directors; Vice-President, Head of Russian Operations of Fortum Power and Heat Oy
Pichugina, Maria Nikolaevna	Member of the Board of Directors; Deputy Managing Director of RAO UESR (Business Unit No. 1); Chairman of the Board of Directors of: Kola Power Supply Company and CJSC Saint Petersburg Sales Company; Deputy Chairman of the Board of Directors of OGK-5; Member of the Board of Directors of: OJSC Karelian Power Sales Company and Mosenergo
Rodin, Valery Nikolaevich	Member of the Board of Directors; General Director and Chairman of the Management Board; Member of the Board of Directors of OJSC Engineering Center of Ural Energy

Management Board

TGK-1's management board is its collective executive body, and each member is appointed by the board of directors. TGK-1's management board is principally responsible for the day-to-day management of TGK-1's business. The general director exercises executive authority over all activities, except for issues assigned to the exclusive competence of the general meeting of shareholders, the board of directors or the management board.

The table below shows the current members of TGK-1's management board according to information from TGK-1's web-site.

Name	Position
Rodin, Valery Nikolaevich	Chairman of the Management Board; General Director
Antipov, Alexander Gennadievich . . .	Director of the Kolsky Branch
Belov, Valery Vladimirovich	Director of the Karelsky Branch
Ivannikov, Alexander Sergeevich	Deputy General Director for Economics and Finance
Filippov, Andrey Nikolaevich	Deputy General Director for Investment and Capital Construction
Kirin, Dmitry Nikolaevich	First Deputy General Director for Commercial and General Matters
Laputko, Sergey Dmitrievich	Deputy General Director for Technical Policy — Chief Engineer
Lurie, Alexander Viktorovich	Deputy General Director, Director of the Real Estate Management
Piskarev, Alexander Nikolaevich	Deputy General Director for Legal Matters
Stanishevskaya, Raisa Vladimirovna .	Chief Accountant
Stolyarov, Alexander Georgievich . . .	Deputy General Director for Sales

The number of employees of TGK-1 totaled 8,490 as at December 31, 2006.

TGK-5

TGK-5 is one of the 14 TGKs created during the restructuring of RAO UESR. TGK-5's principal business comprises the generation and sale of electricity and capacity, as well as the generation and sale of heat in the Middle-Volga IES (the "Volga IES"). TGK-5 is the sixth largest territorial generating company in terms of installed electric capacity. TGK-5 is headquartered in Moscow, and it operates 11 power plants in four neighboring regions of Russia: Chuvashskaya Republic, Udmurtskaya Republic, Mariy El Republic and Kirov region.

History

TGK-5 was established by its then sole shareholder, RAO UESR, and registered on March 22, 2005. In December 2005, OJSC Chuvashskaya Generation Company, OJSC Udmurtskaya Territorial Generation Company, OJSC Mariyskaya Regional Generation Company and OJSC Vyatskaya Electric and Thermal Company merged into TGK-5.

At the EGM on December 6, 2006, the shareholders of RAO UESR voted in favor of the proposed spin-off of TGK-5 from RAO UESR, which was completed on September 3, 2007. See "Electricity Industry — Final Steps in the Creation of the Post-Reform Industry Structure — Dissolution of RAO UESR".

As at September 30, 2007, Norilsk held a 1.63% shareholding in TGK-5. See "Norilsk Group — History and Development". If the Spin-off is implemented, Norilsk will transfer its entire shareholding to EnergoPolyus. See "The Spin-off". The current issued share capital of TGK-5 comprises 1,230,254,011,959 ordinary shares, each with a par value of RUB 0.01.

Generating Facilities and Production

TGK-5's principal business comprises the generation and sale of electricity and electricity capacity, as well as the generation and sale of heat.

The table below shows the installed electric and heat capacity of each of TGK-5's four branches as at December 31, 2006.

Branch	As at December 31, 2006 Installed Electric Capacity (MW)	Installed Heat Capacity (Gcal/h)
Kirov Branch	**940**	**3,369**
Kirovskaya TES-1	10	N/A
Kirovskaya TES-3	160	N/A
Kirovskaya TES-4	320	N/A
Kirovskaya TES-5	450	N/A
Chuvashkaya Branch	**852**	**2,637**
Cheboksarkaya TES-1	12	N/A
Cheboksarkaya TES-2	460	N/A
Novocheboksarkaya TES-3	380	N/A
Mariy El Branch	**195**	**660**
Yoshkar-Olinskaya TES-2	195	360
Udmurtskaya Branch	**480**	**2,374**
Izhevskaya TES-1	78	N/A
Izhevskaya TES-2	390	N/A
Sarapulskaya TES	12	N/A
Total TGK-5	**2,467**	**9,040**

Source: RAO Factsheet

The table below shows the electricity and heat output of each of TGK-5's four branches for the periods indicated.

Branch	Year ended December 31, 2006 Electricity Output (million kW/h)	Heat Output (Gcal thousand)	Six months ended June 30, 2007 Electricity Output (millions kW/h)	Heat Output (Gcal thousand)
Kirov Branch	4,418	6,861	1,023	1,083
Chuvashkaya Branch	2,611	4,306	391	607
Mariy El Branch	2,374	960	187	141
Udmurtskaya Branch	1,016	4,844	542	835
Total TGK-5	**10,419**	**16,971**	**2,143**	**2,666**

Source: TGK-5 2006 Annual Report

Sales and Tariffs

TGK-5 derives substantially all of its revenue from the sale of electricity, electricity capacity and heat on the Russian wholesale market. See "Electricity Industry Overview — New Wholesale Power Market — Retail Market".

For the year ended December 31, 2006, TGK-5 sold 11,184 million kW/h of electricity (including resales), as well as 16,151 thousand Gcal of heat.

The table below shows TGK-5's average electricity and heat tariffs for the six months ended June 30, 2007.

Branch	Six months ended June 30, 2007 Average Electricity Tariffs (RUB/MW/h)	Capacity (RUB/MW/month)	Heat (RUB/Gcal)
Kirov Branch	1,905	86,008	268.8
Chuvashkaya Branch	391	83,098	286
Mariy El Branch	354	82,220	301
Udmurtskaya Branch	420	63,677	267

Source: TGK-5 2006 Annual Report

Fuel

According to TGK-5's annual report for 2006 and quarterly report for the second quarter of 2007, purchases of fuel comprise the principal operating expense of TGK-5. TGK-5 uses gas as its primary fuel (87.4% of its fuel balance for the year ended December 31, 2006 and 95.9% for the six months ended June 30, 2007). TGK-5 obtains its gas supplies primarily from NOVATEK.

Management and Employees

TGK-5's board of directors is responsible for general management matters, with the exception of those matters designated by the Russian Joint Stock Companies Law and its charter as being the exclusive responsibility of the general meeting of shareholders.

The current members the of board of directors were elected on June 9, 2007. Their term will expire at the 2008 annual shareholders' meeting.

Name	Position
Lebedev, Vladimir Albertovich	Chairman of the Board of Directors, The General Director of OJSC Marienergosbyt
Kolushov, Vladimir Nikolaevich	Deputy Chairman of the Board of Directors; Executive Director of Business Unit No. 1 of RAO UESR
Bikmurzin, Albert Fyaritovich	Member of the Board of Directors; Head of the Corporate Policy Department of Business Unit No. 1 of RAO UESR
Drozhzhin, Sergey Vladimirovich	Member of the Board of Directors; Senior Vice-President for economy and finance of CJSC Complex Energy Systems
Gluschenko, Alexei Dmitrievich	Member of the Board of Directors; Senior Vice-President for assets management of CJSC Complex Energy Systems
Kolosok, Elena Valierievna	Member of the Board of Directors; Head of Department of mergers and acquisitions of CJSC Complex Energy Systems
Medvedeva, Elena Alexeevna	Member of the Board of Directors; Head of the Regulatory Support Department of the Reform Management Center of RAO UESR
Smelov, Eduard Yurievich	Member of the Board of Directors; General Director of TGK-5
Slobodin, Mikhail Yurievich	Member of the Board of Directors; President of CJSC Complex Energy Systems
Sokolovsky, Mikhail Zinovievich	Member of the Board of Directors; Head of Legal Department of RAO UESR Business Unit No. 1
Vasilyev, Sergei Vyacheslavovich	Member of the Board of Directors; Head of Legal Department of RAO UESR

Management Board

TGK-5's management board is its collective executive body, and each member is appointed by the board of directors. TGK-5's management board is principally responsible for the day-to-day management of TGK-5's business. The general director exercises executive authority over all activities, except for issues assigned to the exclusive competence of the general meeting of shareholders, the board of directors or the management board.

The table below shows the current members of TGK-5's management board.

Name	Position
Smelov, Eduard Yurievich	Chairman of the Management Board; General Director of TGK-5
Aleinik, Vladimir Alexandrovich	Director for Strategy and Project Work of TGK-5
Glinchak, Evgeniy Stepanovich	Deputy General Director for Economics and Finance of TGK-5
Kolushov, Vladimir Nikolaevich	Deputy General Director for Strategy, Investments and Business Development of TGK-5
Onuchin, Gennagy Vladimirovich ...	Deputy General Director for Logistics and Purchasing of TGK-5
Ozerov, Sergey Leonidovich	Deputy General Director — Head of Projects Implementation Centre of TGK-5
Sandalov, Mikhail Anatolievich	Director of Kirov branch of TGK-5
Sharafieva, Anna Azatovna	Deputy General Director for Legal Matters and Corporate Governance of TGK-5
Skvortsov, Nikolay Alexandrovich ...	Director of Udmurt branch of TGK-5
Torsunov, Vyacheslav Yurievich	Deputy General Director for Interregional Policy of TGK-5
Zhuravlev, Alexei Vladimorovich	Director of Chuvashi branch of TGK-5
Zykin, Yuri Vasilievich	Deputy General Director for Technical Policy of TGK-5

The number of employees of TGK-5 totaled 5,027 as at December 31, 2006.

TGK-14

TGK-14 is one of 14 TGKs created during the restructuring of RAO UESR. TGK-14's principal business comprises the generation and sale of electricity and electric capacity as well as the generation and sale of heat in the Siberia IES, including two regions of Russia, the Republic of Buryatia and the Chita region. TGK-14 is the smallest territorial generating company in Russia in terms of installed electric capacity. It operates through six branches, the Chita Power Generation Branch, the Buryatia Power Generation Branch, the Chita Energy Complex, the Ulan-Ude Energy Complex, Chitinskiy Teploenergosbyt and Byruatia Teploenergosbyt. TGK-14's generating assets include 7 power plants.

History

TGK-14 was established by its then sole shareholder, RAO UESR, and registered on December 7, 2004. In 2005, the generating facilities of OJSC Chitaenergo and OJSC Buryatenergo were leased to TGK-14. OJSC Chitaenergo and OJSC Buryatenergo were subsequently reorganized to form OJSC Chita Generation Company and OJSC Buryatgeneration. In September 2006, these regional generation companies merged into TGK-14 to continue as TGK-14's generating facilities. In the course of these reorganizations, shares in TGK-14 were distributed to shareholders of OJSC Chita Generation Company and OJSC Buryatgeneration. RAO UESR currently holds 49.45% of the issued share capital of TGK-14. On January 30, 2007, Norilsk acquired 215,412,623,642 ordinary shares of TGK-14, and became the holder of a 27.81% shareholding in TGK-14. Following TGK-14's charter capital increase, which was completed in September 2007, the shareholding of Norilsk decreased to 27.69%. As at September 30, 2007, Norilsk held a 27.69% shareholding in TGK-14 (see "Norilsk Group — History and Development"). If the Spin-off is implemented, Norilsk will transfer its entire shareholding in TGK-14 to EnergoPolyus. See "The Spin-off". The current issued share capital of TGK-14 comprises 777,945,609,114 ordinary shares, each with a par value of RUB 0.001. On October 15, 2007, the board of directors of TGK-14 resolved to convene an extraordinary general shareholders' meeting to vote on the reorganization of TGK-14 by way of a merger of OJSC TGK-14 Holding into it. Such extraordinary general shareholders' meeting will take place by way of absentee voting on November 20, 2007. The agenda for the general shareholders' meeting also includes the increase of the charter capital of TGK-14 by issuing additional 10,988,088,544 ordinary shares to be placed by way of a conversion of shares of OJSC TGK-14 Holding. As a result of such issuance, Norilsk's or EnergoPolyus' shareholding in TGK-14 may be diluted.

Furthermore, on October 26, 2007, the shareholders of RAO UESR approved the final phase of the RAO UESR reorganization, which will involve RAO UESR shareholders receiving shares directly in RAO UESR subsidiaries, including TGK-14, or in newly-created holding companies. See "Electricity Industry Overview — Final Steps in the Creation of the Post-Reform Industry Structure — Dissolution of RAO UESR".

Generating Facilities and Production

TGK-14's principal business comprises the generation and sale of electricity and electric capacity, as well as the generation and sale of heat.

The table below shows the installed electric and heat capacity of each of TGK-14's two generation units as at December 31, 2006.

Generation Unit	As at December 31, 2006 Installed Electric Capacity (MW)	Installed Heat Capacity (Gcal/h)
Buryatiya generation	**130**	**1,283**
Ulan-Udenskaya TES-1	130	843
Ulan-Udenskaya TES-2	n/a	380
Timluiskaya TES	n/a	60
Chita generation	**513**	**1,425**
Chitinskaya TES-1	471	987
Chitinskaya TES-2	6	229
Sherlovogorskaya TES	12	99
Priargunskaya TES	24	110
Total TGK-14	**643**	**2,708**

Source: TGK-14 2006 Annual Report

The table below shows the electricity and heat output of each of TGK-14's two generation units for the year ended December 31, 2006.

Generation Unit	Year ended December 31, 2006 Electricity Output (million kW/h)	Heat Output (Gcal thousand)
Buryatiya generation	**391**	**2,601**
Ulan-Udenskaya TES-1	391	1,798
Ulan-Udenskaya TES-2	n/a	723
Timluiskaya TES	n/a	80
Chita generation	**2,378**	**3,048**
Chitinskaya TES-1	2,239	2,214
Chitinskaya TES-2	30	533
Sherlovogorskaya TES	51	175
Priargunskaya TES	58	126
Total TGK-14	**2,769**	**5,649**

Source: TGK-14 2006 Annual Report

Sales and Tariffs

TGK-14 derives substantially all of its revenue from the sale of electricity, electric capacity and heat on the Russian wholesale market. It does not currently participate in any retail markets. See "Electricity Industry Overview — New Wholesale Power Market — Retail Market".

For the year ended December 31, 2006, TGK-14 sold 2,640.4 million kW/h of electricity, as well as 2,580 thousand Gcal of heat.

The table below shows TGK-14's average electricity, capacity and heat tariffs broken down by power plant for the first six months ended June 30, 2007.

	Six months ended June 30, 2007		
Generation Unit	Average Electricity Tariffs (RUB/MW/h)	Capacity (RUB/MW/month)	Heat (RUB/Gcal)
Buryatia Generation			
Ulan-Udenskaya TES-1	442	33,038	418.9(1)
Ulan-Udenskaya TES-2	—	—	506.5(1)
Chita generation			
Chitinskaya TES-1	383	99,300	397(2)/864(3)
Chitinskaya TES-2	838	99,300	397(2)/864(3)
Priargunskaya TES	388	99,300	397(2)/864(3)
Sherlovogorskaya TES	589	99,300	397(2)/864(3)

Source: TGK-14

1 Set for hot water

2 Set for private individuals

3 Set for legal entities

Fuel

Purchases of fuel comprise the principal operating expense of TGK-14. TGK-14 uses coal as its primary fuel (according to the RAO Factsheet, 99% of its fuel balance for the year ended December 31, 2006).

Management and Employees

TGK-14's board of directors is responsible for general management matters, with the exception of those matters designated by the Russian Joint Stock Companies Law and its charter as being the exclusive responsibility of the general meeting of shareholders.

The table below shows the current members of TGK-14's board of directors. The current directors were elected on May 18, 2007. Their term of office is due to expire at the 2008 annual shareholders' meeting.

Name	Position
Orudzhev, Eldar Valerievich	Chairman of the Board of Directors; Deputy Managing Director of RAO UESR (Business Unit No. 1); Chairman of the Board of Directors of OGK-5, TGK-4 and OJSC Yakutskenergo; Member of the Board of Directors of OJSC Institute of Corporate Governance, OJSC Central Moscow Depositary, OJSC Far East Generation Company and OJSC Far East Energy Company, Member of the Board of Directors of OJSC Taimyrgas
Abramov, Evgeny Yurievich	Member of the Board of Directors; Deputy Head of Gas Complex Directorate of Norilsk; Member of the Board of Directors of: OJSC NTEK and WGC-3
Alfyorov, Vladimir Gennadievich	Member of the Board of Directors; General Director; Chairman of the Management Board; General Director of OJSC Chita Utilities Systems and OJSC Buryatia Utilities Systems; General Director and Member of the Board of Directors of OJSC Chita Power Sales Company and OJSC Buryatenergosbyt
Bakaev, Grigoriy Nikolaevich	Member of the Board of Directors; General Director of OJSC Taimyrgaz

Name	Position
Gadzhyev, Ilya Ibragimovich	Member of the Board of Directors; Head of Sector within Business Unit No. 1 of RAO UESR; Member of the Board of Directors of OJSC Volgogradenergosbyt, OJSC Primorskaya Trunk Grid Company, OJSC Kolymaenergo, OJSC Orel Sales Company, OJSC Tambovskaya ESC and OJSC South-Yakut Energy Company
Malov, Alexey Alexandrovich	Member of the Board of Directors; Head of Division within the Subsidiaries and Dependent Companies Management Department, Norilsk
Nagoga, Margarita Georgievna	Member of the Board of Directors; Head of Cooperation with Mass Media Department, Corporate Center of RAO UESR
Shumilov, Alexander Alexandrovich	Member of the Board of Directors; Head of Energy Assets Management of SUEK; Member of the Board of Directors of OJSC AutotransportEnergo, OJSC Altayelectrosetremount, OJSC Omsk Trunk Grid Company, OJSC Buryatenergosbyt, OJSC Kuzbassenergo-Regional Electric Grid Company, OJSC Buryatenergo, Chitaenergo, OJSC Krasnoyarskenergo, OJSC Omskenergo, OJSC Altayenergo and OJSC Chita Power Sales Company
Sokolovsky, Mikhail Zinovievich	Member of the Board of Directors; Head of Legal Department of RAO UESR (Business Unit No. 1); Member of the Board of Directors of OGK-6, TGK-5, OJSC Kubanenergosbyt, OJSC Lipetsk Power Sales Company, OJSC Kamchatskenergo and OJSC Kurskeneregosbyt
Voronin, Yuriy Nikolaevich	Member of the Board of Directors; Project Director; Chief Manager of Technical Administration of Power Complex Directorate of Norilsk; Chairman of the Board of Directors of OJSC Taimyrenergo and OJSC Kolskaya Power Sales Company, General Director of OJSC Norilskgas prom and Member of the Board of Directors of OJSC Taimyrenergo
Zholnerchik, Svetlana Semenovna	Member of the Board of Directors; Head of Information and Communications Directorate of RAO UESR; Member of the Board of Directors of OJSC North-Western TES, Permenergo, MRSK of North-West and OJSC Moscow Unified Electricity Distribution Company

Management Board

TGK-14's management board is its collective executive body, and each member is appointed by the board of directors. TGK-14's management board is principally responsible for the day-to-day management of TGK-14's business. The general director exercises executive authority over all activities, except for issues assigned to the exclusive competence of the general meeting of shareholders, the board of directors or the management board.

The table below shows the current members of TGK-14's management board.

Name	Position
Alferov, Vladimir Gennadievich	General Director of TGK-14
Anisina, Oxana Romanovna	Chief Accountant
Balovnev, Valery Pavlovich	Head of Department of Maintenance Supply
Lizunov, Alexei Anatolievich	Deputy General Director for Technical Policy
Korkin, Evgeny Alexandrovich	Director of Byruatia generation branch
Samoilenko, Natalia Nikolaevna	Deputy General Director for Economic Matters
Starostin, Anatoly Vladimirovich	Deputy General Director for General Matters

The number of employees of TGK-14 totaled 4,891 as at December 31, 2006.

Portfolio Companies

RAO UESR

RAO UESR is the state-owned power holding company and is the largest power holding company in the Russian Federation. In 2006, the RAO UESR Group generated approximately 70% of electricity output in Russia and approximately 33% of heat output in Russia and, as at December 31, 2006, it had approximately 72% of the installed electric capacity in Russia and approximately 33% of Russia's total installed heat capacity, and it owned approximately 96% of the total length of Russia's electric transmission lines. In 2006, the average number of employees it had was 469,300. The Russian Federation currently owns a 52.68% interest in RAO UESR, and the remaining 47.32% is owned by minority shareholders. In the Spin-off, EnergoPolyus will receive a 3.52% holding in the share capital of RAO UESR.

As of March 31, 2007, RAO UESR owned controlling stakes of between 49% and 100% in five thermal OGKs and 11 TGKs, as well as a 100% shareholding in the System Operator. As of June 30, 2007, RAO UESR owned approximately 90% of the FSK (the remaining 10% is owned by the Russian Federation), as well as shareholdings in those AO-Energos, the separation of which has not yet been completed, and in the other companies created as a result of the break-up of the AO-Energos.

RAO UESR is currently undergoing a comprehensive restructuring, and it is envisaged that in the third quarter of 2008 RAO UESR will dispose of all of its current assets by way of a spin-off (or a spin-off combined with a merger), which was approved by RAO UESR shareholders at an extraordinary general shareholders' meeting that was held on October 26, 2007.

The final stage of the reorganization of RAO UESR is expected to be implemented by RAO UESR first contributing the shares that it holds in the subsidiaries to newly-created holding companies. Simultaneously, each holding company, except for the holding company for energy generating companies in the Far East, certain other isolated power companies, the holding company for the MRSKs and the special holding companies, is expected to merge into its relevant subsidiary, subject to the approval of the corresponding subsidiary's shareholders. Based on current RAO UESR proposals, the RAO UESR shareholders, as of the relevant record date, are expected to receive shares in the RAO UESR subsidiaries. In the event that a subsidiary does not approve its merger with its corresponding holding company, the holding company is expected to remain in existence and the RAO UESR shareholders are expected to receive shares in the holding company instead of the subsidiary.

The reorganization plan also provides that certain major shareholders of RAO UESR, including Norilsk, instead of receiving shares in a number of holding companies, will each receive shares in a special purpose company holding shares in the OGKs (including WGC-3), TGKs, FSK, HydroOGK and other assets to which such major shareholder is entitled through its current shareholding in RAO UESR. The terms of the RAO UESR reorganization approved by RAO UESR shareholders on October 26, 2007 provide for the reallocation of the OGK and TGK shares to be received by the special purpose companies and for the distribution of the majority of shares in the special holding companies to the relevant major shareholder, provided that such major shareholder votes in favour of the RAO UESR reorganization and the number of RAO UESR shares held by such major shareholder does not decrease by the date of completion of the RAO UESR reorganization. As a result of such reallocation, given that Norilsk voted in favour of the RAO UESR reorganization and provided that Norilsk will not have reduced its shareholding in RAO UESR prior to the completion of the RAO UESR reorganization, Norilsk will receive a 14.83% shareholding in WGC-3 (calculated as of September 30, 2007) instead of a distribution of other OGKs and TGKs to which it would be entitled as a result of its holdings in RAO UESR, as a result of which EnergoPolyus' shareholdings in such other OGKs and TGKs will be diluted accordingly. The special purpose holding company, Intergeneration, a majority of shares in which will be distributed to Norilsk (or EnergoPolyus if already in existence at the time of the completion of RAO UESR reorganization), will hold a certain portion of equity interests in the FSK, HydroOGK, the System Operator and WGC-3 that will correspond to the equity interest that Norilsk holds in RAO UESR, adjusted according to certain swap ratios proposed by the Board of Directors of RAO UESR and approved by the shareholders on October 26, 2007.

As soon as practicable after the restructuring of the RAO UESR Group is completed, which is currently expected to take place in July 2008, and, subject to approval by the shareholders of the companies involved and the appropriate regulatory bodies, RAO UESR will be merged into the FSK, and RAO UESR will cease to exist.

If the Spin-off is implemented, Norilsk will transfer its entire shareholding in RAO UESR to EnergoPolyus. See "The Spin-off". As a result, if the restructuring of RAO UESR is completed as approved by RAO UESR shareholders on October 26, 2007, EnergoPolyus would receive shares in the companies to which RAO UESR has spun-off its assets as described in the preceding paragraphs. If the reorganization of RAO UESR is completed before the Spin-off is implemented, EnergoPolyus will receive shareholdings in the created or surviving entities pursuant to the terms and conditions of the RAO UESR reorganization.

Other Portfolio Companies

Open Joint Stock Company Kolenergo

Overview

Kolenergo is a regional distribution grid company operating the electricity distribution network in the City of Murmansk and the surrounding region (the "Murmansk region"). In the year ended December 31, 2006, Kolenergo transmitted approximately 10,880 million kW/h of electricity and supplied the connection to 30,576 kW of electric capacity to customers. Kolenergo has two branches (Northern Electric Networks, located in Murmansk, and Central Electric Networks, located in Apatity) and operates 389 electric substations with a combined installed transmission capacity of 5,441 MVA as at June 30, 2007. Kolenergo's distribution lines extended to approximately 4,891 kms (if separate electrical circuits are counted, to 5,911 kms) as at June 30, 2007. Kolenergo owns two subsidiaries that are engaged in construction and repair services: Open Joint Stock Company Kolenergostroyremont and Open Joint Stock Company Kolenergosetservice. It is currently anticipated that these subsidiaries will be sold in order to finance capital expenditures. According to the current plan for the restructuring of the Russian electricity industry, Kolenergo is expected to be merged into MRSK of North-West in 2008. A general shareholders' meeting to vote on the merger may take place by the end of 2007.

History

Kolenergo was registered in the Russian Federation on February 10, 1993. By October 1, 2005, as part of the general restructuring of the Russian power industry, the generating assets of Kolenergo, Open Joint Stock Company Lenenergo and Open Joint Stock Company Karelenergogeneratsiya had become part of the generation base of Joint Stock Company TGK-1. On October 1, 2005, five new power companies, JSC Kola Generating Company, JSC Kola Transmission Network Company, JSC Kola Power Supply Company, JSC Murmanskaya TES and JSC Apatitskaya TES, which were spun off from Kolenergo, were set up and registered in Murmansk region. As a result of the reorganization, Kolenergo became a distribution grid company with its core activity being the distribution of electricity and supply of connection to the network.

Share capital and ownership

As at December 31, 2006, the number of issued and outstanding ordinary and preferred shares of Kolenergo was 357,066,226 and 117,868,462, respectively, each with a par value of RUB 1.00.

RAO UESR currently owns 49.27% of Kolenergo's share capital, including 63.53% ordinary shares and 6% preferred shares.

As at September 30, 2007, Norilsk owned 24.87% of Kolenergo's share capital, including 23.34% ordinary shares and 29.51% preferred shares. See "Norilsk Group — History and Development". It is currently expected that Norilsk will transfer its entire shareholding in Kolenergo to EnergoPolyus in the Spin-off. See "The Spin-off". The shares of Kolenergo are listed on the RTS and MICEX.

Tariffs

According to Kolenergo's Annual Report 2006, Kolenergo's tariffs for electricity transmission varied from 0.17 RUB/kW/h to 0.5 RUB/kW/h for the year ended December 31, 2006, depending on the volume of electricity transmitted. See "Electricity Industry Overview — Current Industry Structure — Distribution Grid Companies".

Sales

Out of Kolenergo's total revenue, 95% was attributed to electricity transmission services, amounting to RUB 2,240 million for the year ended December 31, 2006. In addition, revenue received from providing to customers a connection to the network amounted to RUB 6.9 million for the year ended December 31, 2006.

Open Joint Stock Company Kola Power Supply Company

Overview

Kola Power Supply Company is a regional power utility company involved in the supply of electricity in the Murmansk region. It is currently the principal supplier of electricity to the Murmansk region, providing up to 97% of the region's electricity needs. All electricity sold by Kola Power Supply Company is provided by the hydroelectric power stations of Kolenergo.

History

Kola Power Supply Company was spun off from Kolenergo and was registered in the Russian Federation on October 1, 2005.

Share capital and ownership

As at December 31, 2006, the number of issued and outstanding ordinary and preferred shares in Kola Power Supply Company was 357,158,757 and 118,405,759, respectively, each with a par value of RUB 0.011.

RAO UESR currently owns 49.2% of Kola Power Supply Company's share capital, which represents 65.52% of Kola Power Supply Company's ordinary shares. According to publicly available information, RAO UESR's board of directors resolved in February 2007 to sell RAO UESR's shareholding in Kola Power Supply Company. Such sale has not yet been completed, but is expected to occur in 2007 or 2008.

As at September 30, 2007, Norilsk owned 24.83% of Kola Power Supply Company's share capital, including 23.33% ordinary shares and 29.37% preferred shares. See "Norilsk Group — History and Development". It is expected that Norilsk will transfer its entire shareholding in Kola Power Supply Company to EnergoPolyus in the Spin-off. See "The Spin-off".

Tariffs

According to the Kola Power Supply Company website, Kola Power Supply Company's tariffs for electricity supply varied from 0.69 RUB/kW/h to 0.98 RUB/kW/h for the year ended December 31, 2006, depending on the volume of electricity supplied. See "Electricity Industry Overview — Current Industry Structure — Distribution Grid Companies".

Sales

Kola Power Supply Company's total revenue received from electricity sales amounted to approximately RUB 7,700 million for the year ended December 31, 2006. Customers of Kola Power Supply Company are industrial, municipal and household customers of the Murmansk region. Kola Power Supply Company supplied approximately 11,231 million kW/h of electricity for the year ended December 31, 2006, 67.1% of which was purchased by industrial customers and 18.6% of which was purchased by bulk-resellers.

Open Joint Stock Company Kola Transmission Network Company

Overview

Kola Transmission Network Company is a regional utility grid company providing electricity transmission grids in the Murmansk region. As at December 31, 2006, Kola Transmission Network Company owned four transforming stations with a total transforming capacity of 2,287.89 MVA. As at June 30, 2007, Kola Transmission Network Company's power transmission lines extended to approximately 770 kms. Kola Transmission Network Company is expected to merge into the FSK. A general shareholders' meeting of the FSK to vote on the merger into the FSK of a number of companies, including Kola Transmission Network Company, will take place on December 14, 2007.

History

Kola Transmission Network Company was spun-off from Kolenergo and was registered in the Russian Federation on October 1, 2005. All of Kola Transmission Network Company's electricity network assets for the transmission and distribution of electricity were leased to MRSK of Center on October 1, 2005, and in 2006, the lease of these assets was RUB 75 million.

Share capital and ownership

As at December 31, 2006, the number of issued and outstanding ordinary and preferred shares in Kola Transmission Network Company was 357,158,757 and 118,405,759, respectively, each with a par value of RUB 0.8.

The FSK currently owns 49.2% of Kola Transmission Network Company's share capital, which represents 65.52% of Kola Transmission Network Company's ordinary shares.

As at September 30, 2007, Norilsk owned 24.83% of Kola Transmission Network Company's share capital, including 23.33% ordinary shares and 29.37% preferred shares. See "Norilsk Group — History and Development". It is currently expected that Norilsk will transfer its entire share holding in Kola Transmission Network Company to EnergoPolyus in the Spin-off. See "The Spin-off".

Open Joint Stock Company Krasnoyarskenergo

Overview

Krasnoyarskenergo is one of the largest regional electricity distribution networks in the Krasnoyarsk Territory of Siberia. Krasnoyarskenergo's assets include 46,453 kms of aerial transmission lines, 2,744 kms of cable lines and 10,228 electric power substations of various electric voltage types (163 with 110 kW; 230 with 35 kW and 9,895 with 6-10 kW) as at June 30, 2007. Krasnoyarskenergo has no subsidiaries, but has nine branches, which are involved in the transmission and distribution of electricity. Krasnoyarskenergo transmitted 32,617.4 million kW/h of electricity, concluded approximately 690 connection agreements and supplied the connection to 77,402.6 kW of electric capacity for the year ended December 31, 2006.

Krasnoyarskenergo's North-Eastern electricity distribution network owns a boiler-room, located in Kodinsk, that is leased to Eniseiskaya TGK (TGK-13). The total installed capacity of Krasnoyarskenergo's electricity substations was 9,939 MVA as at December 31, 2006.

Below is a table showing certain information on Krasnoyarskenergo's nine branches as at June 1, 2007.

Electric network company	Electricity distribution network (kms)		Number of electricity substations
	Aerial	Cable	
Central electric networks	5,808.8	32	949
Gorelectroset	612.9	2,263	1,367
Northern electric networks	2,954.0	2	454
North-Eastern electric networks	1,014.5	11	109
Eastern electric networks	7,088.9	25	1,245
Western electric networks	7,164.3	154	1,464
Minusinsk electric networks	9,003.6	34	2,179
South-Eastern electric networks	7,058.4	42	1,249
KATEK electric network	5,747.4	181	1,272
Total	**46,453**	**2,745**	**10,288**

Source: Krasnoyarskenergo's website

History

Krasnoyarskenergo was incorporated in 1994 as a subsidiary of RAO UESR and was reorganized by way of a spin-off in 1995, as a result of which several legal entities were created and spun-off from Krasnoyarsenergo, including Open Joint Stock Company Krasnoyarsk Generation, Open Joint Stock Company Krasnoyarskenergosbyt, Open Joint Stock Company Tyvaenergo-Holding and Open Joint Stock Company Krasnoyarsk Transmission Networks. As a result of the reorganization, Krasnoyarskenergo became an electricity distribution company. On June 1, 2006, Krasnoyarskenergo delegated the powers of its sole executive body to the management company, MRSK of Siberia. On July 16, 2007, the board of directors of Krasnoyarskenergo proposed the merger of Krasnoyarskenergo with MRSK of Siberia as a high priority goal for Krasnoyarskenergo and approved the reorganization plan for Krasnoyarskenergo.

Share capital and ownership

As at December 31, 2006, the number of issued and outstanding ordinary and preferred shares of Krasnoyarskenergo was 593,219,468 and 164,756,638, respectively, each with a par value of RUB 1.00.

RAO UESR currently owns 52.24% of Krasnoyarskenergo's share capital, which represents 66.4% of Krasnoyarskenergo's ordinary shares.

As at September 30, 2007, Norilsk owned 25.7% of Krasnoyarskenergo's share capital, including 25.38% ordinary shares and 26.85% preferred shares. See "Norilsk Group — History and Development". It is currently expected that Norilsk will transfer its entire shareholding in Krasnoyarskenergo to EnergoPolyus in the Spin-off. See "The Spin-off".

Tariffs

According to Krasnoyarskenergo's 2006 Annual Report, Krasnoyarskenergo's tariffs for heat produced was 878.15 RUB/Gcal for the year ended December 31, 2006, while Krasnoyarskenergo's average-weighted tariff for electricity transmission was 0.18 RUB/kW/h. See "Electricity Industry Overview — Current Industry Structure — Distribution Grid Companies".

Sales

Out of Krasnoyarskenergo's total revenue, 94.4% was attributed to electricity transmission services, amounting to RUB 5,784 million for the year ended December 31, 2006. In addition, Krasnoyarskenergo provided 188,057 Gcals of heat, amounting to RUB 164.5 million in revenues, as well as 665,417 cubic meters of chemically clarified water, amounting to RUB 11.3 million, to Open Joint Stock Company Krasnoyarsk Generation for the year ended December 31, 2006.

Open Joint Stock Company Krasnoyarsk Transmission Network Company

Overview

Krasnoyarsk Transmission Network Company is a regional utility grid company providing electricity transmission grids in the Krasnoyarsk Territory. Krasnoyarsk Transmission Network Company's power transmission lines extended to approximately 2,213 kms as at December 31, 2006. Krasnoyarsk Transmission Network Company owned 24 electric substations transforming stations with a total transforming capacity of 4,744 MVA. Krasnoyarsk Transmission Network Company is expected to merge into the FSK. A general shareholders' meeting of the FSK to vote on the merger into the FSK of a number of companies, including Krasnoyarsk Transmission Network Company, will take place on December 14, 2007.

History

Krasnoyarsk Transmission Network Company was spun-off from Krasnoyarskenergo and was registered in the Russian Federation on October 1, 2005. All of Krasnoyarsk Transmission Network Company's electricity network assets were leased to MRSK of Center on October 1, 2005, and in 2006, the lease of these assets was RUB 162.5 million.

Share capital and ownership

As at December 31, 2006, the number of issued and outstanding ordinary and preferred shares in Krasnoyarsk Transmission Network Company was 596,039,612 and 168,993,328, respectively, each with a par value of RUB 0.26.

The FSK currently owns 51.75% of Krasnoyarsk Transmission Network Company's share capital, which represented 66.33% of Krasnoyarsk Transmission Network Company's ordinary shares as at December 31, 2006.

As at September 30, 2007, Norilsk owned 25.47% of Krasnoyarsk Transmission Network Company's share capital, including 25.26% ordinary shares and 26.17% preferred shares. See "Norilsk Group — History and Development". It is currently expected that Norilsk will transfer its entire shareholding in Krasnoyarsk Transmission Network Company to EnergoPolyus in the Spin-off. See "The Spin-off".

Open Joint Stock Company Tyvaenergo-Holding

Overview

Tyvaenergo-Holding is a holding company that currently holds shares in Tyvaenergo, which is an electricity distribution grid company in the Republic of Tyva.

History

Tyvaenergo-Holding was spun off from Krasnoyarskenergo and was registered in the Russian Federation on October 1, 2005.

Share capital and ownership

As at December 31, 2006, the number of issued and outstanding ordinary and preferred shares in Tyvaenergo-Holding was 596,039,612 and 168,993,328, respectively, each with a par value of RUB 0.81.

RAO UESR currently owns 51.75% of Tyvaenergo-Holding, which represents 66.33% of Tyvaenergo-Holding's ordinary shares.

As at September 30, 2007, Norilsk owned 25.47% of Tyvaenergo-Holding's share capital, including 25.26% ordinary shares and 26.17% preferred shares. See "Norilsk Group — History and Development". It is currently expected that Norilsk will transfer its entire shareholding in Tyvaenergo-Holding to EnergoPolyus in the Spin-off. According to publicly available information, RAO UESR planned to liquidate Tyvaenergo-Holding and had initiated liquidation procedures. However, Tyvaenergo-Holding's minority shareholders blocked the resolution proposing to liquidate Tyvaenergo-Holding in July 2007. According to publicly available sources, the board of directors of RAO UESR determined on October 26, 2007, that Tyvaenergo-Holding will be merged into MRSK of Siberia.

National Innovation Company New Energy Projects

Overview

NIC NEP is a company acting as the overall integrator between scientific research and businesses that operates various projects for the development, production, commercialization and sales of competitive products based on technological activities in the hydrogen power and fuel cells industry, both domestically and internationally, including the areas of power engineering facilities, fuel cells of various types, fuel processors of gaseous and liquid hydrocarbon fuels, and pure hydrogen extraction systems.

History

NIC NEP was registered in the Russian Federation in 2005 in order to implement the Investment Program "Hydrogen Power and fuel cells," which was initiated by Norilsk and the Russian Academy of Sciences in 2003.

Share capital and ownership

As of September 30, 2007, Norilsk held a 74.00% shareholding in NIC NEP with the nominal value of RUB 74,000.

It is currently expected that Norilsk will transfer its entire shareholding in NIC NEP to EnergoPolyus in the Spin-off.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF WGC-3

This selected consolidated financial information sets forth WGC-3's consolidated financial information as of June 30, 2007 and for the six months ended June 30, 2007 and 2006 and as of and for the years ended December 31, 2006 and 2005. The financial information as of and for the years ended December 31, 2006 and 2005 was derived from, and should be read in conjunction with, WGC-3's audited consolidated financial statements included elsewhere in this Information Statement. The financial information as of June 30, 2007 and for the six months ended June 30, 2007 and 2006 was derived from, and should be read in conjunction with, the unaudited consolidated interim financial statements included elsewhere in this Information Statement. Results of operations for the six month period ended June 30, 2007 are not necessarily indicative of results for the full year ending December 31, 2007 or for any other interim period or for any future financial year. This selected consolidated financial information should be read in conjunction with "Operating and Financial Review of WGC-3" and "Presentation of Financial and other Information".

Consolidated income statement data	**Year ended December 31,**			**Six months ended June 30,**		
	2005	**2006**		**2006**	**2007**	
	RUB	**RUB**	**USD**	**RUB**	**RUB**	**USD**
	(amounts in thousands, except earnings per share information)					
Total revenue	16,779,329	23,070,188	893,501	10,525,962	15,098,639	584,765
Operating expenses	(17,513,692)	(23,455,828)	(908,436)	(10,282,649)	(13,471,757)	(521,757)
Impairment loss reversed during the year	—	6,400,021	247,871	—	—	—
Impairment loss recognized during the year	—	(49,693)	(1,925)	—	—	—
Other operating income	397,598	221,818	8,590	—	—	—
Operating profit/(loss)	**(336,765)**	**6,186,506**	**239,601**	**243,313**	**1,626,882**	**63,008**
Finance income	—	—	—	39,758	1,080,764	41,858
Finance costs	(228,278)	(170,728)	(6,612)	(84,947)	(158,200)	(6,127)
Profit/(loss) before income tax	**(565,043)**	**6,015,778**	**232,989**	**198,124**	**2,549,446**	**98,739**
Income tax	(332,702)	(1,615,065)	(62,551)	(496,977)	(797,786)	(30,898)
Profit/(loss) for the period	**(897,745)**	**4,400,713**	**170,438**	**(298,853)**	**1,751,660**	**67,841**
Attributable to:						
Shareholders of JSC WGC-3	(672,080)	4,400,713	170,438	(298,853)	1,751,660	67,841
Minority shareholders	(225,665)	—	—	—	—	—
Earning/(loss) per ordinary share for profit/(loss) attributable to the shareholders of WGC-3 — basic and diluted (in RUB)	(0.037)	0.152	n/a	(0.011)	0.045	n/a

Consolidated cash flow data	**Year ended December 31,**			**Six months ended June 30,**		
	2005	**2006**		**2006**	**2007**	
	RUB	**RUB**	**USD**	**RUB**	**RUB**	**USD**
	(amounts in thousands)					
Net cash generated from/(used in) operating activities	781,067	(169,071)	(6,548)	(33,213)	521,010	20,179
Net cash used in investing activities	(713,498)	(1,232,729)	(47,743)	(129,488)	(79,463,378)	(3,077,590)
Net cash generated from/(used in) financing activities	(101,451)	1,639,066	63,480	187,709	79,847,614	3,092,471

Consolidated balance sheet data	Year ended December 31,			Six months ended June 30,	
	2005	2006		2007	
	RUB	RUB	USD	RUB	USD
	(amounts in thousands)				
Total non-current assets	13,267,850	18,987,662	735,386	21,091,557	816,869
Total current assets	3,113,863	4,106,388	159,039	84,451,306	3,270,771
Total assets	**16,381,713**	**23,094,050**	**894,425**	**105,542,863**	**4,087,640**
Total equity	**10,833,960**	**15,255,785**	**590,852**	**97,099,822**	**3,760,644**
Total non-current liabilities	1,035,223	1,819,640	70,474	2,015,615	78,064
Total current liabilities	4,512,530	6,018,625	233,099	6,427,426	248,932
Total liabilities	**5,547,753**	**7,838,265**	**303,573**	**8,443,041**	**326,996**
Total equity and liabilities	16,381,713	23,094,050	894,425	105,542,863	4,087,640

Non-IFRS Measures	Year ended December 31,			Six months ended June 30,		
	2005	2006		2006	2007	
	RUB	RUB	USD	RUB	RUB	USD
	(amounts in thousands, except margins in %)					
EBITDA[(1)]	847,982	7,279,899	281,948	779,625	2,236,915	86,634
EBITDA margin[(2)]	5.1%	31.6%		7.4%	14.8%	
Adjusted EBITDA[(1)]	847,982	929,571	36,002	779,625	2,236,915	86,634
Adjusted EBITDA margin	5.1%	4.0%		7.4%	14.8%	
Operating profit margin[(3)]	(2.0)%	26.8%		2.3%	10.8%	
Net profit margin[(3)]	(5.4)%	19.1%		(2.8)%	11.6%	

1 EBITDA, for any relevant period, represents profit for the period before depreciation and amortisation, finance income and costs and income tax expense.

Adjusted EBITDA is defined as EBITDA adjusted to exclude the effect of reversal of impairment of property, plant and equipment, net of RUB 6,350,328 thousand during the year 2006.

EBITDA and Adjusted EBITDA are presented because WGC-3 considers them an important supplemental measure of WGC-3's operating performance and believes they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in WGC-3's industry. EBITDA and Adjusted EBITDA have limitations as an analytical tool, and they should not be considered in isolation, or as a substitute for analysis of WGC-3's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA and Adjusted EBITDA do not reflect the impact of finance costs, which are significant and could further increase if WGC-3 incurs more debt, on WGC-3's operating performance.
- EBITDA and Adjusted EBITDA do not reflect the impact of finance income.
- EBITDA and Adjusted EBITDA do not reflect the impact of income taxes on WGC-3's operating performance.
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation on WGC-3's operating performance. The assets of WGC-3's business which are being depreciated will have to be replaced in the future and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA and Adjusted EBITDA, EBITDA and Adjusted EBITDA do not reflect WGC-3's future cash requirements for these replacements.
- Other companies in WGC-3's industry may calculate EBITDA and Adjusted EBITDA differently or may use them for different purposes than WGC-3 does, limiting their usefulness as a comparative measure.

WGC-3 compensates for these limitations by relying primarily on its IFRS operating results and using EBITDA and Adjusted EBITDA only supplementally (see "Exhibit II — Audited Consolidated Financial Statements — WGC-3" and "Exhibit IV — Unaudited Consolidated Interim Financial Statements — WGC-3").

EBITDA and Adjusted EBITDA are measures of WGC-3's operating performance that is not required by, or presented in accordance with, IFRS. EBITDA and Adjusted EBITDA are not measurements of WGC-3's operating performance under IFRS and should not be considered as an alternative to profit for the period, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of WGC-3's liquidity. In particular, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to WGC-3 to invest in the growth of its business.

Reconciliation of EBITDA and Adjusted EBITDA to profit/loss is as follows for the periods indicated:

	Year ended December 31,			Six months ended June 30,		
	2005	2006		2006	2007	
	RUB	RUB	USD	RUB	RUB	USD
	(amounts in thousands)					
Profit/(loss) for the period	(897,745)	4,400,713	170,438	(298,853)	1,751,660	67,841
Depreciation	1,184,747	1,093,393	42,347	536,312	610,033	23,626
Finance (income)/costs, net	228,278	170,728	6,612	45,189	(922,564)	(35,731)
Income tax	332,702	1,615,065	62,551	496,977	797,786	30,898
EBITDA	**847,982**	**7,279,899**	**281,948**	**779,625**	**2,236,915**	**86,634**
Impairment loss reversed during the period, net	—	(6,350,328)	(245,946)	—	—	—
Adjusted EBITDA	**847,982**	**929,571**	**36,002**	**779,625**	**2,236,915**	**86,634**

2 EBITDA margin is calculated as EBITDA divided by total revenue.

3 Margins are calculated as a percentage of total revenue.

Solely for the convenience of the reader, certain of WGC-3's consolidated financial information included in "Selected Consolidated Financial Information of WGC-3", "Operating and Financial Review of WGC-3", "EnergoPolyus — Business" and elsewhere in this Information Statement has been translated from rubles into U.S. dollars at the rate of RUB 25.82 per USD $1.00, the official exchange rate as published by the CBR on June 30, 2007. The amounts translated in U.S. dollars should not be construed as representations that the ruble amounts have been or could be converted to U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if WGC-3 reported in U.S. dollars.

OPERATING AND FINANCIAL REVIEW OF WGC-3

The following discussion of WGC-3's financial condition and results of operations and of the significant factors that WGC-3's management believes are likely to affect its financial condition and results of operations should be read in conjunction with WGC-3's audited consolidated financial statements as of and for the year ended December 31, 2006 and unaudited interim consolidated financial statements as of and for the six months ended June 30, 2007 including, in each case, the notes thereto and the other information included elsewhere in this Information Statement including "Presentation of Financial and Other Information" and "Selected Consolidated Financial Information". Solely for the convenience of the reader, certain consolidated financial information extracted from WGC-3's consolidated financial statements and included in the Information Memorandum has been converted from Russian Roubles into U.S. Dollars at the rate of RUB 25.82 per US$1.00, the official exchange rate established by the CBR on June 30, 2007. The amounts translated into U.S. Dollars should not be construed as representations that the ruble amounts may be, have been or could be converted into U.S. Dollars at that or any other rate or as being representative of the US Dollar amounts that would have resulted if WGC-3 reported in U.S. Dollars. The following discussion contains forward-looking statements reflecting WGC-3 correct expectations that involve risks and uncertainties. WGC-3's actual results may differ substantially from those discussed in the forward-looking statement as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".

Overview

WGC-3 is one of the six thermal wholesale generating companies (OGKs) established in the course of restructuring the Russian State-controlled power holding company RAO UESR. WGC-3's core business includes the generation of electricity and the sale of electricity and electric capacity on the Russian wholesale electricity market, as well as the generation and sale of heat. WGC-3 is currently the ninth largest Russian generating company in terms of installed electric capacity (including Hydro OGK, Rosenergoatom and Irkutskenergo) and was the twelfth in terms of electricity production for 2006.

WGC-3's head office is based in Moscow and its branches are located in the Kostroma region, Tula region, Chelyabinsk region, Republic of Komi, Republic of Buryatia and Chita region. The table below presents information about WGC-3's power plants.

Facility	Location	Installed Electric Capacity as at June 30, 2007 (MW)	Installed Heat Capacity as at June 30, 2007 (Gcal/h)	Electricity output for the six months ended June 30, 2007 (million kW/h)	Heat Output for the six months ended June 30, 2007 (Gcal thousands)	Primary Fuel
Kostromskaya GRES	Kostroma region, Central IES	3,600	450	5,832	128	Gas
Cherepetskaya GRES	Tula region, Central IES	1,425	94	1,450	106	Coal
Gusinooszerskaya GRES	Republic of Buryatia, Siberia IES	1,100	221	1,800	171	Coal
Pechorskaya GRES	The Republic of Komi, North-West IES	1,060	327	1,798	193	Gas
Yuzhnouralskaya GRES	Chelyabinsk region, Urals IES	882	395	2,357	233	Coal, Gas
Kharanorskaya GRES	Chita region, Siberia IES	430	128	1,163	71	Coal
Total		**8,497**	**1,615**	**14,400**	**902**	

Approximately 59.1% of WGC-3's aggregate capacity is located in the Central IES which, according to the System Operator, may face capacity deficit towards 2010-2011 as result of growing demand and where an increase in industrial production, railway operations and housing construction is expected.

As at June 30, 2007, WGC-3's total installed electric capacity amounted to 8,497 MW, or 14.3% of the entire capacity of each of WGC-3's branches. In 2006, WGC-3's electricity output was approximately 30,614 million kW/h as compared with approximately 14,400 million kW/h in the six months ended June 30, 2007. WGC-3's electricity output represented 4.6% in 2006 and 4.4% in the six months ended June 30, 2007 of the total electricity output produced by thermal generation in Russia in each of those periods, according to information published by Rosstat.

In the six months ended June 30, 2007 and in the year ended December 31, 2006, WGC-3 derived 96.1% and 96.9% of its total revenue from electricity and electric capacity sales, respectively. Electricity and electric capacity are sold as two distinct products on the Russian wholesale electricity market. In the six months ended June 30, 2007, WGC-3 derived 72.5% and 27.5% of its electricity revenues from sales of electricity and capacity, respectively, while the remaining part of WGC-3's revenues was largely attributable to heat sales. WGC-3 sold approximately 34,055 million kW/h of electricity in 2006 as compared with approximately 20,789 million kW/h in the six months ended June 30, 2007. In 2006, WGC-3 also supplied approximately 1,225 thousand Gcal of heat as compared to approximately 720 thousand Gcal in the six months ended June 30, 2007.

The table below shows certain financial data of WGC-3 for the periods indicated.

	Year ended December 31,			Six months ended June 30,		
	2005	2006		2006	2007	
	RUB	RUB	USD	RUB	RUB	USD
	(amounts in thousands, except margin in %)					
Total revenue	16,779,329	23,070,188	893,501	10,525,962	15,098,639	584,765
Operating profit/(loss)	(336,765)	6,186,506	239,601	243,313	1,626,882	63,008
Non-IFRS measures						
EBITDA	847,982	7,279,899	281,948	779,625	2,236,915	86,634
EBITDA margin (%)	5.1%	31.6%	—	7.4%	14.8%	—
Adjusted EBITDA	847,982	929,571	36,002	779,625	2,236,915	86,634
Adjusted EBITDA margin (%)	5.1%	4.0%	—	7.4%	14.8%	—

Basis for preparation and presentation

WGC-3 currently owns and operates six power plants, Kostromskaya GRES, Cherepetskaya GRES, Gusinoozerskaya GRES, Pechorskaya GRES, Yuzhnouralskaya GRES and Kharanorskaya GRES. All of these power plants have been operating continuously for many years. Following its incorporation on November 23, 2004, WGC-3 underwent an asset consolidation process, which was finally completed on April 1, 2006. For further details, see "EnergoPolyus — Business — Power Generation Companies — WGC-3". This asset consolidation and restructuring process determined the period for presentation of financial statements and results of operations and influenced the basis of preparation of financial statements for the periods under discussion.

Described hereinafter are the major events that affected the presentation of the results.

Preparation and presentation of financial results for each of the years ended December 31, 2005 and 2006 and the six months ended June 30, 2006 and 2007, respectively

In January 2005, RAO UESR transferred to WGC-3 99.90%, 99.90%, 51.00%, 51.00% and 55.80% of the outstanding ordinary shares of Kharanorskaya GRES, Gusinoozerskaya GRES, Pechorskaya GRES, Kostromskaya GRES and Cherepetskaya GRES, respectively. In December 2005, RAO UESR transferred to WGC-3 49.00% of the outstanding ordinary shares of Yuzhnouralskaya GRES. In the 2005 consolidated financial statements, WGC-3 accounted for this business combination amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the transferred entities were accounted for at the carrying value, as determined by RAO UESR in its IFRS consolidated financial statements.

Certain factors affecting WGC-3's performance

WGC-3's results of operations are affected by a number of external factors, including regulation of the electricity industry, fuel costs, seasonality, Russian macroeconomic trends and transactions with related parties. See the discussion of WGC-3's results of operations for the years ended December 31, 2006 and 2005 and for the six months ended June 30, 2007 and 2006 for a description of the extent to which those external factors have affected WGC-3's results of operations.

Regulation and reform of the electricity industry

The electricity sector in Russia is currently undergoing comprehensive restructuring. See "Electricity Industry Overview — Sector Reform". Although legislation was introduced in September 2006 to implement a gradual liberalization of electricity prices, tariffs for sales of electricity, capacity and heat continue to be subject to substantial governmental regulation. In the periods under discussion, WGC-3 was required to sell a majority of its output of electricity and capacity at regulated prices. The regulated electricity tariffs are calculated by the FTS on an annual basis for each of WGC-3's plants on the basis of a "cost plus" method, based on RAS. See "Risk Factors — Risks relating to the reform of the Russian power industry — The proposed liberalization of wholesale electricity tariffs may be suspended or reversed, and existing and future tariff regulations applicable to the Russian power industry may result in a tariff system that inadequately compensates the Power Companies for their cost base, which could materially adversely affect the business, financial condition and results of operations of EnergoPolyus and the Power Companies". Under this method, tariffs comprise both a capacity payment, which is designed to cover the plant's fixed costs, and an electricity tariff, which covers fuel and other variable costs. Up until the end of 2007, electricity tariff levels have been fixed annually for each GRES, taking into account the following factors: cost of gas and other fuel, remoteness from fuel suppliers and mining infrastructure; quality of fuel utilization and characteristic property of GRES's production equipment.

Generally, prices for domestic sales of gas in Russia are maintained by regulation at lower levels than the global average price, and electricity tariffs in Russia consequently are low as compared to countries where gas prices are not regulated. To the extent that WGC-3 has been required to sell its output of electricity at regulated prices, it has not had any significant incentive to reduce operating costs since any such reduction would be offset by a reduction in its regulated prices. From 2008, it is expected that the "costs plus" method will be replaced by tariffs indexation. See "Electricity Industry Overview — Tariffs". As a result of the tariff regulation of sales of electricity, WGC-3 has not generated sufficient revenues in the past to fund fully a modernization of its generation plants, and, consequently, WGC-3's output of electricity and revenues in the periods under discussion have been adversely affected by unscheduled repairs and the requirement to operate certain generation facilities at loads that are significantly below their installed capacity.

Prior to September 2006, WGC-3 was permitted to sell in the free trade sector the volume of electricity that was generated by 15% of its working capacity, and the balance of its output was sold at regulated prices. Prices in the free trade sector were generally lower, as compared to tariffs, since wholesale purchasers had the right under the old rules to obtain all of their electricity requirements at regulated prices in the event that such prices were lower than prices on the free trade sector. The New Wholesale Market Rules replaced former free trade sector with a new unregulated sector, including a "one-day-ahead" spot market and balancing market, in which electricity can generally be traded at prices determined by supply and demand in the wholesale electricity market.

The planned volume of output of electricity that may be sold in the unregulated sector determined by reference to the output levels that the FTS sets on an annual basis is scheduled to be increased from its current maximum level of 15% as follows:

- from January 1, 2008 — up to 20%;
- from July 1, 2008 — up to 30%;
- from January 1, 2009 — up to 35%;
- from July 1, 2009 — up to 55%;
- from January 1, 2010 — up to 65%;
- from July 1, 2010 — up to 85%; and
- from January 1, 2011 — up to 100%.

In addition, any output in excess of the limits approved by the FTS, as well as output produced by generation plants commissioned after January 1, 2007, may be sold at unregulated prices. In addition, any output in excess of the limits approved by the FTS, as well as output produced by generation plants commissioned after January 1, 2007, may be sold at unregulated prices. WGC-3 has formulated a trading strategy for the "one-day-ahead" spot market in order to optimise its revenues and operating costs. In particular, when "one-day-ahead" spot-market prices are lower than WGC-3's costs of production, including, for example, at times of increased fuel costs and shortfalls, WGC-3 seeks to fulfil its contractual obligations to supply electricity to its customers through the purchase of electricity on the "one-day-ahead" spot-market. Conversely, when prices are at higher levels, WGC-3 aims to increase sales on the spot-market through increasing load factors at its generation facilities. In this regard, WGC-3's gas-fired facilities are generally more flexible in terms of load variations than coal-fired plants. WGC-3's trading strategy takes into account both daily fluctuations in demand, including the times of peak demand in the morning and the evening, as well as seasonal variations. See "— Seasonality". In the six months ended

June 30, 2007, WGC-3's sales of electricity in the unregulated market totalled 7,842 million kW/h, representing approximately 37.7% of total volume sales, while sales in the regulated market totalled 12,947 million kW/h, representing approximately 62.3% of total volume sold.

WGC-3 believes that, pursuant to the introduction of the New Wholesale Market Rules, an increasingly larger portion of revenues will be derived from electricity and capacity sales in the unregulated market.

All of WGC-3's branches can sell electricity on the unregulated market, except Pechorskaya GRES, which is located in the Republic of Komi. The limitations of local grid connections provide a significant competitive disadvantage to Pechorskaya GRES since the prices in the region are fixed as Pechorskaya GRES is located in a non-pricing zone outside the IES network and, therefore, currently operates, as required by law, in accordance with the pre-September 2006 wholesale power market rules.

Fuel cost

WGC-3's primary operating expense is fuel, which, in 2006, comprised 53.4% of total operating expenses and 44.5% in first six months 2007, respectively. Natural gas is the principal fuel of WGC-3's Kostromskaya GRES and Pechorskaya GRES, while the Yuzhnouralskaya GRES can operate on gas or coal (see "EnergoPolyus — Business — Fuel — Gas"). Cherepetskaya GRES, Gusinoozerskaya GRES, Kharanorskaya GRES use coal as primary fuel. In 2006 and in six months ended June 30, 2007, in terms of reference fuel, gas and coal expenses amounted to 88.7% and 96.2% of total fuel expenses, respectively. WGC-3 purchases its natural gas supplies primarily from Kostromaregiongas, Komiregiongas and Chelyabinskregiongas, which are subsidiaries of Gazprom. The gas industry is highly regulated by the Russian government, which regularly increases prices for natural gas supplied by Gazprom. During the periods under discussion, such price increases were approximately 14% higher than the rate at which the FTS increased the tariffs for electricity and capacity produced by those power plants. The volume of gas supplied by Gazprom at regulated prices is subject to pre-agreed limits. Such limits are typically less than Kostromskaya GRES and Pechorskaya GRES require for their generating operations, and any gas required in excess of those limits may only be obtained at non-regulated prices, either from Gazprom or an independent producer. The average prices for gas purchased by Kostromskaya GRES and Pechorskaya GRES in the non-regulated sector have typically been 13-17% higher than regulated prices in the periods under discussion, and, in addition, as a result of the reliance of gas producers on the Gazprom-controlled network, there may be technical or commercial restrictions on the ability of WGC-3 to obtain gas. For example, Kostromskaya GRES is unable to increase its load factor due to the overloaded gas pipeline and gas deficit in Kostroma region. WGC-3's gas supplies may also be affected by temperature fluctuations. See "— Seasonality". WGC-3's power plant, Pechorskaya GRES, is located in one of Russia's main gas production regions and the gas it uses is supplied mainly from local operations of independent Russian oil and gas producers, primarily from OJSC Komregiongas and OJSC Promregiongas, and these supplies are not transported through the Gazprom-controlled areas. The prices of such supplies have been comparable in the periods under discussion to the regulated prices for Gazprom gas, partly as a result of relatively low transportation costs. See "Risk Factors — Risks relating to the Nature and Characteristics of the Russian Power Industry — The Power Generation Companies may face increasing costs, insufficient supply and other risks and uncertainties in their procurement of gas supplies".

In contrast to gas, coal prices are not regulated and during the periods under discussion, the relative cost of coal was subject to significant fluctuations. Cherepetskaya GRES currently is able to use two types of coal (SS and T), which is supplied from Kuznetsk Basin, and the cost of adopting its generation plants in order to use other types of coal would be significant. See "Risk Factors — Risks relating to the Nature and Characteristics of the Russian Power Industry — Certain Power Generation Companies that have coal-fired plants are dependent on the transportation of coal and specific suppliers of coal". It is currently anticipated that, as a result of expected increases in gas prices resulting from the planned liberalization of the Russian gas sector, coal-fired generation facilities may become increasingly competitive relative to gas-fired plants. See "Electricity Industry Overview — Fuel Supply".

Seasonality

WGC-3's sales of electricity and heat are influenced by the seasons of the year and the relative severity of the weather. The demand for electricity and heat typically increases during the colder months of the winter period and decreases in response to the higher temperatures and longer daylight hours in the summer period. In January and February 2007, electricity sales comprised 36.9% of WGC-3's electricity revenues in the six months ended June 30, 2007. In January and February 2006, when there were unusually low temperatures in Russia, electricity sales comprised 39.1% of WGC-3's electricity revenues in the six months ended June 30, 2006. WGC-3 usually reduces output over the summer months in response to the reduced demand and lower prices and typically uses that period to implement the majority of its repairs and maintenance works. WGC-3's fuel purchases increased in the third quarter to meet requirements to maintain a specified level of fuel stocks in order to ensure the continuity of operations during the winter period. As a result, operating cash flows generally decrease in the summer months, while expenditure increases, and, consequently, WGC-3 has been required in the periods under discussion to raise short-term financing in order to meet its working capital requirements.

WGC-3 may also incur higher costs in the event that severe weather conditions lead to a sharp increase in demand for electricity and heat. In January and February 2006, WGC-3 was required to increase production to satisfy increased demand for electricity and heating. The fixed volume of fuel supplied to WGC-3's branches by its main suppliers was not sufficient to enable it to increase production to the required level. Conversely, as a result of the unusually mild temperatures in Russia in the fourth quarter of 2006 and the first quarter of 2007, WGC-3 only had limited recourse to use its fuel stocks, and, therefore, it does not currently expect to incur significant expenditure on acquiring fuel stocks for the 2007/2008 winter period.

Russian macroeconomic trends

WGC-3's operations are based in Russia, and, in the periods under discussion, WGC-3 derived all of its revenues from sales to customers in Russia. As a result, Russian macroeconomic trends, including the overall growth in the economy and in the markets in which WGC-3 operates, continue to have a significant influence on WGC-3's performance. In recent years, Russia has been able to overcome the consequences of the 1998 financial crisis, and the Russian economy has benefited from the high proportion of oil and oil products in its export revenues and high oil prices on the international markets. As a result, since 2002 GDP growth rates have remained relatively high compared to North America and Europe. The table below summarizes certain key macroeconomic indicators relating to the Russian economy in 2005, 2006 and the first six months of 2007.

	Year ended December 31,		Six months ended June 30,
	2005	2006	2007
GDP growth	6.4%	6.7%	7.9%
Consumer price index	10.9%	9.0%	5.7%
Unemployment rate	7.2%	7.2%	6.7%

Source: Russian Ministry of Economy and Trade, Rosstat

The economic recovery in Russia in recent years has contributed to an increase in demand for electricity. In particular, consumption in Russia has increased by 19.8% from 827 TWh in 1998 to 996 TWh in 2006, according to the BP Statistical Review of World Energy (June 2007) and RAO UESR, respectively.

Inflation in Russia was 10.9% in 2005, 9.0% in 2006 and 5.7% in the six months ended June 30, 2007. Russian inflation has generally not had a material impact on WGC-3's results of operations, although WGC-3 tends to experience inflation-driven increases in some of its costs, such as salaries, that are linked to general price levels in Russia.

Transactions with related parties

In the period from March 26, 2007 until August 17, 2007, the major shareholders of WGC-3 were RAO UESR and the Norilsk Group. In the periods under review, WGC-3 has entered into various transactions with subsidiaries and affiliates of OJSC RAO UESR, including for electricity and capacity sales. In addition, WGC-3 has entered into various transactions with state-controlled entities, including Gazprom, that supplied a substantial portion of gas consumed by WGC-3 in 2005, 2006 and in the first six months of 2007 (See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Fuel — Gas"). In the first six months 2007, electricity sales to companies controlled by RAO UESR accounted for 50.1% of WGC-3's revenues compared with 61.4% in 2006, and fuel purchased by WGC-3 from state-controlled enterprises accounted for 61.7% of total fuel costs in the first six months 2007 compared with 45.4% in 2006.

WGC-3 believes that it will remain highly dependent on some transactions with related parties, including sales of electricity and heat to subsidiaries of RAO UESR and the purchase of natural gas from Gazprom for WGC-3's power plants, and economic and social policies of the Russian government will continue to affect its financial position, results of operations and cash flows. See "Transactions with Related Parties of WGC-3" and "Major Shareholders of WGC-3".

Overview of consolidated financial results

The table below presents a summary of WGC-3's consolidated financial results for the year ended December 31, 2005 and 2006 and for six months ended June 30, 2006 and 2007.

Consolidated income statement data	Year ended December 31,			Six months ended June 30,		
	2005	2006		2006	2007	
	RUB	RUB	USD	RUB	RUB	USD
	(amounts in thousands, except earnings per share information)					
Total revenue	16,779,329	23,070,188	893,501	10,525,962	15,098,639	584,765
Operating expenses	(17,513,692)	(23,455,828)	(908,436)	(10,282,649)	(13,471,757)	(521,757)
Impairment loss reversed during the year	—	6,400,021	247,871	—	—	—
Impairment loss recognized during the year	—	(49,693)	(1,925)	—	—	—
Other operating income	397,598	221,818	8,590	—	—	—
Operating profit/(loss)	**(336,765)**	**6,186,506**	**239,601**	**243,313**	**1,626,882**	**63,008**
Finance income	—	—	—	39,758	1,080,764	41,858
Finance costs	(228,278)	(170,728)	(6,612)	(84,947)	(158,200)	(6,127)
Profit/(loss) before income tax	**(565,043)**	**6,015,778**	**232,989**	**198,124**	**2,549,446**	**98,739**
Income tax	(332,702)	(1,615,065)	(62,551)	(496,977)	(797,786)	(30,898)
Profit/(loss) for the period	**(897,745)**	**4,400,713**	**170,438**	**(298,853)**	**1,751,660**	**67,841**
Attributable to:						
Shareholders of WGC-3	(672,080)	4,400,713	170,438	(298,853)	1,751,660	67,841
Minority shareholders	(225,665)	—	—	—	—	—
Earning/(loss) per ordinary share for profit/(loss) attributable to the shareholders of WGC-3 — basic and diluted (in RUB)	(0.037)	0.152	n/a	(0.011)	0.045	n/a

Recent developments

Right of WGC-3's shareholders to sell their shares in mandatory tender offer

On May 2, 2007, the Norilsk Group, acting in accordance with the Joint Stock Companies Law, made a mandatory offer to WGC-3 shareholders to acquire their WGC-3 shares at the price of RUB 4.54 per share. As required by the Joint Stock Companies Law, the mandatory offer was submitted to WGC-3. The term of acceptance of the mandatory offer by WGC-3's shareholders was 77 days starting from the date of receipt of the mandatory offer by WGC-3. Within 18 days from the date of expiry of the term for acceptance of the mandatory offer, WGC-3 shares properly tendered by WGC-3 shareholders were to be transferred to the business account of the Norilsk Group.

Shareholders of WGC-3, who tendered their WGC-3 shares for sale in course of the mandatory offer to the Norilsk Group were required to transfer their shares by August 6, 2007 to the account of the company within the Norilsk Group.

As a result of the mandatory offer, 3,423,968,050 shares of WGC-3 were acquired by the Norilsk Group for the total amount of RUB 15,544,815 thousand. Thus, the shareholding of the Norilsk Group in the charter capital of WGC-3 increased to 53.83% (which together with WGC-3 shares held for the benefit of Norilsk in trust management constituted 54.09%).

Sale of the Russian Federation's shareholding in Share Capital of OJSC WGC-3

According to the purchase-and-sale contract signed on August 23, 2007 between RAO UESR and the Norilsk Group, 5,252,409,064 ordinary shares of WGC-3, or 11% of WGC-3's charter capital following an additional share issue, were transferred to the business account of the Norilsk Group.

Previously, it was expected that the size of the Russian Federation's shareholding in WGC-3 would be 9,309,706,683 shares (or 19.6% of the charter capital following the additional share issue). However, taking into consideration the results of shares redistributed between OJSC State Holding, Hydro OGK and special holding companies, which were approved by the RAO UESR Board of Directors meeting on July 27, 2007, the size of the Russian Federation's WGC-3 shareholding was adjusted.

The shares were sold at the additional issue offering price of RUB 4.54 per share. Upon completion of this transaction, the shareholding of RAO UESR in the share capital of WGC-3 decreased from 37.1 % to 26.02%, while the shareholding of the Norilsk Group increased from 53.83% (which together with WGC-3 shares held for the benefit of Norilsk in trust management constituted 54.09%) to 64.89% (which together with WGC-3 shares held for the benefit of Norilsk in trust management constituted 65.15%).

Setting up of OJSC Yuzhnouralsk Heating Retail Company

On July 7, 2007, the Board of Directors of WGC-3 approved the establishment of OJSC Yuzhnouralsk Heating Retail Company, a wholly-owned subsidiary of WGC-3. The principal activities of OJSC Yuzhnouralsk Heating Retail Company are maintenance and utilization of heating networks, heat sale and heat transmission.

Year Ended December 31, 2006 compared to the Year Ended December 31, 2005

Revenues

WGC-3 derives most of its revenues from electricity and capacity sales. Revenues from electricity sales are highly dependent on tariffs set by the FTS and volumes sold in both markets. In September 2006, the wholesale electricity market underwent substantial reforms, as well as volumes sold at unregulated prices, including the establishment of the unregulated sector. In addition to introducing the new unregulated sector, the New Wholesale Market Rules also enabled generation companies to increase from 85% to 100% the proportion of their fixed costs that they could recover under the regulated capacity tariffs. As a result of the significant influence of these reforms on the results of operation by WGC-3, WGC-3's revenues from electricity and capacity sales in 2006 are presented for January-August 2006 and September-December 2006 and also for the year ended December 31, 2006 and 2005.

Revenues increased by RUB 6,290,859 thousand, or 37.5%, to RUB 23,070,188 thousand in 2006 from RUB 16,779,329 thousand in 2005, primarily as a result of increased revenues from sales of electricity and capacity. The table below presents a breakdown of revenues for the periods indicated.

	Year ended December 31,				Change from 2005 to 2006 (%)
	2005	2006			
		January-August 2006	September-December 2006	Total 2006	
Electricity and capacity revenues comprising (RUB thousand)	16,074,918	12,898,697	9,446,244	22,344,941	39.0
Electricity	11,622,841	8,968,701	7,259,195[1]	16,227,896[1]	39.6
Capacity	4,452,077	3,929,996	2,187,049	6,117,045	37.4
Volume					
Electricity (kW/h thousands)	27,016,486	18,083,306	15,972,173[1]	34,055,479[1]	26.1
Capacity (MW)	101,964	67,976	33,988	101,964	—
Heat	499,332	—	—	509,110	2.0
Other	205,079	—	—	216,137	5.4
Total revenue	**16,779,329**	**—**	**—**	**23,070,188**	**37.5**

1 Includes re-sales of 5,597,438 kW/h thousand of electricity purchased on the "one-day-ahead" spot market.

Electricity and capacity

Revenues from electricity and capacity sales increased by RUB 6,270,023 thousand, or 39.0 %, from RUB 16,074,918 thousand in 2005 to RUB 22,344,941 thousand in 2006, which was mainly due to the overall increase in sales, advanced tariffs and, in relation to the period from September-December 2006, the introduction of the New Wholesale Market Rules pursuant to which WGC-3 commenced sales on the unregulated market. See "Electricity Industry Overview — Overview of the Market — Wholesale Electricity Market".

The table below presents the breakdown of revenues from electricity and capacity sales by each of WGC-3's six power plants for the periods indicated.

	Year ended December 31,				
	2005		2006		
	Amount	Percentage of Total	Amount	Percentage of Total	Change (%)
	(amount in RUB thousands, except percentages)				
Kostromskaya GRES	6,232,647	38.8	9,252,306	41.4	48.4
Cherepetskaya GRES	2,027,603	12.6	3,287,327	14.7	62.1
Gusinoozerskaya GRES	2,034,072	12.7	2,494,566	11.2	22.6
Pechorskaya GRES	1,547,581	9.6	1,924,960	8.6	24.4
Yuzhnouralskaya GRES	2,844,203	17.7	3,823,002	17.1	34.4
Kharanorskaya GRES	1,388,812	8.6	1,562,780	7.0	12.5
Total	**16,074,918**	**100.0**	**22,344,941**	**100.0**	**39.0**

Kostromskaya GRES

The table below presents Kostromskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS in 2005 and 2006.

	Year ended December 31,				
	2005	2006			
		January-August 2006	September-December 2006	Total (for Revenue or volume) and Average (for Tariff/Price)	Change from 2005 to 2006 (%)
Revenue from electricity and capacity sales (RUB thousand)	6,232,647	4,898,154	4,354,152	9,252,306	48.4
Comprising					
Electricity	4,814,090	3,671,479	3,635,257[1]	7,306,736[1]	51.8
Capacity[2]	1,418,557	1,226,675	718,895	1,945,570	37.2
Volume					
Electricity (kW/h thousands)	11,626,814	7,462,899	8,125,048[1]	15,587,947[1]	34.1
Capacity (MW)[2]	43,200	28,800	14,400	43,200	—
Tariff/Price					
FTS electricity tariff (RUB/MW/h)	380.0	426.4	426.4	426.4	12.2
Effective electricity price (RUB/MW/h)[3]	414.1	492.0	447.4	468.7	13.2
FTS capacity tariff (RUB/MW of installed capacity per month)	38,631.7	50,109.3	50,109.3	50,109.3	29.7
Effective capacity price (RUB/MW of installed capacity per month)[4]	32,837.0	42,592.9	49,923.3	45,036.4	37.2
Effective overall price (RUB/MW/h)[5]	536.1	656.3	535.9	593.6	10.7

1 Includes re-sales of 3,456,100 kW/h thousand of electricity purchased on the "one-day-ahead" spot market for the period from September 1, 2006 through to December 31, 2006.

2 Prior to the introduction of the New Wholesale Market Rules, Kostromskaya GRES received payment for only 85% of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Kostromskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector (January-August, 2006), and (ii) the Regulated Market and Unregulated Market (September-December, 2006).

	January-August 2006			September-December 2006			
	Regulated[1] Sector	Free[1] Sector	Total	Regulated[1] Market	Unregulated[1] Market	Total	Total for 2006
Revenue from electricity and capacity sales (RUB thousand)	3,592,931	1,305,223	4,898,154	3,007,162	1,346,990	4,354,152	9,252,306
Electricity	2,366,256	1,305,223	3,671,479	2,288,267	1,346,990	3,635,257	7,306,736
Capacity	1,226,675	—	1,226,675	718,895	—	718,895	1,945,570

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector was replaced by the unregulated market.

Kostromskaya GRES's revenues from electricity and capacity sales increased by RUB 3,019,659 thousand, or by 48.4 %, from RUB 6,232,647 thousand in 2005 to RUB 9,252,306 thousand in 2006. The growth was primarily due to the increased sales of electricity by 3,961,133 thousand kW/h, or 34.1%, from 11,626,814 thousand kW/h sold in 2005 to 15,587,947 thousand kW/h sold in 2006, which was partially due to the implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market (September-December, 2006) when the cost of such purchases were less than its own costs of production. As a result of this strategy, Kostromskaya GRES had resales of 3,456,100 thousand kW/h on the "one-day-ahead" spot market, representing 22.2% of the total volume of electricity sold in the four months ended December 31, 2006. The increase of electricity sales revenues was also due to the electricity price increase by 54.6 RUB/MW/h or 13.2% from 414.1 RUB/MW/h in 2005 to 468.7 RUB/MW/h in 2006. Revenues from capacity sales also increased by RUB 527,014 thousand, or by 37.2%, from RUB 1,418,557 thousand in 2005 to RUB 1,945,570 thousand in 2006. The growth in revenues was primarily due to the increased capacity tariff by 11,477.6 RUB/MW of installed capacity per month, or 29.7%, and the ability to recover 100% of fixed costs under the regulated capacity tariffs following the introduction of the New Wholesale Market Rules.

Cherepetskaya GRES

The table below presents Cherepetskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS in 2005 and 2006.

	Year ended December 31,				
	2005	2006			
		January-August 2006	September-December 2006	Total (for Revenue or volume) and Average (for Tariff/Price)	Change from 2005 to 2006 (%)
Revenue from electricity and capacity sales (RUB thousand)	2,027,603	2,034,860	1,252,467	3,287,327	62.1
Comprising					
Electricity	1,479,117	1,576,932	981,157(1)	2,558,089(1)	72.9
Capacity(2)	548,486	457,928	271,310	729,238	33.0
Volume					
Electricity (kW/h thousands)	2,301,168	2,077,461	1,503,487(1)	3,580,948(1)	55.6
Capacity (MW)(2)	17,100	11,400	5,700	17,100	—
Tariff/Price					
FTS electricity tariff (RUB/MW/h)	729.7	805.2	805.2	805.2	10.3
Effective electricity price (RUB/MW/h)(3)	642.8	759.1	652.6	714.4	11.1
FTS capacity tariff (RUB/MW of installed capacity per month)	37,918.1	47,775.6	47,775.6	47,775.6	26.0
Effective capacity price (RUB/MW of installed capacity per month)(4)	32,075.2	40,169.1	47,598.2	42,645.5	33.0
Effective overall price (RUB/MW/h)(5)	881.1	979.5	833.0	918.0	4.2

1 Includes re-sales of 517,333 kW/h thousand of electricity purchased on the "one-day-ahead" spot market for the period from 1 September 2006 through to December 31, 2006.

2 Prior to the introduction of the New Wholesale Market Rules, Cherepetskaya GRES received payment for only 85% of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Cherepetskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector (January-August, 2006), and (ii) the Regulated Market and Unregulated Market (September-December, 2006).

	January-August 2006			September-December 2006			
	Regulated[(1)] Sector	Free[(1)] Sector	Total	Regulated[(1)] Market	Unregulated[(1)] Market	Total	Total for 2006
Revenue from electricity and capacity sales (RUB thousand)	2,052,490	(17,630)	2,034,860	972,961	279,506	1,252,467	3,287,327
Electricity	1,594,562	(17,630)	1,576,932	701,651	279,506	981,157	2,558,089
Capacity	457,928	—	457,928	271,310	—	271,310	729,238

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector was replaced by the unregulated market.

Cherepetskaya GRES' revenues from electricity and capacity sales increased by RUB 1,259,724 thousand, or by 62.1%, from RUB 2,027,603 thousand in 2005 to 3,287,327 thousand in 2006. The growth was primarily due to the increased sales of electricity by 1,279,780 thousand kW/h, or 55.6 %, from 2,301,168 thousand kW/h sold in 2005 to 3,580,948 thousand kW/h sold in 2006. The increase in sales of electricity was due to Cherepetskeaya GRES' ability to increase output as a result of higher demand in 2006 and implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market (September-December) when the cost of such purchases were less than its own costs of production. As a result of this strategy, Cherepetskaya GRES had resales of 517,333 thousand kW/h on the "one-day-ahead" spot market, representing 14,4% of the total volume of electricity sold in the four months ended December 31, 2006. The increase in revenues was also due to the average effective electricity price increase by 71.6 RUB/MW/h or 11.1% from 642.8 RUB/MW/h in 2005 to 714.4 RUB/MW/h in 2006. The revenues from capacity sales increased by RUB 180,752 thousand, or by 33.0%, from RUB 548,486 thousand in 2005 to RUB 729,238 thousand in 2006. The growth was primarily due to the increased capacity tariff by 9,857.5 RUB/MW of installed capacity per month, or 26.0%, and payment of 100% of the installed capacity in 2007 after the introduction of the New Wholesale Market Rules.

Gusinoozerskaya GRES

The table below presents Gusinoozerskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS in 2005 and 2006.

	Year ended December 31,				
	2005	2006			
		January-August 2006	September-December 2006	Total (for Revenue or volume) and Average (for Tariff/Price)	Change from 2005 to 2006 (%)
Revenue from electricity and capacity sales (RUB thousand)	2,034,072	1,595,191	899,375	2,494,566	22.6
comprising					
Electricity	1,056,908	842,068	501,087[(1)]	1,343,155[(1)]	27.1
Capacity[(2)]	977,164	753,123	398,288	1,151,411	17.8
Volume					
Electricity (kW/h thousands)	3,022,729	2,053,589	1,300,973[(1)]	3,354,562[(1)]	11.0
Capacity (MW)[(2)]	13,200	8,800	4,400	13,200	—
Tariff/Price					
FTS electricity tariff (RUB/MW/h)	397.4	423.3	423.3	423.3	6.5
Effective electricity price (RUB/MW/h)[(3)]	349.7	410.0	385.2	400.4	14.5
FTS capacity tariff (RUB/MW of installed capacity per month)	76,580.2	90,698.6	90,698.6	90,698.6	18.4
Effective capacity price (RUB/MW of installed capacity per month)[(4)]	74,027.6	85,582.2	90,520.0	87,228.1	17.8
Effective overall price (RUB/MW/h)[(5)]	672.9	776.8	691.3	743.6	10.5

1 Includes re-sales of 228,817 kW/h thousands of electricity purchased on the "one-day-ahead" spot market for the period from September 1, 2006 through to December 31, 2006.

2 Prior to the introduction of the New Wholesale Market Rules, Gusinoozerskaya GRES received payment for only 95% of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Gusinoozerskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector (January-August, 2006), and (ii) the Regulated Market and Unregulated Market (September-December, 2006).

	January-August 2006			September-December 2006			
	Regulated[1] Sector	Free[1] Sector	Total	Regulated[1] Market	Unregulated[1] Market	Total	Total for 2006
Revenue from electricity and capacity sales (RUB thousand)	1,565,682	29,509	1,595,191	862,433	36,942	899,375	2,494,566
Electricity	812,559	29,509	842,068	464,145	36,942	501,087	1,343,155
Capacity	753,123	—	753,123	398,288	—	398,288	1,151,411

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector was replaced by the unregulated market.

Gusinoozerskaya GRES's revenues from electricity and capacity sales increased by RUB 460,494 thousand, or by 22.6 %, from RUB 2,034,072 thousand in 2005 to RUB 2,494,566 thousand in 2006. The growth in revenues was primarily due to the increased effective overall price by 70.7 RUB/MW/h, or 10.6 %, from 672.9 RUB/MW/h in 2005 to 743.6 RUB/MW/h in 2006 as a result of the introduction of the New Wholesale Market Rules (September-December) and the low effective overall price in 2005 due to the Federal Wholesale Electricity (Power) Market ("FOREM") imbalance (difference in tariffs between the sale and purchase of electricity). Capacity sales increased by RUB 174,247 thousand, or by 17.8%, from RUB 977,164 thousand in 2005 to RUB 1,151,411 thousand in 2006. The growth was primarily due to the increased capacity tariff by 14,118.4 RUB/MW of installed capacity per month or 18.4% and payment of 100% of the installed capacity in 2006 after the introduction of the New Wholesale Market Rules.

Pechorskaya GRES

The table below presents Pechorskaya GRES's sales from electricity and capacity, average prices and tariffs set by FTS in 2005 and 2006.

	Year ended December 31,				
	2005	2006			
		January-August 2006	September-December 2006	Total (for Revenue or volume) and Average (for Tariff/Price)	Change from 2005 to 2006 (%)
Revenue from electricity and capacity sales (RUB thousand)	1,547,581	1,285,262	639,698	1,924,960	24.4
Comprising					
Electricity	856,356	769,550	381,842	1,151,392	34.5
Capacity[1]	691,225	515,712	257,856	773,568	11.9
Volume					
Electricity (kW/h thousands)	2,992,287	2,105,286	1,157,044	3,262,330	9.0
Capacity (MW)[1]	12,720	8,480	4,240	12,720	—
Tariff/Price					
FTS electricity tariff (RUB/MW/h)	327.6	359.6	359.6	359.6	9.8
Effective electricity price (RUB/MW/h)[2]	286.2	365.5	330.0	352.9	23.3
FTS capacity tariff (RUB/MW of installed capacity per month)	54,341.6	60,815.1	60,815.1	60,815.1	11.9
Effective capacity price (RUB/MW of installed capacity per month)[3]	54,341.6	60,815.1	60,815.1	60,815.1	11.9
Effective overall price (RUB/MW/h)[4]	517.2	610.5	552.9	590.1	14.1

1 Pechorskaya GRES does not belong to Russian energy system, so all 100% of installed capacity is paid to Pechorskaya GRES.

2 Total revenue from electricity sales divided by volume of electricity.

3 Total revenue from capacity sales divided by volume of capacity.

4 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Pechorskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector (January-August, 2006), and (ii) the Regulated Market and Unregulated Market (September-December, 2006).

	January-August 2006			September-December 2006			
	Regulated[1] Sector	Free[1] Sector	Total	Regulated[1] Market	Unregulated[1] Market	Total	Total for 2006
Revenue from electricity and capacity sales (RUB thousand)	1,285,262	—	1,285,262	635,223	4,475	639,698	1,924,960
Electricity	769,550	—	769,550	377,367	4,475	381,842	1,151,392
Capacity	515,712	—	515,712	257,856	—	257,856	773,568

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector was replaced by the unregulated market.

Pechorskaya GRES's revenues from electricity and capacity sales increased by RUB 377,379 thousand, or by 24.4%, from RUB 1,547,581 thousand in 2005 to RUB 1,924,960 thousand in 2006. The growth in revenues was primarily due to the increased effective overall price by 72.9 RUB/MW/h, or 14.1%, from 517.2 RUB/MW/h in 2005 to 590.1 RUB/MW/h in 2006 as a result of the introduction of the New Wholesale Market Rules (September-December 2006) and the lower effective overall price in 2005 due to FOREM imbalance (difference in tariffs between the sale and purchase of electricity). Revenues from capacity sales increased by RUB 82,343 thousand, or by 11.9% from RUB 691,225 thousand in 2005 to RUB 773,568 thousand in 2006. The growth was primarily due to the increased capacity tariff by 6,473.5 RUB/MW of installed capacity per month or 11.9%.

Yuzhnouralskaya GRES

The table below presents Yuzhnouralskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS in 2005 and 2006.

	Year ended December 31,				
	2005	2006			
		January-August 2006	September-December 2006	Total (for Revenue or volume) and Average (for Tariff/Price)	Change from 2005 to 2006 (%)
Revenue from electricity and capacity sales (RUB thousand)	2,844,203	2,085,435	1,737,567	3,823,002	34.4
comprising[1]					
Electricity	2,844,203	1,705,783	1,514,315[2]	3,220,098[2]	13.2
Capacity[3]	—	379,652	223,252	602,904	—
Volume					
Electricity (kW/h thousands)	5,419,474	3,245,817	3,072,416[2]	6,318,233[2]	16.6
Capacity (MW)[3]	—	7,056	3,528	10,584	—
Tariff/Price					
FTS electricity tariff (RUB/MW/h)	579.1	543.7	543.7	543.7	(6.1)
Effective electricity price (RUB/MW/h)[4]	524.8	525.5	492.9	509.7	(2.9)
FTS capacity tariff (RUB/MW of installed capacity per month)	—[5]	63,515.2	63,515.2	63,515.2	—
Effective capacity price (RUB/MW of installed capacity per month)[6]	—	53,805.6	63,280.0	56,963.7	—
Effective overall price (RUB/MW/h)[7]	524.8	642.5	565.5	605.1	15.3

1 A breakdown of revenue and volume for capacity is not available for 2005.

2 Includes re-sales of 1,244,214 kW/h thousands of electricity purchased on the "one-day-ahead" spot market for the period from September 1, 2006 through to December 31, 2006.

3 Prior to the introduction of the New Wholesale Market Rules, Yuzhnouralskaya GRES received payment for only 85 % of the installed capacity of its generation facilities.

4 Total revenue from electricity sales divided by volume of electricity.

5 In 2005 the one-rate tariff (including both electricity and capacity tariffs) was setup for Yuzhnouralskaya GRES.

6 Total revenue from capacity sales divided by volume of capacity.

7 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Yuzhnouralskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector (January-August 2006) and (ii) the Regulated Market and Unregulated Market (September-December 2006).

	January-August 2006			September-December 2006			
	Regulated[(1)] Sector	Free[(1)] Sector	Total	Regulated[(1)] Market	Unregulated[(1)] Market	Total	Total for 2006
Revenue from electricity and capacity sales (RUB thousand)	1,908,154	177,281	2,085,435	1,148,213	589,354	1,737,567	3,823,002
Electricity	1,528,502	177,281	1,705,783	924,961	589,354	1,514,315	3,220,098
Capacity	379,652	—	379,652	223,252	—	223,252	602,904

1 After the introduction of the New Wholesale Market Rules, the free sector was replaced by the unregulated market.

Yuzhnouralskaya GRES's revenues from electricity and capacity sales increased by RUB 978,799 thousand, or by 34.4%, from RUB 2,844,203 thousand in 2005 to RUB 3,823,002 thousand in 2006. The growth in revenue was primarily due to the increased effective overall price by 80.3 RUB/MW/h, or 15.2%, from 524.8 RUB/MW/h in 2005 to 605.1 RUB/MW/h in 2006 as a result of the introduction of the New Wholesale Market Rules (September-December) and the setting of the bi-rate tariff in 2006.

Kharanorskaya GRES

The table below presents Kharanorskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS in 2005 and 2006.

	Year ended December 31,				
	2005	2006			
		January-August 2006	September-December 2006	Total (for Revenue or volume) and Average (for Tariff/Price)	Change from 2005 to 2006 (%)
Revenue from electricity and capacity sales (RUB thousand)	1,388,812	999,795	562,985	1,562,780	12.5
Comprising					
Electricity	572,167	402,889	245,537[(1)]	648,426[(1)]	13.3
Capacity[(2)]	816,645	596,906	317,448	914,354	12.0
Volume					
Electricity (kW/h thousands)	1,654,014	1,138,254	813,205[(1)]	1,951,459[(1)]	18.0
Capacity (MW)[(2)]	5,160	3,440	1,720	5,160	—
Tariff/Price					
FTS electricity tariff (RUB/MW/h)	413.8	359.6	359.6	359.6	(13.1)
Effective electricity price (RUB/MW/h)[(3)]	345.9	354.0	301.9	332.3	(3.9)
FTS capacity tariff (RUB/MW of installed capacity per month)	164,044.4	186,141.9	186,141.9	186,141.9	13.5
Effective capacity price (RUB/MW of installed capacity per month)[(4)]	158,264.5	173,519.2	184,562.8	177,200.4	12.0
Effective overall price (RUB/MW/h)[(5)]	839.7	878.4	692.3	800.8	(4.6)

1 Includes re-sales of 150,974 kW/h thousands of electricity purchased on the ''one-day-ahead'' spot market for the period from September 1, 2006 through to December 31, 2006.

2 Prior to the introduction of the New Wholesale Market Rules, Kharanorskaya GRES received payment for only 95 % of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Kharanorskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector (January-August 2006) and (ii) the Regulated Market and Unregulated Market (September-December 2006).

	January-August 2006			September-December 2006			
	Regulated[(1)] Sector	Free[(1)] Sector	Total	Regulated[(1)] Market	Unregulated[(1)] Market	Total	Total for 2006
Revenue from electricity and capacity sales (RUB thousand)	979,216	20,579	999,795	511,728	51,257	562,985	1,562,780
Electricity	382,310	20,579	402,889	194,280	51,257	245,537	648,426
Capacity	596,906	—	596,906	317,448	—	317,448	914,354

1 After the introduction of the New Wholesale Market Rules, the free sector was replaced by the unregulated market.

Kharanorskaya GRES's revenues from electricity and capacity sales increased by RUB 173,968 thousand, or by 12.5%, from RUB 1,388,812 thousand in 2005 to RUB 1,562,780 thousand in 2006. The growth in revenues was primarily due to the increased sales of electricity by 297,445 thousand kW/h, or 18.0%, from 1,654,014 thousand kW/h sold in 2005 to 1,951,459 thousand kW/h sold in 2006. The increase in sales of electricity was due to Kharanorskaya GRES's ability to increase output as a result of higher demand in 2006 and implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market (September-December 2006) when the cost of such purchases was less than its own costs of production. As a result of this strategy, Kharanorskaya GRES had resales of 150,974 thousand kW/h on the "one-day-ahead" spot market, representing 7.7% of the total volume of electricity sold in the four months ended December 31, 2006. The electricity volume growth was offset by a decrease of the effective electricity price by 13.6 RUB/MW/h or 3.9% from 345.9 RUB/MW/h in 2005 to 332.3 RUB/MW/h in 2006. Revenues from capacity sales increased by RUB 97,709 thousand, or by 12.0%, from RUB 816,645 thousand in 2005 to RUB 914,354 thousand in 2006. The growth in capacity sales revenues was primarily due to the increased capacity tariff by 22,097.5 RUB/MW of installed capacity per month, or 13.5%, and the ability to recover 100% of fixed costs under the regulated capacity tariffs following the introduction of the New Wholesale Market Rules.

Heat

Revenues from heat sales increased by RUB 9,778 thousand, or 2.0%, from RUB 499,332 thousand in 2005 to RUB 509,110 thousand in 2006, which was primarily due to the increase in average tariffs. Volume of heat sold decreased by 195 thousand Gcal, or 13.7%, from 1,420 thousand Gcal in 2005 to 1,225 thousand Gcal in 2006, which was offset by increase in average tariffs.

The table below presents data on revenues from heat sold with breakdown by WGC-3's power plants for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
	(amount in thousands rubles, except percentages)		
Kostromskaya GRES	53,852	62,509	16.1
Cherepetskaya GRES	112,261	107,850	(3.9)
Gusinoozerskaya GRES	127,771	123,559	(3.3)
Pechorskaya GRES	83,720	58,126	(30.6)
Yuzhnouralskaya GRES	77,902	104,171	33.7
Kharanorskaya GRES	43,826	52,895	20.7
Total	**499,332**	**509,110**	**2.0**

Kostromskaya GRES

The table below presents Kostromskaya GRES's revenues from sales of heat, volumes of heat sold and its average tariffs for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Revenue *(RUB thousands)*	53,852	62,509	16.1
Volume *(Gcal thousands)*	165	169	2.4
Average tariff *(RUB/Gcal)*	326.4	369.9	13.3

Revenues from heat sales increased by RUB 8,657 thousand, or 16.1%, from RUB 53,852 thousand in 2005 to RUB 62,509 thousand in 2006, which was primarily due to the increase in total sales of heat by 4 thousand Gcal, or 2.4% from 165 thousand Gcal sold in 2005 to 169 thousand Gcal sold in 2006 and also due to an increase in average tariffs from 326.4 RUB/Gcal effective in 2005 to 369.9 RUB/Gcal effective in 2006.

Cherepetskaya GRES

The table below presents Cherepetskaya GRES's revenues from sales of heat, volumes of heat sold and its average tariffs for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Revenue *(RUB thousands)*	112,261	107,850	(3.9)
Volume *(Gcal thousands)*	228	200	(12.3)
Average tariff *(RUB/Gcal)*	492.4	539.3	9.5

Revenues from heat sales decreased by RUB 4,411 thousand, or 3.9%, from RUB 112,261 thousand in 2005 to RUB 107,850 thousand in 2006, which was primarily due to the decrease in total sales of heat by 28 thousand Gcal, or 12.3%, from 228 thousand Gcal sold in 2005 to 200 thousand Gcal sold in 2006, which was partly offset by an increase in average tariffs from 492.4 RUB/Gcal effective in 2005 to 539.3 RUB/Gcal effective in 2006. The decrease in the volume of heat in 2006, as compared to 2005, was mainly due to the fact that certain consumers have chosen individual ways of heating as a result of the gasification program. Another reason for the decrease in heat consumption was due to the warm weather in the last months of 2006, as compared to 2005.

Gusinoozerskaya GRES

The table below presents Gusinoozerskaya GRES's revenues from sales of heat, volumes of heat sold and its average tariffs for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Revenue *(RUB thousands)*	127,771	123,559	(3.3)
Volume *(Gcal thousands)*	346	231	(33.2)
Average tariff *(RUB/Gcal)*	369.3	534.9	44.8

Revenues from heat sales decreased by RUB 4,212 thousand, or 3.3%, from RUB 127,771 thousand in 2005 to RUB 123,559 thousand in 2006, which was primarily due to the decrease in total sales of heat by 115 thousand Gcal, or 33.2%, from 346 thousand Gcal sold in 2005 to 231 thousand Gcal sold in 2006, which was offset by an increase in average tariffs from 369.3 RUB/Gcal effective in 2005 to 534.9 RUB/Gcal effective in 2006. The decrease of volume of heat sold in 2006 from that of 2005 was due partially to the termination of contracts with certain consumers for the non-payment as well as repair of heat networks.

Pechorskaya GRES

The table below presents Pechorskaya GRES's revenues from sales of heat, volumes of heat sold and its average tariffs for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Revenue *(RUB thousands)*	83,720	58,126	(30.6)
Volume *(Gcal thousands)*	295	180	(39.0)
Average tariff *(RUB/Gcal)*	283.8	322.9	13.8

Revenues from heat sales decreased by RUB 25,594 thousand, or 30.6%, from RUB 83,720 thousand in 2005 to RUB 58,126 thousand in 2006, which was primarily due to the decrease in total sales of heat by 115 thousand Gcal, or 39.0% from 295 thousand Gcal sold in 2005 to 180 thousand Gcal sold in 2006, which was partly offset by an increase in average tariffs from 283.8 RUB/Gcal effective in 2005 to 322.9 RUB/Gcal effective in 2006. The decrease in the volume of heat sold was due to repair works performed at heat networks of OJSC Teplovaya Servisnaya Compania, the subsidiary of Pechorskaya GRES, as well as the termination of contracts with non-payment.

Yuzhnouralskaya GRES

The table below presents Yuzhnouralskaya GRES's revenues from sales of heat, volumes of heat sold and its average tariffs for the periods indicated

	Year ended December 31,		
	2005	2006	Change (%)
Revenue (RUB thousands)	77,902	104,171	33.7
Volume (Gcal thousands)	271	326	20.3
Average tariff *(RUB/Gcal)*	287.5	319.5	11.1

Revenues from heat sales increased by RUB 26,269 thousand, or 33.7%, from RUB 77,902 thousand in 2005 to RUB 104,171 thousand in 2006, which was primarily due to the increase in total sales of heat by 55 thousand Gcal, or 20.3%, from 271 thousand Gcal sold in 2005 to 326 thousand Gcal sold in 2006 and also due to an increase in average tariffs from 287.5 RUB/Gcal effective in 2005 to 319.5 RUB/Gcal effective in 2006.

Kharanorskaya GRES

The table below presents Kharanorskaya GRES's revenues from heat sales, volumes of heat sold and its average tariffs for the periods indicated

	Year ended December 31,		
	2005	2006	Change (%)
Revenue *(RUB thousands)*	43,826	52,895	20.7
Volume *(Gcal thousands)*	115	119	3.5
Average tariff *(RUB/Gcal)*	381.1	444.5	16.6

Revenues from heat sales increased by RUB 9,069 thousand, or 20.7%, from RUB 43,826 thousand in 2005 to RUB 52,895 thousand in 2006, which was primarily due to the increase in total sales of heat by 4 thousand Gcal, or 3.5%, from 115 thousand Gcal sold in 2005 to 119 thousand Gcal sold in 2006 and also due to an increase in average tariffs from 381.1 RUB/Gcal effective in 2005 to 444.5 RUB/Gcal effective in 2006.

Other sales

Other sales include rent, fuel oil storage services and other revenues. Other sales increased by RUB 11,058 thousand, or 5.4%, from RUB 205,079 thousand in 2005 to RUB 216,137 thousand in 2006.

Operating expenses

Fuel costs are the main operating expenses of WGC-3.

The table below presents WGC-3's operating expenses for the periods indicated.

	Year ended December 31,			
	2005		2006	
	Amount	Percentage of total operating expenses	Amount	Percentage of total operating expenses
	(in thousands rubles, except percentages)			
Fuel	10,011,602	57.2	12,533,733	53.4
Employee benefits	2,241,569	12.8	2,617,160	11.2
Purchased electricity	—	—	2,469,577	10.5
Depreciation	1,184,747	6.8	1,093,393	4.7
Taxes other than income tax	989,129	5.6	1,009,339	4.3
Repairs and maintenance	652,563	3.7	884,012	3.8
Raw materials and supplies	430,064	2.5	483,156	2.1
Transmission fees	28,858	0.2	358,344	1.5
Transportation of gas	227,730	1.3	283,333	1.2
Write-down of inventories	55,543	0.3	175,675	0.7
Loss on disposal of fixed assets	290,319	1.7	162,743	0.7
Impairment of accounts receivable	405,440	2.3	147,240	0.6
Consulting, legal and audit services	64,966	0.4	145,419	0.6
Insurance cost	127,146	0.7	119,876	0.5
Rent	43,775	0.2	75,006	0.3
Transportation services	64,224	0.4	44,183	0.2
Other operating expenses	696,017	3.9	853,639	3.7
Total operating expenses	**17,513,692**	**100.0**	**23,455,828**	**100.0**

Total operating expenses increased by RUB 5,942,136 thousand, or 33.9%, from RUB 17,513,692 thousand in 2005 to RUB 23,455,828 thousand in 2006. The increase in operating expenses was primarily attributable to higher fuel costs and the cost of purchased electricity in the New Wholesale Electricity Market that was established in September 2006.

Fuel

WGC-3's primary operating expense is represented by fuel costs. In 2005 and 2006, fuel costs accounted for 57.2% and 53.4% of the total operating expenses, respectively. Natural gas is the main type of fuel consumed at Kostromskaya GRES and Pechorskaya GRES, while Yuzhnouralskaya GRES consumes coal as well (See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Fuel — Gas"). Cherepetskaya GRES, Gusinooszerskaya GRES and Kharanorskaya GRES use coal as the main fuel. In 2006, gas and coal expenses accounted for 52.8% and 35.9%, respectively, of the total fuel expenses. In addition, WGC-3's power plants use a small amount of fuel oil as ignition and reserve fuel — 11.1% of the total amount of fuel expenses in 2006. See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Fuel — Gas".

The table below presents WGC-3's costs on various fuels for the periods indicated.

Fuel	Year ended December 31, 2005	2006	Change (%)
	(amount in thousands rubles, except percentage)		
Gas	5,696,538	6,621,958	16.2
Coal	3,865,462	4,503,444	16.5
Fuel oil	445,855	1,396,340	213.2
Other fuel	3,747	11,991	220.0
Total	**10,011,602**	**12,533,733**	**25.2**

Fuel costs increased by RUB 2,522,131 thousand, or 25.2%, from RUB 10,011,602 thousand in 2005 to RUB 12,533,733 thousand in 2006. The increase in electricity output by WGC-3's power plants, as well as the rise in average prices for coal, fuel oil and gas, are the main reasons for the increase in fuel costs.

The table below presents costs on fuel expenses by each of WGC-3's six power plants for the periods indicated.

Power Plant	Year ended December 31, 2005	2006	Change (%)
	(amount in thousands rubles, except percentage)		
Kostromskaya GRES	3,752,438	4,948,624	31.9
Cherepetskaya GRES	1,570,883	2,123,704	35.2
Gusinooszerskaya GRES	1,099,608	1,265,178	15.1
Pechorskaya GRES	874,294	1,135,481	29.9
Yuzhnouralskaya GRES	2,261,947	2,527,829	11.8
Kharanorskaya GRES	452,432	532,917	17.8
Total	**10,011,602**	**12,533,733**	**25.2**

The description below contains data on fuel expenses incurred by each of WGC-3's six power plants in the periods indicated. In addition to the principal types of fuel discussed below, WGC-3's power plants also consume insignificant volumes of other fuels. As a result, the total fuel expenses incurred by a particular power plant may exceed in certain instances the fuel expenses incurred by that power plant for its principal type or types of fuel. Information on fuel oil expenses is provided for a particular power plant but is not presented for those power plants that use fuel oil for internal consumption.

Kostromskaya GRES

Kostromskaya GRES primarily consumes natural gas. Gas expenses increased by RUB 521,000 thousand, or 14.0%, from RUB 3,716,045 thousand in 2005 to RUB 4,237,045 thousand in 2006, primarily due to an increase in electricity output by 6.2% and due to an increase in heat output by 3.7%, as well as higher gas average prices, which increased from 1,178.9 RUB/thousand m^3 in 2005 to 1,322.0 RUB/thousand m^3 in 2006.

Fuel oil expenses increased by RUB 675,186 thousand, or 1,855.3%, from RUB 36,393 thousand in 2005 to RUB 711,579 thousand in 2006, primarily due to the insufficient volume of gas supplied by Gazprom in 2006, as well as the increase in average fuel oil prices from RUB/tonne 1,503.8 in 2005 to RUB/tonne 4,263.5 in 2006 as a result of the increase on the global and domestic markets of prices of oil products in 2006.

The table below shows Kostromskaya GRES's fuel expenses, volume of gas consumed and the average prices by each type of fuel used for the periods indicated.

	Year ended December 31, 2005	2006	Change (%)
Gas (RUB thousands)	3,716,045	4,237,045	14.0
Gas consumption (million m^3)	3,152	3,205	1.7
Average gas price (RUB/thousand m^3)	1,178.9	1,322.0	12.1
Fuel oil (RUB thousands)	36,393	711,579	1,855.3
Fuel oil consumption (thousand tonnes)	24.2	166.9	589.7
Average fuel oil price (RUB/tonne)	1,503.8	4,263.5	183.5

Cherepetskaya GRES

Cherepetskaya GRES primarily consumes coal. Coal expenses increased by RUB 338,856 thousand, or 28.7%, from RUB 1,180,681 thousand in 2005 to RUB 1,519,537 thousand in 2006, primarily due to an increase in electricity output by 30.9%, as well as higher average coal prices, which increased from 1,010.0 RUB/tonne in 2005 to 1,157.3 RUB/tonne in 2006.

Fuel oil expenses increased by RUB 213,965 thousand, or 54.8%, from RUB 390,202 thousand in 2005 to RUB 604,167 thousand in 2006, primarily due to the increase in electricity output, as well as higher average fuel oil prices, which increased from 3,363.8 RUB/tonne in 2005 to 4,833.3 RUB/tonne in 2006.

The table below shows Cherepetskaya GRES's fuel expenses, volume of coal consumed and the average prices by each type of fuel used for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Coal (RUB thousands)	1,180,681	1,519,537	28.7
Coal consumption (thousand tonnes)	1,169	1,313	12.3
Average coal price (RUB/tonne)	1,010.0	1,157.3	14.6
Fuel oil (RUB thousands)	390,202	604,167	54.8
Fuel oil consumption (thousand tonnes of natural fuel)	116	125	7.8
Average fuel oil price (RUB/tonne)	3,363.8	4,833.3	43.7

Gusinoozerskaya GRES

Gusinoozerskaya GRES primarily consumes coal. Coal expenses increased by RUB 143,873 thousand, or 13.2%, from RUB 1,091,681 thousand in 2005 to RUB 1,235,554 thousand in 2006, primarily due to an increase in electricity output by 2.9%, as well as higher average coal prices, which increased from 540.2 RUB/tonne in 2005 to 593.4 RUB/tonne in 2006.

The table below shows Gusinoozerskaya GRES's fuel expenses, volume of coal consumed and the average coal price for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Coal (*RUB thousands*)	1,091,681	1,235,554	13.2
Coal consumption (*thousand tonnes*)	2,021	2,082	3.0
Average coal price (*RUB/tonne*)	540.2	593.4	9.8

Pechorskaya GRES

Pechorskaya GRES primarily consumes natural gas. Gas expenses increased by RUB 215,307 thousand, or 24.8%, from RUB 869,745 thousand in 2005 to RUB 1,085,052 thousand in 2006, primarily due to an increase in the electricity output by 9.3%, as well as growth of the average prices from 1,000.9 RUB/ thousand m^3 in 2005 to 1,145.8 RUB/ thousand m^3 in 2006.

The table below shows Pechorskaya GRES's fuel expenses, volume of gas consumed and the average gas price for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Gas (*RUB thousands*)	869,745	1,085,052	24.8
Gas consumption (*million m^3*)	869	947	9.0
Average gas price (*RUB/thousand m^3*)	1,000.9	1,145.8	14.5

Yuzhnouralskaya GRES

Yuzhnouralskaya GRES primarily consumes natural gas and coal. Gas expenses increased by RUB 189,113 thousand, or 17.0%, from RUB 1,110,748 thousand in 2005 to RUB 1,299,861 thousand in 2006, primarily due to an increase in the average prices from 995.3 RUB/thousand m^3 in 2005 to 1,196.9 RUB/thousand m^3 in 2006. The volume of natural gas consumed decreased by 30 million m^3, or 2.7%, from 1,116 million m^3 in 2006 down to 1,086 million m^3 in 2006 due to a decrease in electricity output by 6.1%, in 2006, as compared to 2005, but this fact did not affect natural gas expenses significantly.

Coal expenses increased by RUB 77,124 thousand, or 6.7%, from RUB 1,144,128 thousand in 2005 to RUB 1,221,252 thousand in 2006, primarily due to higher average coal prices, which increased from 477.3 RUB/tonne in 2005 to 594.9 RUB/tonne in 2006. The volume of coal consumed decreased by 344 thousand tons, or 14.4%, from 2,397 tons in 2005 down to 2,053 thousand tons in 2006 due to a decrease in electricity output by 6.1% and the usage of more coal that partly offset the effect of average coal price increase.

The table below shows Yuzhnouralskaya GRES's fuel expenses, volumes of coal and gas consumed and the average prices by each type of fuel used for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Gas (*RUB thousands*)	1,110,748	1,299,861	17.0
Gas consumption (*million m^3*)	1,116	1,086	(2.7)
Average gas price (*RUB/thousand m^3*)	995.3	1,196.9	20.3
Coal (*RUB thousands*)	1,144,128	1,221,252	6.7
Coal consumption (*thousand tonnes*)	2,397	2,053	(14.4)
Average coal price (*RUB/tonne*)	477.3	594.9	24.6

Kharanorskaya GRES

Kharanorskaya GRES primarily consumes coal. Coal expenses increased by RUB 78,128 thousand, or 17.4%, from RUB 448,972 thousand in 2005 to RUB 527,100 thousand in 2006, primarily due to an increase in the electricity output by 8.5%, as well as higher coal average prices which increased from 386.0 RUB/tonne in 2005 to 399.3 RUB/tonne in 2006.

The table below shows Kharanorskaya GRES's fuel expenses, volume of coal consumed and the average coal price for the periods indicated.

	Year ended December 31,		
	2005	2006	Change (%)
Coal (*RUB thousands*)	448,972	527,100	17.4
Coal consumption (*thousand tonnes*)	1,163	1,320	13.5
Average coal price (*RUB/tonne*)	386.0	399.3	3.4

Employee benefits

Employee benefit expenses increased by RUB 375,591 thousand, or 16.8%, from RUB 2,241,569 thousand in 2005 to RUB 2,617,160 thousand in 2006. The increase resulted mainly from an increase in salaries and premiums resulting from the reorganization of WGC-3, recruitment of highly-qualified personnel and increases tied to wage inflation indexations.

Purchased electricity

The electricity procurement expense was presented separately for the first time in 2006. This was due to the introduction of the New Wholesale Market Rules in September 2006, which enabled WGC-3 to increase profitability of its trading operations by purchasing electricity on the "one-day-ahead" spot market if electricity prices on the "one-day-ahead" spot market were lower than WGC-3's electricity production costs. See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Sales of Electricity and Electric Capacity". The volume of purchased electricity was 5,597,438 kW/h thousands in 2006.

Depreciation

Due to the nature of WGC-3's operations, it owns a significant amount of production assets. Depreciation is charged on such assets annually in accordance with WGC-3's accounting policy.

Depreciation charges on the main production assets decreased by RUB 91,354 thousand, or 7.7 %, from RUB 1,184,747 thousand in 2005 to RUB 1,093,393 thousand in 2006.

Taxes other than income tax

Taxes other than income tax remained relatively unchanged for 2005 and 2006 and comprised RUB 1,099,339 thousand in 2006. Taxes other than income tax mainly consist of water tax and property tax.

Repairs and maintenance

Repairs and maintenance expenses increased by RUB 231,449 thousand, or 35.5%, from RUB 652,563 thousand in 2005 to RUB 884,012 thousand in 2006. The increase was largely attributable to an increase in the prices of raw materials and repair works, as well as an increase in the extent of work required to maintain obsolete equipment undertaken by WGC-3.

Raw materials and supplies

Raw materials and supplies expenses increased by RUB 53,092 thousand, or 12.3%, from RUB 430,064 thousand in 2005 to RUB 483,156 thousand in 2006. The increase was largely attributable to an increase in the prices of raw materials and transportation services.

Transmission fees

Transmission fees expenses increased by RUB 329,486 thousand, or 1,141.7%, from RUB 28,858 thousand in 2005 to RUB 358,344 thousand in 2006, as a result of WGC-3's obligation to pay fees under new agreements concluded with the System Operator, which makes electricity generating companies responsible for safe and secure electricity transmission.

Loss on disposal of fixed assets

Loss on disposals of fixed assets decreased by RUB 127,576 thousand, or 43.9%, from RUB 290,319 thousand in 2005 to RUB 162,743 thousand in 2006, as a result of some obsolete fixed assets having been written-off in 2005.

Impairment of accounts receivable

Impairment for accounts receivable decreased by RUB 258,200 thousand, or 63.7%, from RUB 405,440 thousand in 2005 to RUB 147,240 thousand in 2006. The decrease was largely attributable to the improved cash management in the revenue and accounts receivable cycle.

Impairment loss reversed/recognised during the year

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

Management has concluded that, at the reporting date, there were indications for reversing previously recognized impairment losses based on significant changes with a favorable effect on WGC-3 that have occurred or are expected to occur in the near future in the market and economic environment in which WGC-3 operates. Such changes include:

1. upward revisions, based on recent trends, in the expected growth of demand for electricity and heat in the regions in which WGC-3 operates; and
2. a 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.

These developments have resulted in a change to the assumptions that were used to determine the value in the 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 WGC-3's power plants was used as the relevant cash generating unit. The recoverable amount was generally based on value in use, which was calculated based on estimated future cash flows using various assumptions.

In particular, WGC-3 assumed that in terms of the expected inflation rate, electricity and heat tariffs would increase in a way such as to compensate expected increases in gas prices and other operating costs and provide a higher rate of return than in previous periods. The pre-tax discount rate used for assessment of value in use is equal to 13.1% until 2009 and 14.0% thereafter.

The management's assessment indicates that the fair value of property, plant and equipment will not be lower than its net book value for all generating units, except for Pechorskaya GRES. Consequently, WGC-3 has recorded a reversal of the previously recognized impairment loss in the amount of RUB 6,400 million. A respective gain together with a corresponding deferred tax expense of RUB 1,536 million were recognized in the statement of operations for the year ended December 31, 2006.

In respect of Pechorskaya GRES, the management believes this power plant will be unable to generate positive cash flow from the operations of its assets for the foreseeable future due to low installed capacity, a large portion of fixed costs and limitations of the distribution market. As a consequence, WGC-3 recognized an impairment loss of RUB 50 million in respect of the property, plant and equipment of Pechorskaya GRES with a corresponding deferred tax benefit of RUB 12 million in the statement of operations for the year ended December 31, 2006.

Operating profit/(loss)

Operating profit in 2006 was RUB 6,186,506 thousand as compared to a loss in the amount of RUB 336,765 thousand in 2005, which was largely due to a reversal of the previously recognized impairment loss of property, plant and equipment in the amount of RUB 6,400,021 thousand.

Finance costs

	Year ended December 31,		
	2005	**2006**	**Change (%)**
	(amount in thousand rubles, except percentage)		
Interests expenses, net	171,397	198,343	15.7
Effect of discount	56,881	(27,615)	n/a
Total finance cost, net	**228,278**	**170,728**	**(25.2)**

Interest expenses increased in 2006 due to WGC-3's loan portfolio growth. There was a positive discounting effect in the amount of RUB 27,615 thousand in 2006 as compared with a negative effect in the amount of RUB 56,881 thousand in 2005 due to the increase in long-term receivables from RUB 31,497 thousand to RUB 116,519 thousand.

Income tax

The income tax amounted to RUB 1,615,065 and RUB 332,702 thousand in 2006 and 2005, respectively. This increase was largely attributable to the deferred tax liability accrued on the reversal of the previously recognized impairment loss of property, plant and equipment. The statutory corporate tax rate in Russia in 2006 and 2005 was 24%.

Profit

For the reasons specified above, profit for the year ended December 31, 2006 was RUB 4,400,713 thousand as compared with loss in amount of RUB 897,745 thousand for the year ended December 31, 2005.

Six months ended June 30, 2007 compared to six months ended June 30, 2006

Revenues

The wholesale electricity market underwent significant reform in September 2006, including the establishment of a new sector in which electricity could be sold at unregulated market prices. The revenues of each branch of WGC-3 were affected by these reforms in the six months ended June 30, 2007, including, in particular, the introduction of a new unregulated sector in which electricity could be sold at free market prices and the increase of the proportion of the fixed costs that was covered by the regulated capacity tariff from 85% to 100%. As a result, revenues of WGC-3 derived from sales of electricity and capacity for the first six months of 2007 may not be directly comparable with revenues from sales of electricity and capacity for the first six months of 2006.

Accordingly, since WGC-3 derives most of its revenues from electricity and capacity sales, the revenues for 2007 increased significantly as compared to the same period in 2006.

Revenues from electricity sales are primarily subject to tariffs set by the FTS and to sales volume. WGC-3's revenues from electricity and capacity sales are presented for the six months ended 2006 and 2007. The table below presents a breakdown of revenues for the periods indicated.

	Six months ended June 30,		
	2006	2007	Change
Electricity and capacity revenues comprising (*RUB thousand*):	9,940,812	14,505,023	45.9
Electricity	6,992,289	10,519,199[1]	50.4
Capacity	2,948,523	3,985,824	35.2
Volume			
Electricity (*kW/h thousands*)	13,992,272	20,789,212[1]	48.6
Capacity (*MW*)	50,982	50,982	—
Heat	343,018	351,905	2.6
Other	242,132	241,711	(0.2)
Total revenue	**10,525,962**	**15,098,639**	**43.4**

1 Includes re-sales of 7,288,853 kW/h thousand of electricity purchased on the "one-day-ahead" spot market.

Electricity and capacity

Revenues from electricity and capacity sales increased by RUB 4,564,211 thousand, or 45.9%, from RUB 9,940,812 thousand in the six months ended June 30, 2006 to RUB 14,505,023 thousand in the six months ended June 30, 2007, which was mainly due to the overall increase in sales, advanced tariffs and, in relation to the period from September 2006, the introduction of the New Wholesale Market Rules, which were introduced on September 1, 2006 pursuant to which WGC-3 commenced sales on the unregulated market. See "Electricity Industry Overview — Overview of the Market — Wholesale Electricity Market".

The table below presents sales for each of WGC-3's branches for the periods indicated.

	Six months ended June 30,				
	2006		2007		
	Amount	Percentage of Total	Amount	Percentage of Total	Change (%)
	(amount in RUB thousands, except percentages)				
Kostromskaya GRES	3,835,649	38.6	6,290,675	43.4	64.0
Cherepetskaya GRES	1,573,786	15.8	2,232,567	15.4	41.9
Gusinoozerskaya GRES	1,308,488	13.2	1,471,041	10.1	12.4
Pechorskaya GRES	954,940	9.6	1,107,116	7.6	15.9
Yuznouralskaya GRES	1,510,004	15.2	2,491,716	17.2	65.0
Kharanorskaya GRES	757,945	7.6	911,908	6.3	20.3
Total	**9,940,812**	**100.0**	**14,505,023**	**100.0**	**45.9**

Kostromskaya GRES

The table below presents Kostromskaya GRES' sales from electricity and capacity, average prices and tariffs set by the FTS for the six months ended June 30, 2006 and 2007.

	Six months ended June 30, 2006	Six months ended June 30, 2007	Change (%)
Revenue from electricity and capacity sales (RUB thousand)	3,835,649	6,290,675	64.0
Comprising			
Electricity	2,915,643	4,989,342[1]	71.1
Capacity[2]	920,006	1,301,333	41.4
Volume			
Electricity (*kW/h thousands*)	5,869,357	9,397,913[1]	60.1
Capacity (*MW*)[2]	21,600	21,600	—
Tariff/Price			
FTS electricity tariff (*RUB/MW/h*)	426.4	529.3	24.1
Effective electricity price (*RUB/MW/h*)[3]	496.8	530.9	6.9
FTS capacity tariff (*RUB/MW of installed capacity per month*)	50,109.3	61,449.8	22.6
Effective capacity price (*RUB/MW of installed capacity per month*)[4]	42,592.9	60,246.9	41.4
Effective overall price (*RUB/MW/h*)[5]	653.5	669.4	2.4

1 Includes re-sales of 3,716,433 kW/h thousand of electricity purchased on the ''one-day-ahead'' spot market.

2 Prior to the introduction of the New Wholesale Market Rules, Kostromskaya GRES received payment for only 85 % of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Kostromskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector and (ii) the Regulated Market and Unregulated Market for the six months ended June 30, 2006 and 2007.

	Six months ended June 30,					
	2006			2007		
	Regulated[1] Sector	Free[1] Sector	Total	Regulated[1] Market	Unregulated[1] Market	Total
Revenue from electricity and capacity sales (*RUB thousand*)	2,800,135	1,035,514	3,835,649	4,437,147	1,853,528	6,290,675
Electricity	1,880,129	1,035,514	2,915,643	3,135,814	1,853,528	4,989,342
Capacity	920,006	—	920,006	1,301,333	—	1,301,333

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector replaced the unregulated market.

Kostromskaya GRES's revenues from electricity and capacity sales increased by RUB 2,455,026 thousand, or by 64.0%, from RUB 3,835,649 thousand in the six months ended June 30, 2006 to RUB 6,290,675 thousand in the six months ended June 30, 2007. The growth was primarily due to the increased sales of electricity by 3,528,556 thousand kW/h, or 60.1%, from 5,869,357 thousand kW/h in the six months ended June 30, 2006 to 9,397,913 thousand kW/h in the six months ended June 30, 2007 due to the implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market when the cost of such purchases were less than its own costs of production. As a result of this strategy, Kostromskaya GRES had resales of 3,716,433 thousand kW/h on the "one-day-ahead" spot market, representing 39.5% of the total volume of electricity sold in the six months ended June 30, 2007.

Cherepetskaya GRES

The table below presents Cherepetskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS for the six months ended June 30, 2006 and 2007.

	Six months ended June 30,		
	2006	2007	Change (%)
Revenue from electricity and capacity sales (RUB thousand)	1,573,786.0	2,232,567.0	41.9
Comprising			
Electricity	1,229,980.0	1,679,242.0[(1)]	36.5
Capacity[(2)]	343,806.0	553,325.0	60.9
Volume			
Electricity (kW/h thousands)	1,544,464.0	2,191,921.0[(1)]	41.9
Capacity (MW)[(2)]	8,550.0	8,550.0	—
Tariff/Price			
FTS electricity tariff (RUB/MW/h)	805.2	894.7	11.1
Effective electricity price (RUB/MW/h)[(3)]	796.4	766.1	(3.8)
FTS capacity tariff (RUB/MW of installed capacity per month)	47,775.6	65,780.9	37.7
Effective capacity price (RUB/MW of installed capacity per month)[(4)]	40,211.2	64,716.4	60.9
Effective overall price (RUB/MW/h)[(5)]	1019.0	1018.5	(0.1)

1 Includes re-sales of 907,462 kW/h thousand of electricity purchased on the "one-day-ahead" spot market.

2 Prior to the introduction of the New Wholesale Market Rules, Cherepetskaya GRES received payment for only 85% of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Cherepetskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector and (ii) the Regulated Market and Unregulated Market for the six months ended June 30, 2006 and 2007.

	Six months ended June 30,					
	2006			2007		
	Regulated[(1)] Sector	Free[(1)] Sector	Total	Regulated[(1)] Market	Unregulated[(1)] Market	Total
Revenue from electricity and capacity sales (RUB thousand)	1,588,984	(15,198)	1,573,786	1,816,369	416,198	2,232,567
Electricity	1,245,178	(15,198)	1,229,980	1,263,044	416,198	1,679,242
Capacity	343,806	—	343,806	553,325	—	553,325

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector replaced the unregulated market.

Cherepetskaya GRES's revenues from electricity and capacity sales increased by RUB 658,781 thousand, or by 41.9%, from RUB 1,573,786 thousand in the six months ended June 30, 2006 to RUB 2,232,567 thousand in the six months ended June 30, 2007. The growth was primarily due to the increased sales of electricity by 647,457 thousand kW/h, or 41.9%, from 1,544,464 thousand kW/h sold in the six months ended June 30, 2006 to 2,191,921 thousand kW/h sold in the six months ended June 30, 2007, which was achieved due to the implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market when the cost of such purchases was less than its own costs of production. As a result of this strategy, Cherepetskaya GRES had resales of 907,462 thousand kW/h on the "one-day-ahead" spot market, representing 41.4% of the total volume of electricity sold in the six months ended June 30, 2007. However, the average price for the electricity sold was less than the tariff set by the FTS. When the production volume of electricity limited by System

Operator exceeds electricity volume, which Cherepetskaya GRES is obliged to deliver under its contracts, WGC-3 is required to sell the excess on the "one-day-ahead" spot market, where prices are generally lower than the tariff.

Gusinoozerskaya GRES

The table below presents Gusinoozerskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS for the six months ended June 30, 2006 and 2007.

	Six months ended June 30,		
	2006	**2007**	**Change (%)**
Revenue from electricity and capacity sales (RUB thousand)	1,308,488	1,471,041	12.4
Comprising			
Electricity	739,808	789,927(1)	6.8
Capacity(2)	568,680	681,114	19.8
Volume			
Electricity (kW/h thousands)	1,761,898	2,426,814(1)	37.7
Capacity (MW)(2)	6,600	6,600	—
Tariff/Price			
FTS electricity tariff (RUB/MW/h)	423.3	418.2	(1.2)
Effective electricity price (RUB/MW/h)(3)	419.9	325.5	(22.4)
FTS capacity tariff (RUB/MW of installed capacity per month)	90,698.6	104,042.5	14.7
Effective capacity price (RUB/MW of installed capacity per month)(4)	86,163.6	103,199.1	19.8
Effective overall price (RUB/MW/h)(5)	742.7	606.2	(18.4)

1 Includes re-sales of 811,207 kW/h thousand of electricity purchased on the "one-day-ahead" spot market.

2 Prior to the introduction of the New Wholesale Market Rules, Gusinoozerskaya GRES received payment for only 95% of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Gusinoozerskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector and (ii) the Regulated Market and Unregulated Market for the six months ended June 30, 2006 and 2007.

	Six months ended June 30,					
	2006			**2007**		
	Regulated(1) Sector	**Free(1) Sector**	**Total**	**Regulated(1) Market**	**Unregulated(1) Market**	**Total**
Revenue from electricity and capacity sales (RUB thousand)	1,283,403	25,085	1,308,488	1,333,053	137,988	1,471,041
Electricity	714,723	25,085	739,808	651,939	137,988	789,927
Capacity	568,680	—	568,680	681,114	—	681,114

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector replaced the unregulated market.

Gusinoozerskaya GRES's revenues from electricity and capacity sales increased by RUB 162,553 thousand, or by 12.4%, from RUB 1,308,488 thousand in the six months ended June 30, 2006 to RUB 1,471,041 thousand in the six months ended June 30, 2007. The growth was primarily due to the increased sales of electricity by 664,916 thousand kW/h, or 37.7%, from 1,761,898 thousand kW/h sold in the six months ended June 30, 2006 to 2,426,814 thousand kW/h sold in the six months ended June 30, 2007, which was achieved due to the implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market when the cost of such purchases were less than its own costs of production. As a result of this strategy, Gusinoozerskaya GRES had resales of 811,207 thousand kW/h on the "one-day-ahead" spot market, representing 33.4% of the total volume of electricity sold in the six months ended June 30, 2007. However, the average price for the electricity sold was less than the tariff set by the FTS. When the production volume of electricity limited by System

Operator exceeds electricity volume which Gusinoozerskaya GRES is obliged to deliver under its contracts, WGC-3 is required to sell the excess in the on the "one-day-ahead" spot market, where prices are generally lower than the tariff. Capacity sales increased by RUB 112,434 thousand, or by 19.8% from RUB 568,680 thousand in the six month ended June 30, 2006 to RUB 681,114 thousand in the six month ended June 30, 2007. The growth was primarily due to the increased capacity tariff by 13,343.9 RUB/MW of installed capacity per month or 14.7% and payment of 100% of the installed capacity in 2007 after the introduction of the New Wholesale Market Rules.

Pechorskaya GRES

The table below presents Pechorskaya GRES's sales from electricity and capacity, average prices and tariffs set by the FTS for the six months ended June 30, 2006 and 2007.

	Six months ended June 30,		
	2006	2007	Change (%)
Revenue from electricity and capacity sales (RUB thousand)	954,940	1,107,116	15.9
Comprising			
Electricity	568,156	663,203	16.7
Capacity(1)	386,784	443,913	14.8
Volume			
Electricity (kW/h thousands)	1,624,363	1,686,964	3.9
Capacity (MW)(1)	6,360	6,360	—
Tariff/Price			
FTS electricity tariff (RUB/MW/h)	359.6	395.3	9.9
Effective electricity price (RUB/MW/h)(2)	349.8	393.1	12.4
FTS capacity tariff (RUB/MW of installed capacity per month)	60,815.1	70,143.0	15.3
Effective capacity price (RUB/MW of installed capacity per month)(3)	60,815.1	69,797.6	14.8
Effective overall price (RUB/MW/h)(4)	587.9	656.3	11.6

1 Pechorskaya GRES does not belong to Russian energy system, so all 100% of installed capacity are paid to Pechorskaya GRES.

2 Total revenue from electricity sales divided by volume of electricity.

3 Total revenue from capacity sales divided by volume of capacity.

4 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Pechorskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector and (ii) the Regulated Market and Unregulated Market for the six months ended June 30, 2006 and 2007.

	Six months ended June 30					
	2006			2007		
	Regulated(1) Sector	Free(1) Sector	Total	Regulated(1) Market	Unregulated(1) Market	Total
Revenue from electricity and capacity sales (RUB thousand)	954,940	—	954,940	1,096,782	10,334	1,107,116
Electricity	568,156	—	568,156	652,869	10,334	663,203
Capacity	386,784	—	386,784	443,913	—	443,913

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector replaced the unregulated market.

Pechorskaya GRES's revenues from electricity and capacity sales increased by RUB 152,176 thousand, or 15.9%, from RUB 954,940 thousand in the six months ended June 30, 2006 to RUB 1,107,116 thousand in the six months ended June 30, 2007. The growth was primarily due to the increase in electricity tariff by 35.7 RUB/MW/h, or 9.9%, from 359.6 RUB/MW/h in the six months ended June 30, 2006 to 395.3 RUB/MW/h in the six months ended June 30, 2007, and also due to the increased capacity tariff by 9,327.9 RUB/MW, or 15.3%, from 60,815.1 RUB/MW in the six months ended June 30, 2006 to 70,143.0 RUB/MW in the six months ended June 30, 2007.

Yuzhnouralskaya GRES

The table below presents Yuzhnouralskaya GRES' sales from electricity and capacity, average prices and tariffs set by the FTS for the six months ended June 30, 2006 and 2007.

	Six months ended June 30		
	2006	2007	Change (%)
Revenue from electricity and capacity sales (RUB thousand)	1,510,004	2,491,716	65.0
Comprising			
Electricity	1,225,585	1,995,776[1]	62.8
Capacity[2]	284,419	495,940	74.4
Volume			
Electricity (kW/h thousands)	2,283,964	3,631,713[1]	59.0
Capacity (MW)[2]	5,292	5,292	—
Tariff/Price			
FTS electricity tariff (RUB/MW/h)	543.7	573.8	5.5
Effective electricity price (RUB/MW/h)[3]	536.6	549.5	2.4
FTS capacity tariff (RUB/MW of installed capacity per month)	63,515.2	95,541.1	50.4
Effective capacity price (RUB/MW of installed capacity per month)[4]	53,745.1	93,715.0	74.4
Effective overall price (RUB/MW/h)[5]	661.1	686.1	3.8

1 Includes re-sales of 1,463,852 kW/h thousand of electricity purchased on the ''one-day-ahead'' spot market.

2 Prior to the introduction of the New Wholesale Market Rules, Yuzhnouralskaya GRES received payment for only 85% of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Yuzhnouralskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector and (ii) the Regulated Market and Unregulated Market for the six months ended June 30, 2006 and 2007.

	Six months ended June 30					
	2006			2007		
	Regulated[1] Sector	Free[1] Sector	Total	Regulated[1] Market	Unregulated[1] Market	Total
Revenue from electricity and capacity sales (RUB thousand)	1,371,330	138,674	1,510,004	1,561,834	929,882	2,491,716
Electricity	1,086,911	138,674	1,225,585	1,065,894	929,882	1,995,776
Capacity	284,419	—	284,419	495,940	—	495,940

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector replaced the unregulated market.

Yuzhnouralskaya GRES's revenues from electricity and capacity sales increased by RUB 981,712 thousand, or 65.0%, from RUB 1,510,004 thousand in the six months ended June 30, 2006 to RUB 2,491,716 thousand in the six months ended June 30, 2007. The growth was primarily due to the increased sales of electricity by 1,347,749 thousand kW/h, or 59.0%, from 2,283,964 thousand kW/h in the six months ended June 30, 2006 to 3,631,713 thousand kW/h in the six months ended June 30, 2007 due to the implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market when the cost of such purchases was less than its own costs of production. As a result of this strategy, Yuzhnouralskaya GRES had resales of 1,463,852 thousand kW/h on the "one-day-ahead" spot market, representing 40.3% of the total volume of electricity sold in the six months ended June 30, 2007. However, the average price for the electricity that is sold is less than the tariff set by the FTS. When the production volume of electricity limited by the System Operator exceeds the electricity volume that Yuozhnouralskaya GRES is obliged to deliver under its contracts, WGC-3 is required to sell the excess on the "one-day-ahead" spot market where prices are generally lower than the tariff.

Kharanorskaya GRES

The table below presents Kharanorskaya GRES' sales from electricity and capacity, average prices and tariffs set by the FTS for the six months ended June 30, 2006 and 2007.

	Six months ended June 30		
	2006	**2007**	**Change (%)**
Revenue from electricity and capacity sales (RUB thousand)	757,945	911,908	20.3
comprising			
Electricity	313,117	401,709[1]	28.3
Capacity[2]	444,828	510,199	14.7
Volume			
Electricity (kW/h thousands)	908,226	1,453,887[1]	60.1
Capacity (MW)[2]	2,580	2,580	—
Tariff/Price			
FTS electricity tariff (RUB/MW/h)	359.6	321.4	(10.6)
Effective electricity price (RUB/MW/h)[3]	344.8	276.3	(19.9)
FTS capacity tariff (RUB/MW of installed capacity per month)	186,141.9	199,202.7	7.0
Effective capacity price (RUB/MW of installed capacity per month)[4]	172,414.0	197,751.6	14.7
Effective overall price (RUB/MW/h)[5]	834.5	627.2	(24.8)

1 Includes re-sales of 389,899 kW/h thousand of electricity purchased on the "one-day-ahead" spot market.

2 Prior to the introduction of the New Wholesale Market Rules, Kharanorskaya GRES received payment for only 95% of the installed capacity of its generation facilities.

3 Total revenue from electricity sales divided by volume of electricity.

4 Total revenue from capacity sales divided by volume of capacity.

5 Total revenue from electricity and capacity sales divided by volume of electricity.

The table below presents Kharanorskaya GRES's breakdown of revenues between (i) the Regulated Sector and the Free Sector and (ii) the Regulated Market and Unregulated Market for the six months ended June 30, 2006 and 2007.

	Six months ended June 30					
	2006			2007		
	Regulated[1] Sector	Free[1] Sector	Total	Regulated[1] Market	Unregulated[1] Market	Total
Revenue from electricity and capacity sales (RUB thousand)	743,380	14,565	757,945	819,024	92,884	911,908
Electricity	298,552	14,565	313,117	308,825	92,884	401,709
Capacity	444,828	—	444,828	510,199	—	510,199

1 After the introduction of the New Wholesale Market Rules in September 2006, the free sector replaced the unregulated market.

Kharanorskaya GRES's revenues from electricity and capacity sales increased by RUB 153,963 thousand, or 20.3%, from RUB 757,945 thousand in the six months ended June 30, 2006 to RUB 911,908 thousand in the six months ended June 30, 2007. The growth was primarily due to the increased sales of electricity by 545,661 thousand kW/h, or 60.1%, from 908,226 thousand kW/h in the six months ended June 30, 2006 to 1,453,887 thousand kW/h in the six months ended June 30, 2007 due to the increase in output as a result of higher demand in 2007 and the implementation by WGC-3 of its market strategy to purchase electricity on the "one-day-ahead" spot market when the costs of such purchases were less than its own costs of production. As a result of this strategy, Kharanorskaya GRES had resales of 389,899 thousand kW/h on the "one-day-ahead" spot market, representing 26.8% of the total volume of electricity sold in the six months ended June 30, 2007. However, the average price for the electricity sold is less than the tariff set by the FTS. When the production volume of electricity limited by System Operator exceeds the electricity volume that Kharanorskaya GRES is obliged to deliver under its contracts, WGC-3 is required to sell the excess on the "one-day-ahead" spot market where prices are generally lower than the tariff. Capacity sales increased by RUB 65,371 thousand, or by 14.7% from RUB 444,828 thousand in the six month ended June 30, 2006 to RUB 510,199 thousand in the six month ended June 30, 2007, which was attributable to the increase in the capacity tariff by 13,060.8 RUB/MW of installed capacity per month or 7.0% and payment of 100% of the installed capacity in 2007 after the introduction of the New Wholesale Market Rules.

Heat

Revenues from heat sales increased by RUB 8,887 thousand, or 2.6%, from RUB 343,018 thousand in the six months ended June 30, 2006 to RUB 351,905 thousand in the six months ended June 30, 2007, which was primarily due to the increase in average tariffs. The volume of heat sold decreased by 89 thousand Gcal, or 11.0%, from 809 thousand Gcal in the six months ended June 30, 2006 to 720 thousand Gcal in the six months ended June 30, 2007, which is attributable to the colder winter in 2006 compared to the winter in 2007. However, the increase in average tariffs offset the decrease in the volume of the heat sold.

The table below shows a breakdown of heat revenues by WGC-3's power plants for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
	(amount in thousands rubles, except percentages)		
Kostromskaya GRES	33,049	38,909	17.7
Cherepetskaya GRES	67,209	61,367	(8.7)
Gusinoozerskaya GRES	74,103	76,566	3.3
Pechorskaya GRES	58,134	54,020	(7.1)
Yuzhnouralskaya GRES	61,483	72,975	18.7
Kharanorskaya GRES	49,040	48,068	(2.0)
Total	**343,018**	**351,905**	**2.6**

Kostromskaya GRES

The table below presents Kostromskaya GRES's revenues from heat sales, volumes of heat power sold and its average tariffs for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Revenue *(RUB thousands)*	33,049	38,909	17.7
Volume *(Gcal thousands)*	90	94	4.4
Average tariff *(RUB/Gcal)*	367.2	413.9	12.7

Revenues from heat sales increased by RUB 5,860 thousand, or 17.7%, from RUB 33,049 thousand in the six months ended June 30, 2006 to RUB 38,909 thousand in the six months ended June 30, 2007, which was primarily due to the increase in total sales of heat by 4 thousand Gcal, or 4.4%, from 90 thousand Gcal in the six months ended June 30, 2006 to 94 thousand Gcal in the six months ended June 30, 2007, as well as due to the rise in the average tariffs from 367.2 RUB/Gcal effective in the six months ended June 30, 2006 to 413.9 RUB/Gcal effective in the six months ended June 30, 2007.

Cherepetskaya GRES

The table below presents Cherepetskaya GRES's revenues from heat sales, volumes of heat power sold and its average tariffs for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Revenue *(RUB thousands)*	67,209	61,367	(8.7)
Volume *(Gcal thousands)*	124	104	(16.1)
Average tariff *(RUB/Gcal)*	542.0	590.1	8.9

Revenues from heat sales decreased by RUB 5,842 thousand, or 8.7%, from RUB 67,209 thousand in the six months ended June 30, 2006 to RUB 61,367 thousand in the six months ended June 30, 2007, which was primarily due to the decrease in total sales of heat by 20 thousand Gcal, or 16.1%, from 124 thousand Gcal in the six months ended June 30, 2006 to 104 thousand Gcal in the six months ended June 30, 2007, which was partly offset by the increase in the average tariff from 542.0 RUB/Gcal effective in the six months ended June 30, 2006 to 590.1 RUB/Gcal effective in the six months ended June 30, 2007. The decrease in volume of heat sales is attributable to the warm winter in 2007 as compared to the winter in 2006.

Gusinoozerskaya GRES

The table below presents Gusinoozerskaya GRES's revenues from heat sales, volumes of heat power sold and its average tariffs for the periods indicated.

	Six months ended June 30		
	2006	**2007**	**Change (%)**
Revenue *(RUB thousands)*	74,103	76,566	3.3
Volume *(Gcal thousands)*	151	125	(17.2)
Average tariff *(RUB/Gcal)*	490.8	612.5	24.8

Revenues from heat sales increased by RUB 2,463 thousand, or 3.3%, from RUB 74,103 thousand in the six months ended June 30, 2006 to RUB 76,566 thousand in the six months ended June 30, 2007, which was primarily due to the increase in the average tariffs from 490.8 RUB/Gcal effective in the six months ended June 30, 2006 to 612.5 RUB/Gcal effective in the six months ended June 30, 2007. The decrease in total sales of heat by 26 thousand Gcal, or 17.2%, from 151 thousand Gcal sold in the six months ended June 30, 2006 to 125 thousand Gcal sold in the six months ended June 30, 2007 was partly offset by the effect of the tariff increase. The decrease in the volume of the heat sales is attributable to the warm winter in 2007 as compared to the winter in 2006.

Pechorskaya GRES

The table below presents Pechorskaya GRES's revenues from heat sales, volumes of heat power sold and its average tariffs for the periods indicated.

	Six months ended June 30		
	2006	**2007**	**Change (%)**
Revenue *(RUB thousands)*	58,134	54,020	(7.1)
Volume *(Gcal thousands)*	179	150	(16.2)
Average tariff *(RUB/Gcal)*	324.8	360.1	10.9

Revenues from heat sales decreased by RUB 4,114 thousand, or 7.1%, from RUB 58,134 thousand in the six months ended June 30, 2006 to RUB 54,020 thousand in the six months ended June 30, 2007, which was primarily due to the decrease in total sales of heat by 29 thousand Gcal, or 16.2% from 179 thousand Gcal in the six months ended June 30, 2006 to 150 thousand Gcal in the six months ended June 30, 2007, which was partly offset by the increase in the average tariffs from 324.8 RUB/Gcal effective in the six months ended June 30, 2006 to 360.1 RUB/Gcal effective in the six months ended June 30, 2007. The decrease in volume of heat sales is attributable to the warm winter in 2007 as compared to the winter in 2006.

Yuzhnouralskaya GRES

The table below presents Yuzhnouralskaya GRES's revenues from heat sales, volumes of heat power sold and its average tariffs for the periods indicated.

	Six months ended June 30		
	2006	**2007**	**Change (%)**
Revenue *(RUB thousands)*	61,483	72,975	18.7
Volume *(Gcal thousands)*	194	187	(3.6)
Average tariff *(RUB/Gcal)*	316.9	390.2	23.1

Revenues from heat sales increased by RUB 11,492 thousand, or 18.7%, from RUB 61,483 thousand in the six months ended June 30, 2006 to RUB 72,975 thousand in the six months ended June 30, 2007, which was primarily due to the rise in the average tariffs from 316.9 RUB/Gcal effective in the six months ended June 30, 2006 to 390.2 RUB/Gcal effective in the six months ended June 30, 2007.

Kharanorskaya GRES

The table below presents Kharanorskaya GRES's revenues from heat sales, volumes of heat power sold and its average tariffs for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Revenue *(RUB thousands)*	49,040	48,068	(2.0)
Volume *(Gcal thousands)*	71	60	(15.5)
Average tariff *(RUB/Gcal)*	690.7	801.1	16.0

Revenues from heat sales decreased by RUB 972 thousand, or 2.0%, from RUB 49,040 thousand in the six months ended June 30, 2006 to RUB 48,068 thousand in the six months ended June 30, 2007, which was primarily due to the decrease in total sales of heat by 11 thousand Gcal, or 15.5%, from 71 thousand Gcal in the six months ended June 30, 2006 to 60 thousand Gcal in the six months ended June 30, 2007, which was partly offset by the increase in the average tariffs from 690.7 RUB/Gcal effective in the six months ended June 30, 2006 to 801.1 RUB/Gcal effective in the six months ended June 30, 2007. The decrease in the volume of heat sales is explained by the warm winter in 2007 as compared to the winter in 2006.

Other sales

Other sales include rent, fuel oil storage services and other revenues. Other sales decreased by RUB 421 thousand, or 0.2%, from RUB 242,132 thousand in the six month ended June 30, 2006 to RUB 241,711 thousand in the six months ended June 30, 2007.

Operating expenses

WGC's primary operating expense is fuel. The table below shows WGC's operating expenses for the periods indicated.

	Six months ended June 30			
	2006		2007	
	Amount	Percentage of total operating expenses	Amount	Percentage of total operating expenses
	(amount in thousand rubles, except percentages)			
Fuel	6,020,624	58.6	5,999,017	44.5
Purchased electricity	12,870	0.1	3,197,604	23.7
Employee benefits	1,401,363	13.6	1,672,465	12.4
Depreciation	536,312	5.2	610,033	4.5
Taxes other than income tax	500,422	4.9	472,685	3.5
Repairs and maintenance	413,316	4.0	445,387	3.3
Transmission fees	159,451	1.6	224,409	1.7
Transportation of gas	120,952	1.2	219,588	1.6
Raw materials and supplies	211,230	2.1	156,116	1.2
Consulting, legal and audit services	46,884	0.5	123,941	0.9
Insurance cost	54,620	0.5	74,623	0.6
Impairment of accounts receivable	81,271	0.8	59,173	0.4
Rent	46,225	0.4	45,681	0.3
Transportation services	12,345	0.1	32,399	0.2
Loss/(Profit) on disposal of fixed assets	148,051	1.4	22,105	0.2
Write-down /(Reverse of write down) of inventories	165,291	1.6	(7,404)	0.0
Accumulated depreciation and impairment reversal	—	—	(355,027)	(2.6)
Other operating expenses	351,422	3.4	478,962	3.6
Total operating expenses	**10,282,649**	**100.0**	**13,471,757**	**100.0**

Total operating expenses increased by RUB 3,189,108 thousand, or 31.0%, from RUB 10,282,649 thousand during the six months ended June 30, 2006 to RUB 13,471,757 thousand during the six months ended

June 30, 2007. The increase in operating expenses was primarily attributable to higher fuel costs and the cost of purchased electricity in the New Wholesale Electricity Market that was established in September 2006.

Fuel

WGC-3's primary operating expense is represented by fuel costs. Fuel expenses accounted for 58.6% and 44.5% of the total operating expenses during the six months ended June 30, 2006 and six months ended June 30, 2007, respectively. Natural gas is the main type of fuel consumed at Kostromskaya GRES and Pechorskaya GRES, while Yuzhnouralskaya GRES consume coal as well. See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Fuel — Gas". Cherepetskaya GRES, Gusinoozerskaya GRES and Kharanorskaya GRES use coal as the main fuel. For the six months ended June 30, 2007, gas and coal costs accounted for 61.0% and 35.2% of the total amount of fuel expenses, respectively. Furthermore, GRESs use a small amount of fuel oil as ignition and reserve fuel — 3.8% of the total amount of fuel expenses for the six months ended June 30, 2007. See "EnergoPolyus Business — Power Generation Companies — WGC-3 Fuel".

The table below presents WGC-3's costs related to various fuels for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
	(amount in thousands rubles, except percentage)		
Gas	3,179,109	3,660,176	15.1
Coal	2,258,881	2,109,272	(6.6)
Fuel oil	580,067	229,569	(60.4)
Other	2,567	—	(100)
Total	**6,020,624**	**5,999,017**	**(0.4)**

Fuel costs decreased by RUB 21,607 thousand, or 0.4%, from RUB 6,020,624 thousand during the six months ended June 30, 2006 to RUB 5,999,017 thousand during the six months ended June 30, 2007. The table below presents fuel expenses for each of WGC-3's six power plants for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
	(amount in thousands rubles, except percentage)		
Kostromskaya GRES	2,281,838	2,259,248	(1.0)
Cherepetskaya GRES	1,083,134	919,070	(15.1)
Gusinooszerskaya GRES	732,706	667,359	(8.9)
Pechorskaya GRES	547,158	684,759	25.1
Yuzhnouralskaya GRES	1,107,631	1,150,808	3.9
Kharanorskaya GRES	268,157	317,773	18.5
Total	**6,020,624**	**5,999,017**	**(0.4)**

The description below contains data on the fuel expenses incurred by each of WGC-3's six power plants (branches) in the relevant periods. In addition to the principal types of fuel discussed below, WGC-3's branches also consume insignificant volumes of other fuels. As a result, the total fuel expenses incurred by a particular branch may exceed, in certain circumstances, the fuel expenses incurred by that branch for its principal type or types of fuel. Information on fuel oil expenses is provided for a particular branch where fuel oil represents a principal fuel type used in the production of electricity but is not presented for those branches that use fuel oil either as ignition, reserve fuel or for internal consumption.

Kostromskaya GRES

Kostromskaya GRES primarily consumes natural gas. Gas related expenses increased by RUB 231,919 thousand, or 11.5%, from RUB 2,023,725 thousand during the six months ended June 30, 2006 to RUB 2,255,644 thousand rubles during the six months ended June 30, 2007, primarily due to the increase in gas average prices from 1,298.9 RUB/thousand m^3 during the six months ended June 30, 2006 to 1,460.0 RUB/thousand m^3 during the six months ended June 30, 2007, which was insignificantly offset by the decrease in the volume of natural gas consumed by 13 million m^3, or 0.8%, from 1,558 million m^3 during the six months ended June 30, 2006 down to 1,545 million m^3 during the six months ended June 30, 2007 due to the decrease in electricity output by 6.3%.

Fuel oil expenses decreased by RUB 254,509 thousand, or 98.6%, from RUB 258,113 thousand in the six months ended June 30, 2006 to RUB 3,604 thousand in the six months ended June 30, 2007, mostly due to the decrease in fuel oil consumption by 79.1 thousand tons, or 99.1%, from 79.8 thousand tons in the six months ended June 30, 2006 to 0.7 thousand tons in the six months ended June 30, 2007, as a result of the availability of natural gas for consumption in production, which was partly offset by the increase in average fuel oil prices from RUB/tonne 3,234.5 in the six months ended June 30, 2006 to RUB/tonne 5,148.6 in the six months ended June 30, 2007. The tendency for the significant decreases in fuel oil prices on the domestic market did not affect the average fuel oil consumption price since Kostromskaya GRES consumed fuel oil inventory purchased in 2006.

The table below describes Kostromskaya GRES's fuel expenses, volume of gas consumed and average prices per each type of the fuel used for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Gas (thousand rubles)	2,023,725	2,255,644	11.5
Gas consumption (million cubic meters)	1,558	1,545	(0.8)
Average gas price (RUB/thousand cubic meters)	1,298.9	1,460.0	12.4
Fuel oil (thousand rubles)	258,113	3,604	(98.6)
Fuel oil consumption (thousand tons of natural fuel)	79.8	0.7	(99.1)
Average fuel oil price (RUB/tonne)	3,234.5	5,148.6	59.2

Cherepetskaya GRES

Cherepetskaya GRES primarily consumes coal. Coal expenses decreased by RUB 72,954 thousand, or 9.4%, from RUB 775,890 thousand during the six months ended June 30, 2006 down to RUB 702,936 thousand during the six months ended June 30, 2007, primarily due to a reduction in electricity output by 17.8% and due to the decrease in the heat output. The increase in the average coal price from RUB/tonne from 1,161.5 during the six months ended June 30, 2006 to RUB/tonne 1,255.2 during the six months ended June 30, 2007, which was partly offset by the effect of the decrease of electricity and heat output.

Fuel oil expenses decreased by RUB 91,110 thousand, or 29.7%, from RUB 307,244 thousand during the six months ended June 2006 down to RUB 216,134 thousand during the six months ended June 30, 2007, primarily due to the decrease in fuel oil average prices from 5,036.8 RUB/tonne during the six months ended June 30, 2006 to 3,325.1 RUB/tonne during the six months ended June 30, 2007. The significant decrease in the average fuel oil consumption price is explained by the fall in domestic fuel oil prices in the first quarter of 2007.

The table below describes Cherepetskaya GRES's fuel expenses, volume of coal consumed and average prices for each type of fuel used for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Coal (thousand rubles)	775,890	702,936	(9.4)
Coal consumption (thousand tons of natural fuel)	668	560	(16.2)
Average coal price (RUB/tonne)	1,161.5	1,255.2	8.1
Fuel oil (thousand rubles)	307,244	216,134	(29.7)
Fuel oil consumption (thousand tons of natural fuel)	61	65	6.6
Average fuel oil price (RUB/tonne)	5,036.8	3,325.1	(34.0)

Gusinoozerskaya GRES

Gusinoozerskaya GRES primarily consumes coal. Coal expenses decreased by RUB 61,548 thousand, or 8.5%, from RUB 722,852 thousand in the six months ended June 30, 2006 down to RUB 661,304 thousand in the six months ended June 30, 2007, primarily due to a reduction in the electricity output by 10.3% and due to the decrease in heat output. The increase in the average coal price from RUB/tonne 596.4 in the six months ended June 30, 2006 to RUB/tonne 597.9 in the six months ended June 30, 2007 is insignificant.

The table below describes Gusinoozerskaya GRES's fuel expenses, volume of coal consumed and average coal prices for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Coal (thousand rubles)	722,852	661,304	(8.5)
Coal consumption (thousand tons of natural fuel)	1,212	1,106	(8.7)
Average coal price (RUB/tonne)	596.4	597.9	0.3

Pechorskaya GRES

Pechorskaya GRES primarily consumes natural gas. Gas related expenses increased by RUB 138,814 thousand rubles, or 25.4%, from RUB 545,945 thousand during the six months ended June 30, 2006 to RUB 684,759 thousand rubles during the six months ended June 30, 2007, primarily due to the increase in average prices from 1,137.4 RUB/thousand m^3 during the six months ended June 30, 2006 to 1,375.0 RUB/thousand m^3 during the six months ended June 30, 2007. The volume of gas consumed increased by 18 million m^3, or 3.8%, from 480 million m^3 in the six months 2006 to 498 million m^3 in the six months 2007 due to the increase in electricity output by 4.0%.

The table below describes Pechorskaya GRES's fuel expenses, volume of natural gas consumed and average gas price for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Gas (thousand rubles)	545,945	684,759	25.4
Gas consumption (million cubic meters)	480	498	3.8
Average gas price (RUB/thousand cubic meters)	1,137.4	1,375.0	20.9

Yuzhnouralskaya GRES

Yuzhnouralskaya GRES primarily consumes natural gas and coal. Gas related expenses increased by RUB 110,334 thousand, or 18.1%, from RUB 609,439 thousand during the six months ended June 30, 2006 to RUB 719,773 thousand during the six months ended June 30, 2007, primarily due to the increase in the average gas prices from 1,188.0 RUB/thousand m^3 in the six months ended June 30, 2006 to 1,350.4 RUB/thousand m^3 in the six months ended June 30, 2007.

Coal expenses decreased by RUB 64,836 thousand, or 13.1%, from RUB 494,134 thousand in the six months ended June 30, 2006 down to RUB 429,298 thousand during the six months ended June 30, 2007, primarily due to a reduction in the electricity output by 4.6 % due to the decrease in heat output and more intensive gas usage.

The table below describes Yuzhnouralskaya GRES's fuel expenses, volume of coal and gas consumed and average prices for each type of fuel used for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Gas (thousand rubles)	609,439	719,773	18.1
Gas consumption (million cubic meters)	513	533	3.9
Average gas price (RUB/thousand cubic meters)	1,188.0	1,350.4	13.7
Coal (thousand rubles)	494,134	429,298	(13.1)
Coal consumption (thousand tons of natural fuel)	856	645	(24.6)
Average coal price (RUB/tonne)	577.3	665.6	15.3

Kharanorskaya GRES

Kharanorskaya GRES primarily consumes coal. Coal expenses increased by RUB 49,729 thousand, or 18.7%, from RUB 266,005 thousand during the six months ended June 30, 2006 to RUB 315,734 thousand during the six months ended June 30, 2007, primarily due to the increase in electricity output by 15.5%, as well as the higher average coal prices which increased from 406.7 RUB/tonne during the six months ended June 30, 2006 to 413.8 RUB/tonne during the six months ended June 30, 2007.

The table below describes Kharanorskaya GRES's fuel expenses, volume of coal consumed and average coal price for the periods indicated.

	Six months ended June 30		
	2006	2007	Change (%)
Coal (thousand rubles)	266,005	315,734	18.7
Coal consumption (thousand tons of natural fuel)	654	763	16.7
Average coal price (RUB/tonne)	406.7	413.8	1.7

Purchased electricity

Expenses incurred to procure electricity increased significantly in the six months ended June 30, 2007. The expenses were due to the introduction of the New Wholesale Market Rules in September 2006, whereby WGC-3 was able to increase the profitability of its trading operations by purchasing electricity on the "one-day-ahead" spot market if the spot market electricity prices are lower than WGC-3's electricity production costs. See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Sales of Electricity and Electric Capacity". The volume of purchased electricity totalled 7,288,853 kW/h thousand in the six months ended June 30, 2007.

Employee benefits

Employee benefit expenses increased by RUB 271,102 thousand, or 19.3%, from RUB 1,401,363 thousand in the six months ended June 30, 2006 to RUB 1,672,465 thousand in the six months ended June 30, 2007. The increase resulted mainly from a 10% increase in the base wage rate for highly skilled workers effective from January 1, 2007, remuneration paid out to former top-management of WGC-3 and increases tied to wage inflation indexations.

Depreciation

Due to the specific nature of WGC-3's operations, it owns a significant amount of production assets. Depreciation is charged on such assets annually in accordance with WGC-3's accounting policy. (See "Summary of significant accounting policies").

Depreciation charges on key production assets increased by RUB 73,721 thousand, or 13.7%, from RUB 536,312 thousand during the six months ended June 30, 2006 to RUB 610,033 thousand during the six months ended June 30, 2007.

Taxes other than income tax

Taxes other than income tax remained relatively unchanged for the six months ended 2006 and 2007 and comprised RUB 472,685 thousand in the six moths ended June 30, 2007. Taxes other than income tax mainly consist of water tax and property tax.

Repairs and maintenance

Repairs and maintenance expenses increased by RUB 32,071 thousand, or 7.8%, from RUB 413,316 thousand during the six months ended June 30, 2006 to RUB 445,387 thousand during the six months ended June 30, 2007. The increase was largely attributable to an increase in repair work prices and the increase in the extent of work required to maintain obsolete equipment undertaken by WGC-3.

Transmission fees

Transmission fee expenses increased by RUB 64,958 thousand, or 40.7%, from RUB 159,451 thousand during the six the months ended June 30, 2006 to RUB 224,409 thousand during the six months ended June 30, 2007. The reason for the sharp increase is the obligation to pay fees under new agreements with the System Operator. The terms of these agreements obligate generating electricity companies to bear the responsibility for safe and secure electricity, which was attributable previously to wholesale electricity companies.

Transportation of gas

Transportation of gas expenses increased by RUB 98,636 thousand, or 81.5%, from RUB 120,952 thousand during the six months ended June 30, 2006 to RUB 219,588 thousand during the six months ended June 30, 2007. The increase was largely attributable to an increase in transportation tariffs.

Raw materials and supplies

Raw materials and supplies expenses decreased by RUB 55,114 thousand, or 26.1%, from RUB 211,230 thousand during the six months ended June 30, 2006 to RUB 156,116 thousand during the six months ended June 30, 2007. The decrease was largely attributable to the change of the raw material's purchasing structure in the relevant periods. As a result, the majority of raw materials that have been purchased have been used in the three months ended September 30, 2007.

Loss/(Profit) on disposal of fixed assets

Losses on disposals of fixed assets decreased by RUB 125,946 thousand, or 85.1%, from RUB 148,051 thousand during the six months ended June 30, 2006 to RUB 22,105 thousand in the six months ended June 30, 2007. As a result of a stock take, some obsolete fixed assets were written-off in the six months ended June 30, 2006.

Write-down of inventories

Write-downs of inventory expenses decreased by RUB 172,695 thousand, from RUB 165,291 thousand during the six months ended June 30, 2006 to income in an amount of RUB 7,404 thousand during the six months ended June 30, 2007. Further to a stock take, some obsolete inventories were written-off in the six months ended June 30, 2006.

Operating profit

Operating profits for the six months ended June 30, 2007 comprised RUB 1,626,882 thousand as compared to RUB 243,313 thousand for the six months ended June 30, 2006, primarily due to the fact that the operating income growth rate was higher than the operating expenses growth rate for the periods under review.

Finance income

WGC-3's finance income increased by RUB 1,041,006 thousand from RUB 39,758 thousand during the six months ended June 30, 2006, to RUB 1,080,764 thousand during the six months ended June 30, 2007, primarily due to the interest income on bank deposits in the amount of RUB 869,671 thousand and interest on bank account contracts in the amount of RUB 211,093 thousand.

Finance costs

	Six months ended June 30		
	2006	**2007**	**Change (%)**
	(amount in thousands rubles, except percentage)		
Interests expenses	78,007	140,533	80.2
Other	6,940	17,667	154.6
Total	**84,947**	**158,200**	**86.2**

The increase in interest expenses during the six months ended June 30, 2007 versus the six months ended June 30, 2006 was primarily attributable to interest paid on corporate bonds issued on December 15, 2006 and interest payments on a loan that WGC-3 obtained from Alfa-Bank.

Income tax

The income tax amounted to RUB 797,786 and RUB 496,977 thousand during the six months ended June 30, 2007 and during the six months ended June 30, 2006, respectively. The statutory corporate tax rate in Russia in both periods was 24%.

Profit

For the reasons specified above, profit for the six months ended June 30, 2007 was RUB 1,751,660 thousand as compared with the loss in the amount of RUB 298,853 thousand for the six months ended June 30, 2006.

Liquidity and Capital Resources

WGC-3's primary sources of liquidity are cash provided from operating activities, debt financing, and access to capital markets.

Future requirements for the WGC-3's business needs, including those to fund additional capital expenditures in accordance with its business strategy, are expected to be financed by a combination of cash flows generated by WGC-3's operating activities, cash on hand and external sources of financing. WGC-3's ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Russian and other financial markets, prevailing interest rates, WGC-3's credit rating and the Russian government's policies regading rouble and foreign currency borrowings. Factors that could affect the availability of financing include WGC-3's performance (as measured by various factors, including cash provided from operating activities), the state of international debt and equity markets, investor perceptions and expectations of past and future performance, the global financial climate and the level of WGC-3's outstanding debt. See "Liqudity and Capital Resources — Borrowings".

Investments and Capital Needs

The investment focus of WGC-3 is to sustain a high standard of electric power generation, improve power plant productivity, introduce new/innovative technologies and implement investment initiatives (including, to develop business plans, feasibility studies, R&D) going forward.

As part of WGC-3's strategy for 2006-2010, the Board of Directors approved a list of generation units to be built to raise the capacity installed at WGC-3 to 10,000 MW. If the current investment program is implemented, WGC-3 currently expects that its overall installed capacity will increase by up to 2,725 MW by 2012. The table below shows WGC-3's investment program as it was approved by the Company's Board of Directors in January 2007. The Board of Directors is planning to review this investment program and expects to update the estimates of the capital expenditures in November 2007. WGC-3's management is currently preparing several new construction projects to replace projects from the WGC-3's current investment program in the event that any of those are not approved by WGC-3's Board of Directors.

Priority investment projects:

Branch	Investment project	Installed Capacity (MW)	Total investment, incl. VAT (RUB mln)	Primary Fuel	Commissioning deadline
Kostromskaya GRES	Combined Cycle Unit -800 No.1	800	18,641	Gas	2010
Kostromskaya GRES	Combined Cycle Unit -800 No.2	800	18,641	Gas	2012
Cherepetskaya GRES(1)	Construction of two 225 MW generation units with CKS (Cirkuliruyusiy Kipyashiy Sloy) boilers	450	12,905	Coal	2010
Yuzhnouralskaya GRES	Construction of two 225 MW generation units with CKS boilers No.1	225	7,931	Coal	2010
Yuzhnouralskaya GRES	Construction of two 225 MW generation units with CKS boilers No.2	225	7,605	Coal	2012
Kharanorskaya GRES	Construction of 225 MW Generation	225	6,986	Coal	2010
Total		**2,725**	**72,709**		

Source: WGC-3

1 WGC-3 currently expects that Unit 4 at Cherepetskaya GRES (140 MW of existing installed capacity), which has not been in use since 2004, will be decommissioned in 2008-2009.

WGC-3's principal financing requirements have been and continue to be in relation to electric power and heat generating activities and extensive modernization and new construction programmes. Historically, WGC-3's capital expenditures have been financed by cash from operating activities and external sources, including the proceeds of the additional share issue. WGC-3 intends to continue financing its capital expenditures from the sources specified above.

The table below shows WGC-3's aggregate amounts of the expenditure related to fixed productive assets for the periods indicated.

	Year ended December 31			Six months ended June 30,		
	2005	2006		2006	2007	
	RUB	RUB	USD	RUB	RUB	USD
	(amounts in thousands)					
Capital expenditures	844,928	1,035,929	40,122	235,289	501,731	19,432

Source: WGC-3

In addition, WGC-3 has developed a program for repairs, maintenance and construction expenditures for the period up to 2012. See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Capital Expenditure". The table below includes estimated amounts for WGC-3's repairs, maintenance and construction expenditures provided for by the above-mentioned program and broken down by category for the indicated periods.

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
	(amounts in RUB thousands)					
Maintenance, repair of the existing equipment	1,722,827	1,885,113	2,080,325	2,436,002	3,282,947	3,703,193
Construction of new facilities and upgrading of the existing equipment	3,605,389	30,787,100	25,928,509	15,237,465	3,431,801	2,799,286
Total expenditures	**5,328,216**	**32,672,213**	**28,008,834**	**17,673,467**	**6,714,748**	**6,502,479**

The plans specified above may be adjusted at a later stage in accordance with WGC-3's business strategy. WGC-3 is expected to finance the expenditures for repairs and technical upgrading as well as construction of new facilities mainly using its funds generated by the issuance of additional equity and operating activity. WGC-3 intends to finance the construction of new facilities using additional financial sources, as well. Failure to make scheduled investments in WGC-3's productive facilities may negatively affect WGC-3's ability to maintain or increase the rate of production.

Liquidity and working capital

Historically, the basis of WGC-3's liquidity was comprised of cash from operating activities and raised funds. See "— Liquidity and Capital Resourses — Borrowings".

As of June 30, 2007, WGC-3's cash amounted to RUB 1,260,138 thousand; RUB 77,500,000 thousand of WGC-3's funds, which were generated by additional share issues, were placed in deposit accounts with major Russian banks.

WGC-3's liquidity and its working capital requirements are subject to significant seasonal variations over the year. The key factors affecting the size of WGC-3's working capital include a cash flow reduction resulting from a reduction of production levels during the period from April through to September, higher costs incurred during that period due to increased repair, technical upgrading works and increased costs related to increasing fuel stockpiles in expectation of a winter period. See "— Seasonality". As a result of the effects of the above mentioned factors, WGC-3's short-term financing requirements during the specified period from April through to September increased.

Apart from the information cited above and in other sections of this information statement, including information regarding WGC-3's liabilities related to the payment of interest on short-term debt, there have been no major changes in WGC-3's liquidity figures since June 30, 2007.

Historical cash flow

The table below includes figures for WGC-3's cash from operating activities and investment and financing activities during the indicated periods.

	Year ended December 31,			Six months ended June 30,		
	2005	2006		2006	2007	
	RUB	RUB	USD	RUB	RUB	USD
			(amounts in thousands)			
Net cash generated from (used in) operating activities	781,067	(169,071)	(6,548)	(33,213)	521,010	20,179
Net cash used in investing activities	(713,498)	(1,232,729)	(47,743)	(129,488)	(79,463,378)	(3,077,590)
Net cash generated from (used in) financing activities	(101,451)	1,639,066	63,480	187,709	79,847,614	3,092,471

Net cash generated from (used in) operating activities

Cash provided by operating activities primarily consists of the revenue generated during the period, which is offset by the operating expenses incurred by WGC-3 and adjusted for the results of working capital movements.

Operating cash flows net of non-cash items but before changes in working capital and income tax paid were RUB 1,802,932 thousand in the six months ended June 30, 2007, compared to RUB 608,958 thousand in the six months ended June 30, 2006. This increase was primarily attributable to increased revenues from the operating activities of WGC-3 as a result of the factors discussed in "Selected Consolidated Historical Financial Information of WGC-3", as well as changes in non-cash items.

The operating cash flow resulting from changes in working capital amounted to a cash outflow of RUB 1,281,922 thousand in the six months ended June 30, 2007, largely as a result of an increase in accounts receivable, which was partially offset by an increase in accounts payable and prepayments.

As a result of the foregoing factors, WGC-3 recorded a cash inflow from operating activities of RUB 521,010 thousand in the six months ended June 30, 2007.

The operating cash flow resulting from changes in working capital amounted to a cash outflow of RUB 642,171 thousand in the six months ended June 30, 2006, largely as a result of a decrease in taxes payable (other than income tax), accounts payable and increase in accounts receivable. These movements were partially offset by a decrease in other long term assets and increases in other long term liabilities. As a result of the foregoing factors, WGC-3 recorded a cash outflow from operating activities of RUB 33,213 thousand in the six months ended June 30, 2006.

Operating cash flows net of non-cash items (including depreciation expenses and the reversal of impairment of property, plant, and equipment) but before changes in working capital and income tax were RUB 1,022,153 thousand in 2006, compared to RUB 1,430,497 thousand in 2005. This decrease was primarily attributable to the changes in non-cash items (including changes in the provision for impairment of accounts receivable and other non-cash items).

The operating cash flow resulting from changes in working capital amounted to a cash outflow of RUB 1,191,224 thousand in 2006, largely as a result of an increase in inventories and other asset balances, combined with a decrease in the taxes payable balance. As a result of the foregoing factors, WGC-3 recorded a cash outflow from operating activities of RUB 169,071 thousand during 2006.

The operating cash flow resulting from changes in working capital amounted to a cash outflow of RUB 649,430 thousand in 2005, largely as a result of an increase in inventories and other asset balances. These movements were partially offset by an increase in the taxes payable balance. As a result of the foregoing factors, WGC-3 recorded a cash inflow from operating activities of RUB 781,067 thousand during 2005.

Changes in working capital items from period to period have had and will continue to have a significant effect on cash provided by operating activities, including as a result of external factors such as electricity tariffs and fuel tariffs (as well as increases in output and sales of electricity and volume of fuel consumption).

Net cash used in investing activities

Net cash used in investing activities comprised RUB 79,463,378 thousand in the six months ended June 30, 2007 as compared with net cash used in investing activities of RUB 129,488 thousand in the six months ended June 30, 2006, primarily due to a significant increase in cash received in February 2007 from additional shares issued which was deposited in the bank accounts in the amount of RUB 77,500,000 thousand and from an increase in prepayments for new equipment in connection with construction works at Kharanorskaya GRES and Cherepetskaya GRES.

Net cash used in investment activities increased by RUB 519,231 thousand from RUB 713,498 thousand in 2005 to RUB 1,232,729 thousand in 2006, mainly as a result of the acquisition of fixed assets and other non-current assets in the amount of RUB 1,264,970 thousand for technical upgrading and reconstruction of the generating branches.

Net cash generated from (used in) financing activities

Net cash generated from financing activities increased by RUB 79,659,905 thousand from RUB 187,709 thousand in the first six months of 2006 to RUB 79,847,614 thousand during the corresponding period of 2007, which mainly resulted from the proceeds from additional equity issues amounted to RUB 80,784,453 thousand.

Net cash generated from financing activities increased by RUB 1,740,517 thousand from an outflow of RUB 101,451 thousand in 2005 as compared with the net cash generated from financing activities of RUB 1,639,066 thousand in 2006, mainly as a result of receipts on short-term borrowings.

Borrowings

Short-term debt

Name of creditor	Currency	Effective interest rate, %	December 31, 2006	June 30, 2007
		%	RUB	RUB
			(amounts in thousands)	
Corporate bonds	RUB	6,75-7,00	3,000,000	1,750,000
Alfa-bank	RUB	7,00-11,20	700,000	585,000
Gasprombank	RUB	7,00-8,00	—	573,260
Ukhtabank	RUB	12,00	4,008	—
Other	RUB	13,00	—	762
Total			**3,704,008**	**2,909,022**

On October 24, 2006, the Board of Directors approved the issuance of non-convertible interest bearing coupon bonds. A notional quantity of 3,000,000 (Series 01) of such bonds were issued on December 15, 2006 with the nominated value of RUB 1,000 each and maturing 1,820 days (5 years) from the date of placement. Interest on the bonds is payable every six months.

The initial coupon rate was set at 7.00% per annum. According to the Key Parameters of the Bonded Loan, interest rates for subsequent 2-10 coupons must be determined not later than 10 days before the expiry of the first coupon period. Bonds are secured by the guarantee of CJSC “Business-Effect”.

On June 21, 2007, an offer took place for the acquisition of certificated non-convertible interest bearing coupon bonds of the 01 series (state registration number of the issue 4-01-50079-A dated November 23, 2006). AB Gazprombank (CJSC) acted as an offer execution agent.

As part of this offer, WGC-3 acquired 1,250,000 bonds of this issue from their holders for the total amount of RUB 1,251,388 thousand, including the accumulated coupon income for the six days of the second coupon period amounting to RUB 1,388 thousand. The second coupon rate was set at 6.75% per annum.

Short term loans issued to WGC-3 as at June 30, 2007 and at December 31, 2006, respectively, were unsecured.

Contractual and commercial commitments

Sales commitments. WGC-3’s entities sell electricity on the wholesale market sectors: free trading sector and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the FTS. WGC-3 has entered into a number of annual electricity sales agreements with CJSC Centre for Financial Settlements, CJSC INTER RAO UES, retail companies and large industrial customers.

Fuel commitments. WGC-3's entities have a number of outstanding contracts to purchase natural gas and coal, which are supplied under annual contracts. The quantity of natural gas to be supplied is annually allocated by RAO UESR in coordination with Gazprom given the capacity of utilization of alternative fuel and the required fuel reserve fixed by RAO UESR. The purchase price of gas is fixed by the FTS.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RUB 3,175,721 thousand at June 30, 2007 (at December 31, 2006: RUB 1,781,256 thousand).

Off-balance sheet transactions

As of June 30, 2007, WGC-3 did not have any off-balance sheet transactions.

Critical accounting estimates and assumptions

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. WGC-3's consolidated financial statements do not include any adjustments should WGC-3 be unable to continue as a going concern.

WGC-3 makes estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of accounts receivable. Provision for impairment of accounts receivable is based on WGC-3's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Provision for impairment of other assets or property, plant and equipment. At each balance sheet date, WGC-3 assesses whether there is any indication that the recoverable amount of WGC-3'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 combined and consolidated statement of income in the period in which the reduction is identified. If conditions change and management determines that the value of an asset other than goodwill has increased, the impairment provision will be fully or partially reversed.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where WGC-3's management believes it is probable that their interpretation of the relevant legislation and WGC-3's tax positions cannot be sustained, an appropriate amount is accrued for in the IFRS financial statements.

Summary of significant accounting policies

Property, Plant and Equipment. In 2004, property, plant and equipment were recognized at the carrying value determined in accordance with the IFRS at the date of their transfer to WGC-3 from the RAO UESR Group.

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

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

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

Type of facility	Acquired prior to December 31, 1997	Acquired subsequent to December 31, 1997
Electricity and heat generation	4-63	25-50
Electricity distribution	19-30	30
Heating networks	4-22	25
Other	8	10

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

Social assets are not capitalized as they are not expected to result in future economic benefits to WGC-3. Costs associated with fulfilling WGC-3's social responsibilities are expensed as incurred.

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less the provision for impairment. Such a provision for impairment of accounts receivable is established if there is objective evidence that WGC-3 will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

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

There are also some transition rules applied for output and input VAT incurred before January 1, 2006 and which were not settled as at January 1, 2006. Generally, according to the rules, these output and input VATs will be settled during 2006-2007 but not later than the first tax period of year 2008.

Since January 1, 2006, VAT related to sales is payable to tax authorities upon dispatch of goods and provision of services, and input VAT is reclaimable against sales VAT upon purchase of goods and services on an accrual basis.

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

New accounting developments. In the course of preparation of the consolidated interim financial statements for the six months ended June 30, 2007, WGC-3 used the accounting principles consistent with those applied to the financial statements for the year ended December 31, 2006. The exceptions include those that were amended to conform to the new updated Standards and Interpretations effective since January 1, 2007.

These new or amended standards and interpretations that are in force for the periods beginning on January 1, 2007 and their impact on the six months ended June 30, 2007 or any prior period is described below:

- IFRIC 7, "Applying the Restatement Approach under IAS 29", "Financial Statements In Hyperinflation" effective for annual periods beginning on or after March 1, 2006. This amendment did not have a material effect on WGC-3's financial statements.

- IFRIC 8, “Scope of IFRS 2”, effective for annual periods beginning on or after May 1, 2006. This amendment did not have a material effect on WGC-3’s financial statements.
- IFRIC 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after June 1, 2006. This amendment did not have a material effect on WGC-3’s financial statements.
- IFRIC 10, “Interim financial reporting and impairment”, effective for annual periods beginning on or after November 1, 2006. This amendment did not have a material effect on WGC-3’s financial statements.
- IFRIC 11, “IFRS 2 — Group and Treasury share transactions “, effective for annual periods beginning on or after March 1, 2007. This amendment did not have a material effect on WGC-3’s financial statements.
- IFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after January 1, 2007. IAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after January 1, 2007.

The effect of the above new or revised standards and interpretations on WGC-3 financial position as at June 30, 2007, December 31, 2006 and December 31, 2005 and on the results of its operation for the period then ended was not material.

Taxation

WGC-3 is subject to a variety of taxes levied in the Russian Federation, including income taxes, payroll taxes, VAT, property taxes and other taxes. WGC-3 has been registered as a “major taxpayer” in the Russian Federation, and, as a result, its compliance with Russian tax regulations is monitored by the department for major taxpayers of the Russian tax authorities.

The taxation system in Russia is subject to frequent changes, varying interpretations and inconsistent enforcement at the federal, regional and local levels. In some instances, new tax regulations have been given retroactive effect, while under the Tax Code only laws benefiting the taxpayer may have retroactive effect. In addition to a substantial tax burden, these conditions complicate the tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses and, at times, WGC-3 has taken a position that may be challenged by tax authorities but that WGC-3 considers to be in compliance with current law. Tax declarations, together with other legal compliance areas, are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than those typically found in countries with more developed tax systems. See “Risk Factors — Taxation Risks — Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor taxpayers. EnergoPolyus therefore may be subject to greater than expected tax burdens that could materially adversely affect EnergoPolyus’ business and results of operations”.

WGC-3 believes that it has adequately provided for tax liabilities in the financial statements; however, the risk remains that the authorities could take a different position.

Income taxes

Effective from January 1, 2002, the income tax rate in Russia declined to 24% for all companies. Also the taxpayer may carry forward the tax losses accounted in the current period for ten years. Since January 1, 2007, the tax losses carried forward may reduce the entire year taxable profit without any limitation on amount. With respect to dividends paid to shareholders, Russian residents are subject to a Russian withholding tax at a rate of 9%. Starting from January 1, 2008, a dividend receivable by a Russian entity from its Russian subsidiary will not be subject to withholding tax provided that certain criteria established in the law are satisfied (including a holding period, amount of investments and share of participation). Dividends paid to non-resident shareholders are subject to Russian withholding tax at a rate of 15%. Withholding tax on dividends may be reduced under the provisions of a double tax treaty between the Russian Federation and the country of tax residence of the non-resident shareholder. The new income tax legislation also adopted a more liberal approach to tax-deductible expenses, permitting deductions so long as expenses are economically proven and justified from a business standpoint and are properly documented. The elimination of investment tax credits offset some of the benefits from the reduction of income tax rates.

Value-added tax

Current VAT rate is 18%.

Market-related risk

In the normal course of business, WGC-3's financial position is routinely subject to credit risk and interest rates. In prior periods, WGC-3 did not perform any hedging operations to manage such risks and did not own or issue derivative financial instruments with a view to trade in such instruments.

Credit risk

Financial assets, which potentially subject WGC-3 to 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 beyond the provision for impairment of receivables already recorded by WGC-3.

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

Interest rate risk

WGC-3's operating profits and cash flows from operating activity are largely not dependent on any changes in market interest rates. WGC-3 is exposed to interest rate risk only through market value fluctuations of interest-bearing short-term borrowings. WGC-3 has no other material interest-bearing assets.

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

MAJOR SHAREHOLDERS OF WGC-3

The following table shows the name, address and shareholding of each registered shareholder of WGC-3 holding over 5% of WGC-3's shares as at September 30, 2007.

Name and address of the registered shareholder	Address	Total number of WGC-3 shares	Proportion of the total number of WGC-3 shares
		(million)	%
OJSC MMC Norilsk Nickel	Dudinka, Krasnoyarsk Territory, Russian Federation	30,939,330,340	65.15
RAO UESR	101-103, Vernadsky Prospekt, Moscow 119526, Russian Federation	12,356,584,223	26.02
Other shareholders	—	4,314,168,251	9.08
Total	**—**	**47,487,999,252**	**100.00**

TRANSACTIONS WITH RELATED PARTIES OF WGC-3

The following describes transactions that WGC-3 has entered into with related parties as defined in IAS 24 "Related party disclosures". For the description of certain other transactions with related parties, see note 5 to the audited and unaudited consolidated financial statements included in this Information Statement.

From March 26, 2007 until August 17, 2007, the major shareholders of WGC-3 were RAO UESR and Norilsk. RAO UESR continues to hold a controlling shareholding in large sectors of the Russian power generation industry, including the regional electricity sales companies which, in terms of volume of sales, comprise WGC-3's principal customers, as well as electricity grid and electricity distribution companies with which WGC-3 enters into transactions in the ordinary course of business. See "Electricity Industry Overview" and "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Sales of Electricity and Electric Capacity". As a result, a substantial majority of WGC-3's revenues continue to be derived from transactions with related parties. In the six months ended June 30, 2007 and in the years ended December 31, 2006 and 2005, the aggregate revenues from related party transactions comprised 50.6%, 61.8% and 64.2%, respectively, of WGC-3's total revenue for those periods.

Moreover, RAO UESR itself is controlled by the Russian Federation, and WGC-3 enters into numerous transactions with state-controlled entities, including affiliates of Gazprom, which supplied a significant portion of WGC-3's gas requirements in 2005, 2006 and six months ended June 30, 2007. See "EnergoPolyus — Business — Power Generation Companies — WGC-3 — Fuel — Gas". Additionally, WGC-3 enters into transactions with state-controlled entities other than RAO UESR, Gazprom and their subsidiaries in the ordinary course of its business, for instance, selling to such entities heat power or electricity.

Transactions with RAO UESR Group

Before March 26, 2007, RAO UESR was WGC-3's direct controlling shareholder. In 2006 WGC-3 did not supply electricity to RAO UESR while electricity sales to RAO UESR's subsidiaries accounted for 14,158,955 thousand RUB or 61.4% of total revenue. In 2005, WGC-3 derived 330,910 thousand RUB from sales of electricity to RAO UESR or 2.0% of total revenue while electricity sales to RAO UESR's subsidiaries accounted for 10,227,546 thousand RUB or 61.0% of total revenue. In six months ended June 30, 2007 WGC-3's electricity and other sales to RAO UESR and its subsidiaries accounted for 7,558,868 thousand RUB or 50.1% of total revenue as compared with 5,902,348 thousand RUB or 56.1%, respectively, in first six months 2006.

Transactions with state-controlled entities

As a part of its business, WGC-3 enters into transactions with state-controlled entities. The significant part of such transactions is the gas supply agreements with Gazprom and its subsidiaries such as Kostromaregiongaz and Chelyabinskregiongaz. Thus in first six months 2007, WGC-3 made purchases of fuel in the aggregate amount of 3,702,203 thousand RUB, as compared with 5,693,515 thousand RUB in 2006 and 4,437,153 RUB in 2005. In the first six months of 2007 and in 2006 and 2005 purchases of fuel comprised 61.7%, 45.4% and 44.3% of total fuel expenses, respectively.

Transactions with key management and close family members

There were no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses. Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board in the first six months of 2007 and in 2006 and 2005 comprised 132,384 thousand RUB, 53,687 thousand RUB and 143,406 thousand RUB, respectively.

Many of the transactions described above were subject to tariff regulation, particularly in relation to sales of electricity, electric capacity and heat, as well as purchases of gas (see "Electricity Industry Overview — Tariffs"), and, to the extent that the pricing of such transactions was not regulated, WGC-3 believes that such transactions were concluded on terms determined by reference to market prices and terms.

In addition to the transactions described above, WGC-3 enters into transactions in the regular course of business with parties who may be considered "interested" parties for the purposes of the Joint Stock Companies Law, which WGC-3 believes are not material to it or the other party.

ELECTRICITY INDUSTRY OVERVIEW

Overview

The power sector is one of Russia's key industries, accounting for 11% of its gross domestic product ("GDP") in 2006. As indicated in the table below, Russia's power sector is among the largest in the world, ranking fourth in 2006 in terms of both installed electric capacity, which amounted to 220 GW as at December 31, 2005, and electricity output, which amounted to 996 TWh for the year ended December 31, 2006.

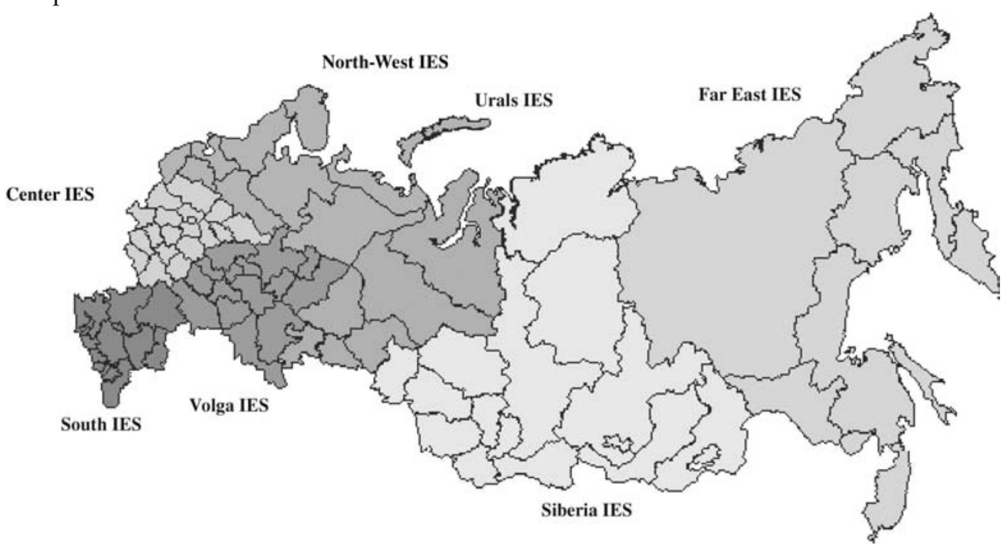
Country	Installed electric capacity as at December 31, 2006 (GW)	Country	Electricity output for the year ended December 31, 2006 (TWh)
1. USA[1]	1,050	1. USA[4]	4,254
2. China[2]	508	2. China[4]	2,834
3. Japan[3]	273	3. Japan[4]	1,150
4. Russia[5]	220	4. Russia[5]	996
5. Canada[3]	123	5. India[4]	727
6. India[2]	115	6. Germany[4]	636
7. France[3]	112	7. Canada[4]	584
8. Germany[2]	110	8. France[4]	571
9. Brazil[1]	89	9. Brazil[4]	419
10. UK[1]	80	10. South Korea[4]	416

Source: (1) The World Alliance for Decentralized Energy, (2) The Institute of Electrical Engineers of Japan, (3) The International Atomic Energy Agency, (4) BP Statistical Review of World Energy June 2007, (5) RAO UESR's Annual Report 2006.

RAO UESR, the state-controlled power holding company, is the largest power holding company in the Russian Federation and, through its subsidiaries and affiliates, controls the vast majority of generation, transmission, distribution and sale of electricity in Russia.

In addition to RAO UESR, other participants in the Russian power sector include: Rosenergoatom, the state-controlled nuclear generation company; four independent, vertically-integrated Energos not controlled by RAO UESR: Irkutskenergo, Bashkirenergo, Tatenergo and Novosibirskenergo; and other industrial customers and regional and local governments that own power assets.

The Russian power sector, the so-called Unified Energy System of Russia, consists of seven Integrated Energy Systems ("IES"), comprising the IES of North-West, Central, Urals, Volga, South, Siberia and Far East. The map below illustrates the location of each IES.



Electric capacity and output

As at December 31, 2006, the installed electric capacity of the RAO UESR Group, according to RAO UESR, was 159.2 thousand MW (an increase of 1.3 thousand MW, as compared to 2005).

Currently, the electricity generation industry of Russia, in terms of installed electric capacity, consists primarily of:

- 150.4 GW by thermal power plants ("GRESS", "GRES", or "CHPs");
- 46.3 GW by hydro and pumped-storage power plants ("HPP"); and
- 23.2 GW by nuclear power plants ("NPP").

Source: Minpromenergo

Following the collapse of the Soviet Union, the Russian energy sector suffered a decline in electricity production from 1,068 TWh in 1991 to 827 TWh in 1998, according to the BP Statistical Review of World Energy (June 2007). Since 1998, electricity output in Russia has been growing at an average annual growth rate of approximately 2.4%, and the rate of increase accelerated to 4.5% in 2006, according to the BP Statistical Review of World Energy (June 2007) and RAO UESR.

The table below shows production of electric power in Russia for the periods indicated.

	Year ended December 31,			
Electricity output (TWh)	**2003**	**2004**	**2005**	**2006**
Russia	**916.3**	**931.9**	**953.1**	**995.6**
GRES and CHP	608.3	609.4	629.2	664.1
HPP	157.7	177.8	174.4	175.0
NPP	150.3	144.7	149.5	156.5
RAO UESR Group	**635.8**	**651.9**	**665.4**	**695.0**
GRES and CHP	520.6	521.4	540.8	569.1
HPP	115.2	130.5	124.6	125.9

Source: RAO UESR, 2005 and 2006 Annual Reports

According to RAO UESR, for the year ended December 31, 2006, the total electricity output in Russia was 995.6 TWh, as compared to 953.1 TWh for the year ended December 31, 2005, representing an increase of 4.5%. Of this total, thermal power plants accounted for 664.1 TWh (which represented an increase of 5.5% as compared to 2005), hydrogenation for 175.0 TWh (which represented an increase of 0.3% as compared to 2005), and nuclear generation for 156.5 TWh (which represented an increase of 4.7% as compared to 2005).

For the year ended December 31, 2006, electric power production of the RAO UESR Group was 695.0 TWh, representing an increase of 29.6 TWh, or 4.5%, as compared to 2005.

For the year ended December 31, 2006, according to RAO UESR, thermal power plants, which include natural gas, coal, and fuel oil-fired power plants, accounted for 66.7% of Russia's electricity generation, while hydro power plants accounted for 17.6% and nuclear power plants for 15.7%.

Heat capacity and output

Generators of heat in Russia include the thermal power plants owned by OGKs (including WGC-3), TGKs and other generating companies as well as fossil-fuel fired boilers and electric boilers owned by RAO UESR, private companies and municipalities. As at December 31, 2006, the total heat output in Russia was approximately 1,459.0 million Gcal. In 2006, the total heat output of the RAO UESR Group was approximately 477.8 million Gcal. As at December 31, 2006, according to the RAO Factsheet, the OGKs (including WGC-3) had in aggregate 13,581 Gcal/h of installed heat capacity, while the TGKs had in aggregate 194,442 Gcal/h of installed heat capacity.

The table below illustrates the growth of heat output in Russia and the growth of heat output of the RAO UESR Group for the periods indicated.

Heat output (million Gcal)	Year ended December 31,			
	2003	2004	2005	2006
Russia	1,447.9	1,434.4	1,436.0	1,459.0
RAO UESR Group	468.8	465.8	465.2	477.8

Source: RAO UESR, 2005 and 2006 Annual Reports

For the year ended December 31, 2006, the power plants of the OGKs (including WGC-3) and the TGKs had increased their aggregate heat generation by 3.7% and 2.4%, respectively, while the AO-Energo power plants that are not part of the OGKs or TGKs had increased their heat output by 3.6%.

Consumption

Electricity

As a result of economic reforms that began in the 1990s, the Russian Federation has experienced significant economic growth since the end of the 1990s. Between 1998 and 2006, Russia's GDP grew at a compounded annual growth rate of 5.3%, making Russia one of the fastest growing economies in the world. Russia's GDP for the year ended December 31, 2006 reached RUB 26.8 trillion.

The table below illustrates Russia's GDP annual (decline)/growth rate, electricity output and electricity consumption for the periods indicated.

Year	GDP Annual (Decline)/Growth Rate (%)	Electricity Output (TWh)	Electricity consumption per capita (kW/h/capita/month)	Electricity consumption (kW/h per RUB thousand of GDP)
1998	(5.3)%	827	457.6	52.0
1999	6.4%	846	472.0	50.3
2000	10.0%	878	491.3	47.5
2001	5.1%	891	499.6	45.8
2002	4.7%	891	503.6	43.8
2003	7.3%	916	520.4	41.9
2004	7.1%	932	535.3	39.5
2005	6.4%	953	547.2	37.9
2006	6.7%	996	574.2	36.7

Source: Goskomstat, FSS

The economic recovery in Russia in recent years has contributed to an increase in the total electricity consumption from 827 TWh in 1998 to 996 TWh for the year ended December 31, 2006 (including an increase of 4.0% as compared to 2005). The increase in electricity consumption varies significantly from region to region depending on the rate of economic growth in the relevant region.

The table below shows consumption growth in each of Russia's seven IES for the periods indicated.

IES	Consumption growth, 1998 to 2005 (%)
Far East	22.7
Urals	22.6
North-West	20.7
Central	17.9
South	15.6
Siberia	10.8
Volga	7.0

Source: Minpromenergo

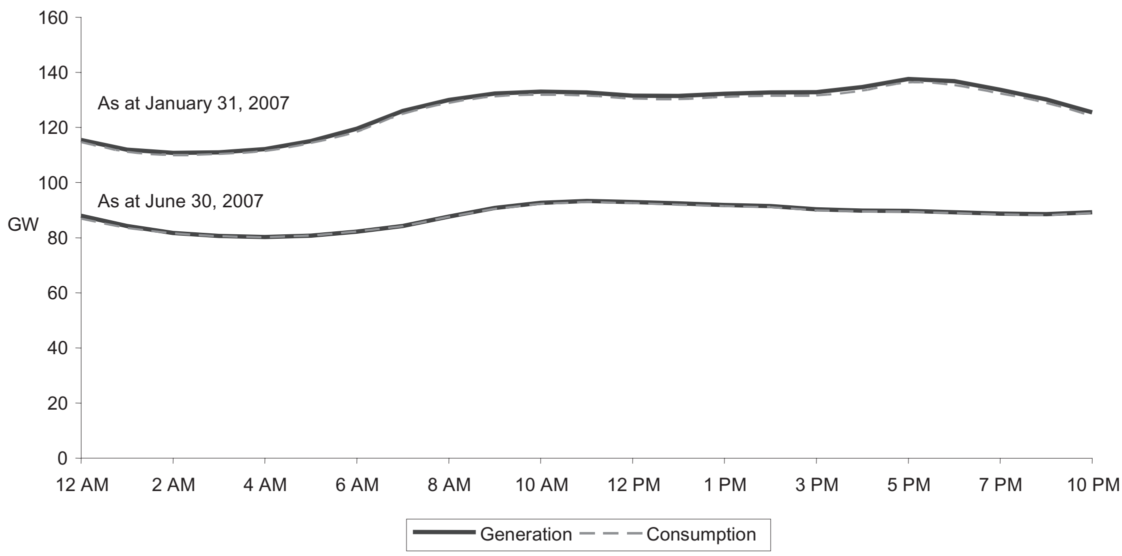
The highest consumption growth rates during the period 1998 to 2005 occurred in the Urals, the Far East, the North-West and the Central IES. The IES of the Urals, Centre, and Siberia accounted for 673 TWh, or over 68%, of Russia's total electricity consumption in 2006.

The table below provides information on the RAO UESR Group's major consumers of effective electricity supply in Russia for the year ended December 31, 2006.

Consumer Group	Electricity consumption for the year ended December 31, 2006	
	TWh	% of Total
Industrial and equivalent consumers	322.5	53.1%
Other electricity suppliers	104.9	17.3%
Non-industrial consumers	62.9	10.4%
Households	57.4	9.5%
Electrified transport	36.6	6.0%
Agribusiness consumers	13.3	2.2%
Cities/towns	9.4	1.5%
Total	**607.0**	**100%**

Source: RAO UESR 2006 Annual Report

Electricity demand is subject to considerable fluctuations. It can vary significantly depending on weather conditions (especially between different seasons), and also varies significantly during the course of the day. The chart below demonstrates typical daily consumption curves in January and June:



Source: The System Operator

These fluctuations in the seasonal and daily consumption influence electricity prices on the free market.

Heat

In 2006, residential utilities and industrial consumers accounted for 43.1% and 27.5%, respectively, of the total volume of heat consumption in Russia. These shares in consumption were largely unchanged as compared to 2005. Effective supply of heat by RAO UESR Group in 2006 totalled 434.7 million Gcal.

Infrastructure

Despite the increase in the consumption of electricity and heat in the post-Soviet era, there have only been limited investments in generation facilities and the transmission and distribution infrastructure during this period, with very few projects, primarily state-funded, completed to offset the electric capacity decline. According to Minpromenergo, over 57% of existing Russian generation electric capacity is currently over 27 years old and the power sector in Russia, as a whole, is in need of investments to retain supply stability and to cope with the growing demand. The winter of 2005-2006 saw the peak capacity demand almost reach its historical maximum with blackouts occurring in Moscow, St. Petersburg, and the Tyumen region, and it is estimated that regional deficits will occur soon.

The table below shows a breakdown of Russia's total installed electric capacity provided by Russia's production facilities, grouped according to the year of commission.

Commissioning year	Share of total Russian installed electric capacity (%)
before 1950	1.4%
1951-1960	8.7%
1961-1970	23.8%
1971-1980	31.8%
1981-1990	25.4%
1991-2000	6.5%
after 2001	2.4%

Source: Minpromenergo

Electric capacity deficit

Against the background of growing electricity demand, ageing generating facilities, and the poor condition of Russia's grid infrastructure, an electric capacity deficit problem is perceived to be forthcoming. The fluctuating nature of electricity demand, which varies widely season by season and within any given day, makes it essential that Russia's energy system be able to cover peak moments of demand in every region to avoid blackouts. The table below shows levels of peak demand for the periods indicated.

	1991	1992	1999	2000	2001	2002	2003	2004	2005	2006
Russian maximum load factor (GW)	160.1	157.0	133.4	133.5	139.1	142.0	138.6	141.6	143.5	153.1

Source: RAO UESR

Although Russia's peak load for the year ended December 31, 2006 comprised only 70% of Russia's total installed electric capacity (220 GW), a deficit may develop as a result of various deficiencies in the electricity system, including the following:

- Grid constraints could restrict potential electric capacity flows between generators and electricity consumers, leading to the requirement of minimum reserve margins to be maintained within each IES;
- Network electricity losses and grid failures put further pressure on required reserve margins; and
- Electric capacity is regularly taken offline for maintenance and its undisrupted operation is subject to fuel availability. As a result, electric capacity cannot peak simultaneously and at any given moment in time there is some electric capacity constraint in place.

The maximum load factor, reflecting peak electric capacity demand in the economy, almost reached its historical maximum in the winter of 2005-2006, and acute regional shortages are expected in the near term. Moreover, in some of the regions characterized by strong economic growth, the peak electric capacity demand has surpassed its respective historical peak. Some regions, including Moscow, St. Petersburg and Tyumen, had to impose restrictions on electricity consumption in the winter of 2005-2006 due to electric capacity shortages.

In 2006, RAO UESR developed a five-year investment programme for the RAO UESR Group, which envisaged that 23,000 MW of installed electric capacity would be commissioned between 2006 and 2010. RAO UESR recently increased its initial target of 23,000 MW of installed electric capacity between 2006 and 2010 under this investment program to 40,900 MW of installed electric capacity between 2006 and 2010 at a cost of approximately RUB 3,100 billion. However, in May 2007 the Russian government decided that this program is not sufficiently supported by future gas supplies by Gazprom and financing sources, and, as a result, in September 2007 RAO UESR announced that it was scaling back its 2006-2010 investment program and a revised investment program is expected to be prepared in the near future. See "— Current Industry Structure — Attracting Private Investors and Capital".

Sector Reform

The Russian electricity market is currently in the process of restructuring as mandated by Resolution No. 526. Resolution No. 526 called for the reform of the market structure and the implementation of liberalization of the competitive segments of the power sector, including generation, sales, and repairs and servicing and improved regulatory pricing for monopoly elements of the power sector. Pursuant to Resolution No. 526 and on the basis of the model approved by the board of directors of RAO UESR, the overall structure of the industry is undergoing a complete transformation with the break-up of almost all previously vertically-integrated companies (the "AO Energos") controlled by RAO UESR and the formation of several mono-profile companies by the following activity types: generation, transmission, distribution, sales and repairs and servicing operations. The formation of the industry structure contemplated by the reform is well-advanced and is expected to be completed during the course of 2008.

It is currently anticipated that there will be a gradual expansion of the competitive segment of the wholesale electric power sector, and, consequently, a reduction in the portion of the market that is subject to tariff regulation. It is envisaged that the sector reform will result in the development of a fully liberalized market for electricity generation, supply and related services by 2011, where wholesale electricity prices will be established on the basis of supply and demand. The current process of restructuring and liberalization does not extend to residential consumption, which remains subject to regulated tariffs, nor does it currently contemplate the creation of a free market for heat power sector, transmission, distribution, dispatch and certain of the sales activities.

On October 18, 2007, the State Duma adopted amendments to the existing legislation regulating the Russian power sector. These amendments will enter into force if approved by the Federation Council and the President and are officially published. The amendments are to alter how certain aspects of the power sector are regulated in the Russian Federation, including with respect to the marketing of installed capacity.

Main goals

The main goals of the Russian electricity sector reforms include the following:

- separation of competitive segments (generation, sales, and repairs and servicing) and monopoly lines of businesses (transmission and distribution);
- reform of the wholesale and retail electricity and electric capacity markets and the development of competition in the sector;
- the creation of a unified wholesale electricity market in the European part of Russia, the Urals region and Siberia (excluding isolated energy systems located in these regions);
- the creation of competitive electricity trading: long- and mid-term bilateral contracts, the "one-day-ahead" spot market, and the balancing market;
- the creation of competitive electric capacity trading to support the sustainability of the system for several years ahead;
- the creation of competitive ancillary services: competitive selection of service providers and purchase of services necessary to ensure the quality of power supply in the Unified National Energy System of Russia by the System Operator of the wholesale market;
- allowing end-users to select an electricity supplier; and
- the restructuring of RAO UESR.

Current Industry Structure

RAO UESR

RAO UESR is the largest state-owned power holding company in the Russian Federation and through its subsidiaries and affiliates controls the vast majority of generation, transmission, distribution and sale of electricity in Russia. As at August 1, 2007, RAO UESR's market capitalization totalled approximately USD 57 billion based on the market value of the RAO UESR Shares traded on the Russian stock markets. See "— Electric capacity and output" and "— Heat capacity and output". The Russian Federation currently owns a 52.68% interest in RAO UESR; the remaining 47.32% is owned by minority shareholders.

In 2006, it generated approximately 70% or 695 TWh of electricity output and approximately 33%, or 477.8 mln Gcal, of heat output in Russia. As at December 31, 2006, the RAO UESR Group had approximately 72%, or 152.9 thousand MW, of the installed electric capacity in Russia and approximately 33%, or 477.8 mln Gcal/h, of Russia's total installed heat capacity. The RAO UESR Group owns approximately 96% of the total length of Russia's electric transmission lines (2,476 thousand kms). For the year ended December 31, 2006, the average number of employees of the RAO UESR Group was approximately 469,000.

As at August 1, 2007, the Russian Federation owned 22,715,371,537 RAO UESR shares, out of which 22,569,848,313 are RAO UESR ordinary shares and 145,523,224 are RAO UESR preferred shares.

As at June 30, 2007, major shareholders of RAO UESR included the Federal Agency for Federal Property Management on behalf of the Russian Federation (52.68%) and GazEnergy (10.49%).

As soon as practicable after the restructuring of the RAO UESR Group is completed, and subject to approval by FSK shareholders and the appropriate regulatory bodies, RAO UESR will be merged into the FSK, and RAO UESR will cease to exist.

As at March 31, 2007, RAO UESR owned controlling stakes greater than 49% in five thermal OGKs and all the TGKs, except TGK-3 (Mosenergo), as well as a 100% shareholding in the System Operator. As at June 30, 2007, RAO UESR owned 87.56% of the FSK (the remaining 12.44% being owned by the Russian Federation), as well as shareholdings in those AO-Energos, the separation of which has not yet been completed, and in the other companies created as a result of the break-up of the AO-Energos. See "— Sector Reform".

Generation

The electricity generation sector is currently principally comprised of thermal power plants (fossil-fuel-powered plants, including natural gas, coal and fuel oil-fired plants, producing either electricity or both electricity and heat), in particular six thermal OGKs (including WGC-3), approximately 102 hydro power plants, approximately half of which will be consolidated into one HydroOGK, 14 TGKs (all of which are thermal), the Far East Generating Company, various nuclear generation complexes owned and/or operated by the Federal State Unitary Enterprise "Russian State Concern for Generation of Electricity and Heat Power at Nuclear Power Plants" ("Rosenergoatom"), as well as a number of independent producers and separate power units.

The thermal power plants of the RAO UESR Group accounted for 57% and 86%, respectively, of total Russian electricity output and total Russian thermal power plant output for the year ended December 31, 2006. In 2006, the power plants of the OGKs (including WGC-3) increased their aggregate electricity output by 6.7%, as compared to 2005, and, in the same period, the output of the TGK plants increased slightly by 0.4%.

The heat output of the RAO UESR Group for the year ended December 31, 2006 amounted to 477.8 million Gcal, an increase of 2.7% as compared to 2005. The power plants of the OGKs and the TGKs increased their aggregate heat generation by 3.7% and 2.4%, respectively, as compared to 2005, while the AO-power plants that do not form part of the OGKs or TGKs increased their heat output by 3.6% in the same period.

The Wholesale Generating Companies ("OGKs")

The large power plants which generate mostly electricity, formerly owned by RAO UESR or the AO-Energos, were merged into wholesale generating companies, the OGKs, which are the largest generators in the wholesale electricity market. In the course of the power sector reform, seven OGKs were created, six of them containing thermal power plants and one containing hydroelectric power plants (HydroOGK). Each OGK controls several power plants throughout Russia, each of which primarily specializes in electricity generation. The OGKs (including WGC-3) primarily compete with each other and the TGKs on the wholesale electricity market, and they depend on the services of the FSK, the System Operator and the Trade System Administrator. See "— Current Industry Structure".

The OGKs (including WGC-3) have been formed according to the following principles:

- Large scale: each thermal OGK has an installed electricity capacity of 8.5 to 9.5 GW, and HydroOGK has an installed capacity of 23 GW;
- Substantially similar initial specifications in terms of installed capacity, value of assets and average equipment wear; and

- Extra-territoriality: plants comprising each OGK are located in different regions to minimize the possibility of competition abuse in the wholesale electricity market.

The establishment of the OGKs was approved by RAO UESR's board of directors on September 29, 2003.

As at March 31, 2007, the final corporate structure of all six thermal OGKs (including WGC-3) had been completed. Shares of all six of the OGKs have been admitted to trading on the RTS Stock Exchange or MICEX. The plan for the final restructuring of HydroOGK through the merger of its 22 subsidiaries into HydroOGK was approved by RAO UESR on July 27, 2007. As of September 30, 2007, RAO UESR owned controlling stakes in all the OGKs, with the exception of OGK-2 and WGC-3.

The table below shows selected operational and production information for each of the OGKs (including WGC-3) for 2006.

OGK	Electric capacity (MW)	Thermal electric capacity (Gcal/h thousands)	Fuel Mix	Electricity output (TWh)	Heat output (Gcal millions)
OGK-1	9,531	2.9	Gas	47.5	1.5
OGK-2	8,695	1.8	Gas/Coal	48.1	2.5
WGC-3	8,497	1.6	Gas/Coal	30.6	1.7
OGK-4	8,630	2.3	Gas/Coal	51.0	2.2
OGK-5	8,672	2.2	Gas/Coal	40.4	7.0
OGK-6	9,052	2.7	Gas/Coal	32.9	4.6
HydroOGK	23,152	n/a	Hydro	74.6	n/a

Source: The OGKs' websites

As at December 31, 2006, the aggregate installed electric capacity of the OGKs (including WGC-3) represented 48% of the total installed electric capacity of the RAO UESR Group, and the aggregate electricity output of the OGKs represented approximately 57% of the total electricity output of the RAO UESR Group and approximately 32.7% of total electricity output in Russia.

The Territorial Generating Companies ("TGKs")

The majority of the remaining power plants that were owned by RAO UESR have been consolidated into TGKs. The 14 TGKs are comprised primarily of combined cycle regional heat and power plants (CHPs) that generate both electricity and heat. Since the TGKs generally own or lease a heat grid infrastructure, as well as generation facilities, they are currently both wholesale electricity market participants and the largest players in their respective retail heat markets. Under the reform, the TGKs have been formed according to the following principles:

- amalgamation of financially secure power plants on a territorial basis into inter-regional companies; and
- minimization of possibilities for monopoly abuse in the wholesale electricity market.

RAO UESR's board of directors approved the establishment of 14 TGKs on April 23, 2004, while the details of their corporate structure were determined in a resolution of RAO UESR's board of directors on February 3, 2006.

As at March 31, 2007, the formation of all 14 TGKs had been approved. Out of the 14 TGKs to be established, the formation of 11 TGKs has been completed as of the date of this Information Statement. It is intended that by the end of 2007, the formation of the remaining TGKs will have been completed.

The 14 TGKs are comprised primarily of combined regional heat and power plants (CHPs) that generate both electricity and heat. Since the TGKs generally own a heat grid infrastructure, as well as generation facilities, they are currently both wholesale electricity market participants and the largest players in their respective retail heat markets.

The following table sets forth key information regarding each of the TGKs.

TGK	Electricity capacity, 2006 (MW)	Heat capacity, 2006, (Gcal/h)	Fuel Mix	Electricity output, 2006, (kW/h)	Heat output, 2006, (Gcal thousands)	Load factor[(1)]	Integrated Energy System ("IES")
TGK-1	6,237	13,686	Gas	23,243	22,821	42.5%	North-West IES
TGK-2	2,453	12,271	Gas/Coal	9,834	19,571	45.8%	Central, North-West IES
Mosenergo	10,677	34,290	Gas/Coal	64,378	70,182	69.2%	Volga IES
TGK-4	3,324	17,834	Gas	13,045	30,438	44.8%	Central IES
TGK-5	2,467	9,040	Gas/Coal	10,419	16,971	48.1%	Volga IES
TGK-6	3,140	10,825	Gas	29,221	18,603	48.1%	Central, Volga IES
Volzhskaya TGK	6,880	39,793	Gas	27,230	50,223	46.1%	Volga IES
SGK TGK-8	3,602	13,393	Gas	16,147	17,444	51.2%	South IES
TGK-9	3,280	16,952	Gas/Coal	20,116	42,994	70.0%	Urals, Volga, North-West IES
TGK-10	2,593	11,571	Gas/Coal	16,796	18,858	74.0%	Urals IES
TGK-11	2,026	8,241	Gas/Coal	8,393	16,420	47.3%	Siberia IES
Kuzbassenergo	4,772	6,997	Gas/Coal	24,904	13,785	60.0%	Siberia IES
Eniseyskaya TGK	2,458	7,091	Coal	10,378	15,313	48.2%	Siberia IES
TGK-14	643	2,708	Gas/Coal	2,769	5,652	49.2%	Siberia IES

Source: Calculated based on capacity and output data published in the RAO Factsheet

1 Load factor is calculated as total production divided by total installed capacity.

As at December 31, 2006, the aggregate installed electric capacity of the TGKs represented 34.3% of the total installed electric capacity of the RAO UESR Group. As at December 31, 2006, the aggregate installed heat capacity of the TGKs was 194,655 Gcal/h.

Rosenergoatom

Rosenergoatom is the sole authorized owner and operator of nuclear power plants in Russia. Rosenergoatom was established in 1992 and is owned by the Russian Federation. Rosenergoatom currently operates ten nuclear plants with a total installed electric capacity of approximately 23.2 GW. For the year ended December 31, 2006, Rosenergoatom produced approximately 156.5 TWh of electricity.

Independent producers

Other key power generators include five independent AO-Energos — Irkutskenergo, Tatenergo, Bashkirenergo, Novosibirskenergo and Taimyrenergo — which, unlike the other AO-Energos, have not been restructured through spin-offs. Independent producers are majority-owned by private investors and currently remain vertically integrated companies engaged in electricity generation, providing electric capacity, distribution and sales of electricity and heat in their respective regions. The table below shows the installed electric capacity of these independent producers (other than Taimyrenergo) as at December 31, 2006.

Company	Installed electric capacity as at December 31, 2006 (GW)
Irkutskenergo	12.9
Tatenergo	7.0
Bashkirenergo	5.1
Novosibirskenergo	3.0

Sources: Irkutskenergo, Tatenergo, Bashkirenergo, Novosibirskenergo

Transmission Companies

High voltage power lines in Russia are currently managed by the FSK. As at March 31, 2007, the FSK, was 87.56% owned by RAO UESR and the remaining 12.44% by the Russian Federation. Pending the restructuring of RAO UESR, the FSK is also responsible for managing the shares of the MRSKs owned by RAO UESR. Under the rules applicable to the restructuring of the sector, following the completion of the restructuring of RAO UESR, the Russian government will be required to retain a 75% plus one share majority in the FSK.

The electricity transmission sector is made up of the FSK and 56 high-voltage regional trunk grid companies (MSKs). The MSKs were spun-off from the AO-Energos and transferred their transmission assets into a lease to the FSKs.

Initially, it was intended to consolidate the trunk grid assets of the AO-Energos into seven interregional trunk grid companies; however, the trunk grid assets have not been transferred to them because of modifications to the restructuring plan. The current plan envisages that these companies (most of which are effectively empty) will be merged together with the MSKs into the FSK.

Distribution Grid Companies

The vast majority of medium- and low-voltage distribution networks are currently owned by RSKs, which comprise the distribution networks spun-off from the AO-Energos controlled by RAO UESR. RSKs provide electricity distribution and transmission services through electricity transmission grids of 110 kV or less within Russia. Currently, there are 10 of the planned 11 MRSKs (not including the isolated MRSK of the Far East) in existence into which all RSKs are to be finally merged. The 10 current MRSKs are operating as the sole executive bodies of the RSKs under management agreements. Shares in the MRSKs are to be held in trust management by the FSK pending the completion of the distribution sector reform.

Tariffs, connection fees and introduction on RAB

Fees received for distribution services include tariffs for electricity distribution and connection fees. Currently, electricity distribution tariffs and connection fees for distribution companies are determined by regional tariff authorities on a "cost plus" basis, which means that the tariffs comprise the relevant company's cost plus a certain profit margin. In recent years, this pricing method has not encouraged cost efficiency and it has not allowed the implementation of extensive investment projects because certain capital expenditures are not deemed to be "costs" under the regulatory guidelines.

RAO UESR has introduced a new development strategy, according to which the transition to a new tariff regulation system would be based on a regulated asset base (RAB) method. As opposed to the current "cost plus" method, the RAB method would allow returns on investments in the electricity distribution infrastructure at levels determined by the state regulator. It is currently planned that tariffs on the RAB method would be established for a period of five years, instead of the current one-year tariffs, to encourage long-term investments in the modernization and development of the distribution grids.

Supply Companies

Russian retail customers currently purchase electricity from 65 electricity supply companies, which have been spun off from the AO-Energos, as well as independent electricity supply companies. As at March 31, 2007, all the former AO-Energo sales companies had been appointed as "guaranteeing suppliers" in their respective regions. Each "guaranteeing supplier" is obligated to enter into a contract with any end retail consumer at the demand of that end retail consumer. See "— New Wholesale Power Market — Retail Market". At the end of 2006, the board of directors of RAO UESR decided that the shares of the electricity supply companies would be sold in 2007 and 2008 in public auctions.

Heat Distribution and Supplies

Heat is transmitted and distributed through the local grids that are owned and operated by heat producers, wholesale retailers and municipalities. Heat producers sell heat either directly to end-consumers that are connected to the heat grids that such producers own or lease from municipalities or to wholesale resellers that own heat grids to which other customers are connected.

Repairs and Servicing

Approximately 194 repair and servicing companies were created during the reform of the AO-Energos. The majority are wholly owned by corresponding TGKs and RSKs; however, 12 were created via spin-offs from the AO-Energos. Currently, it is planned that shares in these entities will also be sold in public auctions by the end of 2007. See "— Current Industry Structure — Attracting Private Investors and Capital".

Service Providers in the Electricity Market

The System Operator

In 2004, all dispatching functions of the Russian electricity sector, previously performed by the regional dispatch administrations, were transferred from the AO-Energos to the System Operator. The System Operator is a specialized company that provides management services to all market participants in relation to the dispatch of electricity systems and provides forecasts regarding generation and consumption of electricity.

In particular, the System Operator establishes a dispatch priority classification system to enable it to fulfill its responsibility for the maintenance of the sufficiency, stability and flexibility of electricity supply and the minimization of the cost of electricity supply. In formulating this classification system, the System Operator ranks all generators in a so-called merit order, which prescribes the order in which these stations receive load, assuming there is sufficient demand. The general principal dispatch priority categories are as follows:

- *Base load generation.* This category of generation facilities encompasses facilities that are allocated the highest loads, either due to extraordinarily high efficiency, system safety issues (for example, technological minimum load requirements) or lack of flexibility (for example, in the event that a particular generator cannot quickly change load on demand and is, therefore, incapable of adjusting effectively to cover peak loads). Base load generation facilities include nuclear capacity, hydro capacity in the post-winter thaw season, TGK stations only when they operate in "combined cycle" (joint generation of electricity and heat) and certain coal-fuelled stations. Base load generation traditionally enjoys high load factors throughout the year, but is generally insufficient to cover total electricity demand.
- *Mid-load generation.* Mid-merit generators are those generators that are typically dispatched if their variable costs lie below those of the least efficient generators necessary at any given moment to satisfy electricity demand (taking into account grid constraints). This category effectively encompasses all wholesale thermal generation facilities, including those belonging to the Company. The main competition in the wholesale electricity market occurs in this dispatch priority category. Depending on their placement within the merit order and the prevailing price on the spot market, a mid-merit generator could enjoy varying levels of load through the year, with the most efficient generators benefiting from a preferred position in the market.
- *Peak generation.* Peak generators are those generators that are called upon only at times of peak electricity demand to cover whatever deficit still exists after base load generation and mid-merit generators have already been dispatched. This category generally includes the most inefficient thermal electric capacity, including TGK stations operating in electricity-only condensation mode, certain categories of hydro electric capacity (for example, hydroaccumulating power plants) and those power plants which have the ability to vary their load significantly in order to sell at times of peak prices.

As a result, the electric capacity utilization rate and competitive position of a power plant in the wholesale market are significantly influenced by its ranking in the dispatch priority classification system.

Trade System Administrator

The Trade System Administrator manages organizations of the trading system of the wholesale electricity market, clears payments for the supplies of electricity and for other services provided by the participants of the wholesale electricity market. It also participates in the preparation of the rules of the wholesale market and monitors compliance with the rules, registers bilateral agreements between suppliers and customers on the wholesale electricity market, maintains the Register of the Wholesale Market Participants, organizes pre-trial dispute resolutions in the wholesale market and supervises the System Operator and its relations with market participants. The Trade System Administrator was created as a non-profit partnership whose members are participants in the electricity wholesale market.

Final Steps in the Creation of the Post-Reform Industry Structure

The reform of the Russian power sector and the establishment of the targeted industry structure is nearing completion. The final principal steps involve the spin-off of the remaining assets of RAO UESR, followed by the dissolution of RAO UESR, attracting investment to the power sector and privatizing certain of the entities that have been created through the power sector reform.

Dissolution of RAO UESR

On October 26, 2007, the shareholders of RAO UESR approved the final phase of the RAO UESR reorganization, which will result in the dissolution of RAO UESR in mid-2008. The dissolution of RAO UESR will involve the following:

Following the approval of RAO UESR shareholders on December 6, 2006, OGK-5 and TGK-5 were spun-off from RAO UESR on September 3, 2007. The final reorganization of RAO UESR is expected to be implemented by RAO UESR first contributing the shares that it holds in its subsidiaries to newly-created holding companies. Simultaneously, each holding company, except for the holding company for certain power companies in the Far East and MRSK Holding, is expected to merge into its relevant subsidiary, subject to the approval of the corresponding subsidiary. Based on current RAO UESR proposals, as a result of this process, RAO UESR shareholders are expected to receive shares in the RAO UESR subsidiaries on the basis of the respective holdings in RAO UESR, and, in the event that a subsidiary does not approve its merger with its corresponding holding company, the holding company is expected to remain in existence and the RAO UESR shareholders are expected to receive shares in the holding company instead of the RAO UESR subsidiary.

The Russian Federation is not expected to receive its shares pro-rata in the OGKs (including WGC-3) (except for HydroOGK) or TGKs after the reorganization. Instead, it is possible that these shares will be publicly sold before the completion of the RAO UESR reorganization, with the cash proceeds being transferred at the date of the reorganisation to the FSK and HydroOGK to finance their investment programs. Alternatively, the Russian Federation's shares in the OGKs (except for HydroOGK) and TGKs may be transferred to the FSK and HydroOGK, following which the FSK and HydroOGK would sell these shares.

The reorganization plan also provides that major shareholders of RAO UESR (including Gazprom, Norilsk and SUEK), instead of receiving shares in a large number of holding companies, will each receive shares in a special purpose holding company that holds shares in the OGKs (including WGC-3), TGKs, the FSK, the HydroOGK, the System Operator and other assets to which such a major shareholder is entitled by virtue of its current shareholding in RAO UESR. The reorganization plan also permits such major shareholders to reallocate among themselves and the Russian Federation the shares in the OGKs (including WGC-3) and TGKs that they receive in the proposed reorganization. As a result of such reallocation, it is expected that CenterEnergoHolding, the holding company, shares in which will be distributed primarily to Gazprom, will receive controlling stakes in OGK-2 and OGK-6, as well as stakes in TGK-11, TGK-12 and TGK-13, FSK and the System Operator. Intergeneration, a holding company to be set up as a result of the RAO UESR reorganization, shares in which will be distributed primarily to Norilsk (or EnergoPolyus), will receive stakes in WGC-3 and HydroOGK, as well as shares in the FSK, the System Operator and minority stakes in other power companies, and Sibenergo Holding, the holding company set up by Siberia Coal Energy Company ("SUEK"), will receive stakes in HydroOGK, TGK-12 and TGK-13, as well as shares in FSK and the System Operator.

Upon completion of RAO UESR's reorganization (expected in July 2008), it is currently expected that the Russian Federation will own:

Expected Russian Federation Shareholding

Over 75%

- The FSK (including the funds contributed by the federal authorities and the "state-owned" part of the shares in the OGKs (including WGC-3) and TGKs)
- The System Operator (taking into account the funds contributed by the federal government)

Over 50%

- HydroOGK (including the funds contributed by the federal authorities and the "state-owned" part of the shares in the OGKs (including WGC-3) and TGKs)
- Inter RAO UESR Holding
- MRSK Holding and the Holding Company for the Far East

It is anticipated that, after the RAO UESR's reorganization, the minority shareholders will own in the aggregate:

Expected Minority Shareholders' Shareholdings

- up to 100% in the thermal generation companies
- under 25% in the FSK and the System Operator
- under 50% in HydroOGK and Inter RAO UESR Holding
- about 48% in MRSK Holding and the Holding Company for the Far East

Attracting Private Investors and Capital

One of the principal goals of the power sector reform is to attract private investments so as to fund large investment programs in the power industry. In June 2006, the Russian government announced that it had decided to permit capital raisings by thermal generation companies, including by way of public offerings or private placements.

The board of directors of RAO UESR approved the list of thermal generation companies which may place additional shares with private investors at meetings in June, August and September 2006. The list includes, among others, the following thermal generation companies: OGK-1, OGK-2, WGC-3, OGK-4, OGK-5, OGK-6, TGK-1, Mosenergo, TGK-4, TGK-5, Volzhskaya TGK, SGK TGK-8, TGK-9, TGK-10, Kuzbassenergo and Eniseyskaya TGK. In September and October 2007, the board of directors of RAO UES approved the issuance of new shares by each of TGK-2, TGK-6 and TGK-11. A decision may be taken by the board of directors of RAO UESR in 2007 on whether it is advisable for TGK-14 to issue new shares.

The following is a brief description of certain significant recent offerings and strategic sales in the Russian power sector through October 31, 2007. This description is provided to give an indication of the types of transactions that have been completed. There can be no assurance, however, that such transactions will take place in the future on similar terms, or at all. This description is intended to be merely illustrative and not exhaustive:

- *OGK-5 share offering:* The first thermal generation company that completed a share offering was OGK-5 in 2006. Pursuant to this offering, 14% of OGK-5's shares were sold for approximately USD 460 million and RAO UESR's shareholding in OGK-5 decreased from 87.5% to 75.03%, which has since decreased to approximately 50% in June 2007. Following the spin-off of OGK-5 from RAO UESR on September 3, 2007, the Russian Federation became a direct shareholder with a 26.4% stake in OGK-5.

- *WGC-3:* In March 2007, the strategic sale, for approximately USD 3.1 billion, of 37.56% of the shares of WGC-3 to a company within the Norilsk Group resulted in the reduction of the RAO UESR shareholding in WGC-3 to a non-controlling 37.1%. Following completion in August 2007 of a mandatory tender offer by the company within the Norilsk Group to minority shareholders of WGC-3 and the subsequent acquisition of WGC-3 shares from RAO UESR, the Norilsk Group increased its total shareholding in WGC-3 to 64.89% (which together with WGC-3 shares held in trust management for the benefit of Norilsk by Deutsche Bank constituted 65.15% as of September 30, 2007).

- *TGK-3 (Mosenergo)*: In May 2007, a 28.6% shareholding in TGK-3 (Mosenergo) was sold to Gazprom for approximately USD 2.3 billion in an additional share issuance by TGK-3. On September 10, 2007, having accumulated 49.9% of the shares in TGK-3, Gazprom launched a mandatory tender offer, open for 70 days, for the remaining 50.1% stake.

- *TGK-5:* In May 2007, Integrated Energy Systems purchased a 26.8% shareholding in TGK-5 for approximately USD 451 million in a share offering by TGK-5. It increased its stake in TGK-5 to 35.7% in May 2007 pursuant to an acquisition of all additional shares not subject to pre-emption rights of TGK-5's shareholders and to 46.1% in October 2007 after buying shares from TGK-5's existing shareholders as part of a mandatory tender offer. Following the spin-off of TGK-5 from RAO UESR on September 4, 2007, the Russian Federation became a direct shareholder with a 25.1% stake in TGK-5.

- *Evraz Group:* In March 2007, a company affiliated with the Evraz group purchased a 93.35% shareholding from RAO UESR, Kuzbassenergo and SUEK in a stand-alone power plant, West Siberian TES, in the Kuzbass region at an open-outcry auction for approximately USD 227 million.

- *Mechel Group:* In March 2007, the Mechel group purchased a 93.35% shareholding in a stand-alone power plant in the Kuzbass region, South Kuzbass TES, for approximately USD 265 million.
- *OGK-5/Enel:* In early June 2007, RAO UESR sold a blocking stake of 25.0% in OGK-5 in open auction for USD 1.5 billion to Enel Investment Holding B.V. In late June 2007, Enel acquired an additional 5.0% stake in OGK-5 in the open market for approximately USD 281 million. On October 25, 2007, Enel agreed to purchase a further 7.15% stake in OGK-5, bringing its total holding to 37.15%. The acquisition was completed on October 26, 2007. On October 29, 2007, Enel submitted a mandatory tender offer for the remaining shares of OGK-5 to the FSFM, as required by Russian law.
- *TGK-1/Gazprom:* In September 2007, Gazprom acquired a 37.8% stake in TGK-1 from RAO UESR for USD 1.5 billion and, in early October 2007, subsequently acquired additional shares in a share issue by TGK-1 for USD 1.0 billion, brining its total stake in TGK-1 to 46.4%.
- *OGK-4/E.On:* In September 2007, E.On acquired a secondary 60.8% stake in OGK-4 from RAO UESR for USD 3.9 billion followed by a purchase of primary shares in October 2007 for USD 1.9 billion, bringing its total stake to 69.3%.
- *TGK-4 share offering:* On August 31, 2007 and September 14, 2007, TGK-4's shareholders and board of directors, respectively, approved an issuance of up to 586 billion additional shares to be placed by open subscription. TGK-4's board of directors will have the authority to decide on the exact number of shares to be issued and of the price per share, and are expected to invite bids in mid-December 2007.
- *OGK-2 share offering:* On September 28, 2007, Gazprom purchased a 12.2% stake in OGK-2 for USD 640 million in OGK-2's share offering and concurrent flotation on the London stock market.
- *TGK-8/Lukoil:* On October 2007, I.F.D. Capital, a company reported to be owned by major Lukoil shareholders, acquired a secondary 35.8% stake in TGK-8 from RAO UESR and offered to purchase all shares offered in an additional share offering by TGK-8.

Tariffs

Sales of electricity and heat power continue to be subject to tariff regulation in Russia, although a major part of the reform of the electricity sector is the introduction of a gradually liberalized pricing structure for the supply of electricity.

The FTS is responsible for setting tariffs for:

- electricity and electric capacity traded under the Regulated Contracts on the wholesale electricity market;
- electricity transmission within the trunk grid;
- dispatching services of the System Operator; and
- the services of the Trade System Administrator.

The FTS also sets minimum and maximum tariffs for electricity distribution and electricity and heat sold on the retail market. See "— Current Industry Structure — Distribution Grid Companies".

Of the various methods of calculating tariffs provided by Resolution No. 109 On Price Setting with respect to Electric and Thermal Energy in the Russian Federation, dated February 26, 2004 ("Resolution No. 109"), the FTS currently uses the method of economically reasonable expenses. According to this method, the tariffs are calculated on the basis of necessary gross revenue, calculated in accordance with RAS, of a generating company on sales of each type of products (power) for the relevant period. The expenses included in the necessary gross revenue are the following:

- expenses for purchases of fuel;
- expenses for purchases of electric and heat power;
- expenses for services rendered within the wholesale and retail markets of electric and heat power;
- expenses for purchases of raw materials;
- expenses for repairs of equipment;
- expenses for payment of salaries of staff and for social disbursements;
- expenses for amortization of capital assets and intellectual property; and
- other expenses, including income tax payments.

From 2008 onwards, the tariffs will be indexed according to the formulas defined by the FTS on the basis of factors that influence the costs of generating companies, including the inflation rate and changes in the taxation regime. It is currently expected that this new tariff calculation system will provide generating companies with additional incentives to introduce cost reduction programs and, as a result, increase the profitability of their operations.

The heat power tariffs are determined by the RECs, within guidelines established by the FTS, on an annual basis.

Overview of the Market

The Russian electricity market consists of wholesale and retail electricity and wholesale capacity markets within the existing and contemplated market frameworks, and capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

Wholesale Electricity Market

The wholesale market encompasses nearly the entire territory of the Russian Federation and provides a framework for the trading of energy. The wholesale market is a system of contractual relationships between all of its participants, which are linked together by the processes of production, transmission and consumption of electricity within the Unified Energy System of Russia. The Unified Energy System of Russia consists of seven IES, comprising the IES of North-West, Central, Urals, Volga, South, Siberia and Far East.

The wholesale market is effectively divided into two principal pricing zones:

- the first pricing zone includes the Central IES, North-West IES, Volga IES, South IES, and Urals IES (or the European trading zone); and
- the second pricing zone consists of the Siberia IES.

Most of the Far East IES is, in fact, isolated from RAO UESR, as well as internally fragmented. The Government of the Russian Federation has the right to determine and make pricing zones in the wholesale electricity market. Further, non-regulated agreements on free-market terms may only be concluded between participants in the wholesale electricity market which are located within one price zone, as established by the Russian Government, and only with respect to:

- volumes of electricity included in the planned hourly generation consumption volumes, but not purchased (or sold) under the Regulated Agreements;
- volumes of electricity which the seller must sell under the existing Regulated Agreements, but which are not included in its planned hourly generation; or
- Volumes of electricity purchased under the Regulated Agreements exceeding planned hourly consumption.

Wholesale market participants mainly include:

- sellers of electricity and electric capacity, including the generation companies (OGKs (including WGC-3), TGKs and various other generators) and electricity supply companies (energy traders), which re-sell in the market electricity and electric capacity bought from other market players; and
- purchasers of electricity and capacity, including major power consumers, electricity supply companies (energy traders) and generation companies, which, at certain points in time, may choose to purchase electricity in the market to fulfill their supply obligations instead of generating their own electricity.

The infrastructure of the wholesale electricity market is operated by the Trade System Administrator (including its wholly-owned subsidiary for clearance and settlements), the System Operator and the FSK. A company that intends to participate in the sale or purchase of electricity in the Russian electricity wholesale market must first register with the Trade System Administrator as a participant in the wholesale market. The Trade System Administrator registers a company in the Register of Wholesale Market Participants if the company meets the following requirements:

- in the case of a supplier of electricity, if it owns generation facilities with a total installed electric capacity of at least 25 MW and at least 5 MW in each part of the system which are used for the determination of generated (consumed) electricity volume (the "Supply Places") or it has a right to sell electricity generated by such facilities;

- in the case of a purchaser of electricity in the wholesale market, if the electricity sales company or the electricity supply company duly owns electricity receiving equipment with a total capacity of at least 20 MVA and a capacity of at least 2 MVA (17 KVA from March 1, 2008) or more at each Supply Place and complies with certain other technical requirements;
- if it collects, processes and transfers commercial accounting data to the Trade System Administrator regarding the generated (consumed) electricity at each of its Supply Places;
- if it has entered into an agreement on accession to the wholesale market trading system;
- if it has entered into an electricity transmission agreement; and
- if it has entered into an agreement relating to dispatching services.

Violations of the rules of the electricity wholesale market may result in the cancellation of the company from the Register of Wholesale Market Participants. In addition, participants of the electricity wholesale market must enter into agreements with the Trade System Administrator in connection with the sale and purchase of electricity.

The structure of the wholesale power market was reformed with effect from September 2006, and a brief summary of the wholesale power market prior to that date is set out below.

Former Wholesale Power Market (prior to September 1, 2006)

Post 1990s, the wholesale power market operated across most of the territory of the Russian Federation, providing a framework for large-scale, often inter-regional, trading of electricity, in the following three segments:

- *Regulated sector:* electricity was traded at tariffs set by the FTS using a "cost plus" methodology approach based on generation cost estimates (the annual forecasts of electricity volumes to be generated or consumed by each market participant). Electricity tariffs for generators were two-tiered and included a capacity payment and an electricity payment. Electric capacity payments covered 85% of fixed costs of power generation and payments for generated electricity covered fuel and other variable costs. Capacity payments represented a "standby" compensation for a generator's ability to generate electricity regardless of whether it actually did so. Electricity tariffs for purchasers depended on their annual electricity consumption.
- *Free trade sector (spot market)*: represented a "one-day-ahead" spot market on which generators were permitted to contract the electricity output of up to 15% of their installed electric capacity while purchasers were permitted to submit price bids for each hour of the next trading day for no more than 30% of their planned electricity consumption volumes. The Trade System Administrator matched these bids and offers using certain minimum price criterion, thus determining free sector electricity trade volumes and prices for each hour of the day. The electricity volumes traded on the spot market were limited. Historically, the free trade segment represented only 7-8% of the total Russian annual electricity consumption, as purchasers had no obligation to trade in this segment since they could purchase all their electricity requirements in the regulated sector at FTS tariffs. Generation companies, on the other hand, had incentives to trade on the spot market as 15% of their fixed costs were not covered by the capacity payments in the two-tiered tariffs that applied to trades in the regulated sector. In practice, in the free trade sector, generators set their prices for both capacity and electricity payments below the level of the end-user tariffs in the regulated sector for wholesale purchasers since wholesale purchasers could buy all of their required electricity and capacity in the regulated sector.
- *Balancing sector:* this was designed to eliminate any "real time" discrepancies in the supply and demand of electricity caused by deviations of actual consumption volumes from planned volumes of generation. The System Operator and the Trade System Administrator attempted to balance supply and demand in real time based on price offers from generators and bids from purchasers.

New Wholesale Power Market (since September 1, 2006)

On August 31, 2006, the Russian government adopted Resolution No. 529 and Resolution No. 530 "On Approval of the Rules for the Operation of the Retail Electricity (Electric capacity) Markets". As a result, a "transitional period" commenced on September 1, 2006 pending full liberalization of the sector.

On November 30, 2006, the Russian government approved the schedule for introducing full liberalization of the wholesale market (expressed as percentages of electricity included in the aggregate electricity (electric capacity) balance for 2007 approved by the FTS). This schedule was incorporated into Resolution No. 205.

The New Wholesale Market Rules introduced significant changes to the former wholesale power market for the transitional period prior to the anticipated full liberalization of the sector (except for electricity required for residential consumption). As a result of those changes, electricity is traded on the basis of the following trading segments, which replaced the previous segments of the wholesale electricity and capacity markets.

- Regulated Contracts;
- Unregulated bilateral contracts;
- "One-day-ahead" spot market; and
- Balancing market.

Regulated Contracts

Under the New Wholesale Market Rules, the regulated segment of the wholesale market was transformed into a system of Regulated Contracts. The price set for each such contract is the tariff applicable to the generation company for the electricity supplied by it. Regulated Contracts are effectively take-or-pay obligations at a regulated tariff for electricity and electric capacity volumes and represent an interim step in the transition from a regulated environment to competitive pricing.

Wholesale Electricity Market Regulation

According to the New Wholesale Market Rules, for the first half of 2007 and for the second half of 2007, 90-95% and 85-90%, respectively, of each generator's planned annual output (based on the FTS forecast balance for 2007) must be covered by Regulated Contracts. Starting in 2008, the volumes of electricity to be covered by Regulated Contracts are expected to decline according to the schedule that was approved under Resolution No. 205 on April 7, 2007.

From 2008, the Russian government is planning to reduce the volume of Regulated Contracts further according to the approved liberalization schedule presented below:

- from 1 January 2008 — up to 80-95%;
- from 1 July 2008 — up to 70-75%;
- from 1 January 2009 — up to 65-70%;
- from 1 July 2009 — up to 45-50%;
- from 1 January 2010 — up to 35-40%;
- from 1 July 2010 — up to 15-20%; and
- from 1 January 2011 — the wholesale electricity market will be fully liberalized.

The approved timetable for electricity market liberalization in Russia envisages that by January 1, 2011 the wholesale electricity market will be fully liberalized. The initial volume of electricity that is required to be sold under Regulated Contracts at the FTS tariffs is determined based on the FTS forecast balance for 2007. Additional consumption, as well as new electric capacity that will be commissioned after 2007, will be exempt from the regime of Regulated Contracts and will be bought and sold at unregulated prices.

The volumes of planned generation that are not required to be traded under the Regulated Contracts may be contracted under unregulated bilateral contracts or traded in the "one-day-ahead" spot market or the balancing market.

For 2007, the prices for electricity sold under Regulated Contracts was established at the level approved by the FTS in accordance with the "cost-plus" principle. From 2008, the prices are expected to be calculated in accordance with tariff indexation formulas determined by the FTS. Such formulas are expected to be prepared on the basis of various economic and financial indicators which reflect the factors that influence the costs of generating companies, including the forecasted level of inflation, the growth of fuel prices and tax rates.

The parties to Regulated Contracts are determined by the Trade System Administrator and contracts are registered with the Trading System Administrator. Current Regulated Contracts were concluded in 2007 for one year or more depending upon the type of customers and are expected to be renewed upon expiry.

The sellers under the Regulated Contracts are required to cover the volumes prescribed in the Regulated Contracts either through their own generation or through their purchase of electricity on the spot market at prevailing market prices. Similarly, the buyers under the Regulated Contracts receive planned electricity volumes at regulated tariffs and can freely trade the imbalance, if any, between their demand for electricity and the supply as provided under the Regulated Contracts. If a buyer requires additional power, it can buy it on the spot market at the current market prices. If the buyer cannot consume the full volume of electricity as stipulated by its Regulated Contract, it must still pay in full and seek to recover its costs through the sale of its excess contracted volumes on the spot market.

Each year, the supplier and purchaser under a Regulated Contract have an option to terminate their contract upon mutual agreement. Should this option be exercised, the generator will be free to sell its released electricity or electric capacity volumes under unregulated bilateral contracts at free-market prices or on the spot market. Similarly, the customer will have to cover its demand by purchases under "non-Regulated Contracts for the sale and purchase of fluctuations" at free-market prices or on the spot market. For the remainder of the respective year, neither party may revert to the Regulated Contract. However, at the beginning of the following year, the parties may elect to enter into a new agreement.

Unregulated bilateral contracts

Participants in the wholesale market may sell electricity at unregulated prices, according to unregulated bilateral contracts or in competitive bids on the "one-day-ahead" spot market.

Electricity supply prices and volumes sold under unregulated bilateral contracts are negotiated between the supplier and the purchaser. From 2008, all electricity produced by newly commissioned generation facilities or receiving equipment will be sold and purchased at unregulated prices (either on the spot market or under unregulated contracts).

"One-day-ahead" spot market

The New Wholesale Market Rules have introduced a spot market for those suppliers and consumers who wish to buy or sell volumes or electric capacity on a free market basis or who did not enter into a Regulated Contract for whatever reason. The volumes of electricity scheduled for consumption and production that are not included in the Regulated Contracts are traded each hour at unregulated prices. The participants in the wholesale market may submit price bids for buying or selling electricity for a certain volume and price for each hour of the next day. The Trade System Administrator selects the winning bids based on the principle of minimizing the costs of electricity on the market, and thus determines electricity trade volumes and equilibrium prices (i.e. the price which balances supply and demand) for each hour of the following day. The equilibrium prices are determined taking into account the following factors:

- equilibrium prices must be the same for all electricity trade volumes within the same calculation zone;
- an equilibrium price for a supplier should not be lower than the price specified in its bid;
- an equilibrium price for a purchaser should not be higher than the price specified in its bid; and
- equilibrium prices should reflect the system's technical limitations and electricity losses.

After the equilibrium prices and volumes are determined, the participants may submit price-confirmation bids, confirming their intention to sell or buy electricity at the determined volumes and equilibrium prices. The price-confirmation bids are to be rejected if there is no technical feasibility to supply electricity trade volumes specified in the price-confirmation bids, or the total volume of the electricity specified in the price-confirmation bids of purchasers exceeds the total volume of the electricity specified in the price-confirmation bids of suppliers.

Balancing Market

The deviations segment, which previously operated as part of the regulated sector of the wholesale electricity market, was transformed into a balancing market. The balancing system is a real time market for electricity based on competitive bids submitted by suppliers and market participants, which is intended to cover the deviations from planned power volumes on the "one-day-ahead" spot market from the actual generated or consumed volumes.

Long-term Contracts

The sale of electricity in the free market can lead to a price over-exposure. This risk may increase with the volume of electricity and electric capacity sold at free market prices. To counter this risk, and to lock in revenue for longer periods of time, it is possible to enter into long-term electricity supply contracts, whether at fixed or floating prices. To date, the number of contracts, other than Regulated Contracts, in the industry as a whole has been insignificant taking into account the total size of the market and the volumes sold at free market prices.

Non-Regulated Contracts for the sale and purchase of fluctuations

Instead of selling or buying electricity representing fluctuations from planned power volumes in the balancing market, market participants can enter into non-Regulated Contracts for the sale and purchase of fluctuations.

Capacity Market

Capacity is currently sold according to regulated prices (tariffs) pursuant to Regulated Contracts.

Following the adoption of regulations for the capacity market, capacity suppliers chosen by the System Operator in the competitive bid process may choose either the free market or capacity tariff mechanism of capacity supply once per year and can switch mechanisms each year if they so wish. Those capacity suppliers who did not win the competitive bid process may only sell under free bilateral contracts. In the free market mechanism, the supplier may sell capacity and electricity under free bilateral contracts at unregulated market prices and is not held to the price specified in its bid. Conversely, suppliers who choose the capacity tariff mechanism must sell capacity at the prices specified in their bid and must sell electricity at or below the FTS-calculated tariff in the day ahead and balancing markets. The tariff-based system is designed to allow suppliers to cover their costs for electricity (capacity) generation when they did not manage to enter into free bilateral contracts.

Capacity for each power flow area is calculated by the System Operator, who prepares long-, middle-, and short-term consumption forecasts for RAO UESR and uses this forecast to determine the borders and peak consumptions of the free power flow areas. The forecasts are based on the claimed consumption volumes of industrial consumers, who independently plan their consumption; consumption increase forecasts submitted by "suppliers of last resort"; data from regional authorities (e.g., regional energy commissions); requests for connection; and network development plans. To determine capacity demand in each free power flow area, the System Operator multiplies peak consumption in the area by the forecasted reserve ratio. However, if the peak amount exceeds the forecasted amount, the customer is obliged to purchase the remaining capacity. For consumers who do not independently plan their peak consumption, the System Operator determines their long-term capacity by multiplying their actual maximum consumption in peak areas in a given free power flow area by the actual reserve ratio.

Under the New Wholesale Market Rules, capacity is traded separately from electricity. When selling capacity, generation companies are obliged to maintain their generating equipment in good condition so that they are able to produce at any time electricity in the required volume and to the required specification. If the obligation to maintain generating equipment in good working order is not fulfilled by a generating company, the price of its capacity under each Regulated Contract will be reduced.

From 2008, capacity volumes bought and sold under Regulated Contracts is expected to be gradually reduced as determined by the Russian government. Excessive electric capacity (not covered by Regulated Contracts) and electric capacity of all newly built power plants (commissioned from 2008) will be sold at competitive prices determined following the results of auctions. As at the date of this Information Statement, capacity continues to be sold exclusively under Regulated Contracts and the rules and mechanism of the free-market sales of new capacity have not yet been elaborated.

Wholesale Market Competition

Although competition between generators is currently limited as a result of existing regulations and the common ownership by RAO UESR of most generators, competition for sales of both capacity and electricity is expected to develop in line with the increasing liberalization and privatization of the sector. Capacity payments are intended to cover fixed operating costs, and, therefore, the generator's ability to compete in the capacity market depends largely on control of overhead and semi-variable costs. Electricity prices, on the other hand, are intended to cover mainly variable costs such as fuel, and, as a result, competitive advantages in this market are largely dependent on the control of variable costs.

As a general rule, thermal generation determines equilibrium electricity price levels in the free sector. However, hydro and nuclear generation facilities also contribute to seasonal pricing fluctuations. In particular, the hydrogenerators increase supply in the April to September period, while the nuclear plants operate during the peak winter period. Since transportation of electricity over long distances is accompanied by growing losses and rising costs, primary competition usually occurs within specific pricing zones, or even within specific electricity zones.

Retail Market

The New Retail Market Rules were introduced to govern the interaction between wholesale and retail market participants during the transition period of the electricity industry's restructuring. The rules for retail market operation set out the new pricing principles for the retail electricity market. It is envisaged that the deregulation of the retail electricity market be carried out in conjunction with the deregulation of the wholesale market so that end consumers of electricity be provided with adequate information on the actual cost of electricity. All consumers, except for households and similar consumer groups (referred to as "residential consumers"), have started to purchase part of their electricity needs at unregulated prices. Residential consumers will continue to pay for electricity at the tariffs set by the state regulator until at least 2011. As a result of the structural transformations in the electric power industry, the retail markets currently include sales companies that, unlike the former AO-Energos, do not generate electricity but purchase it from generation companies on the wholesale electricity market. The changes in retail market rules depend greatly on changes in the wholesale market because of the transition to the system of Regulated Contracts, which should gradually result in the liberalization of electricity (electric capacity) trading.

The main principles of the operation of the retail electricity markets are as follows:

- end consumers have the right to decide from which sales company they buy electric power at unregulated prices;
- "guaranteeing suppliers", which are obliged to enter into a contract at the request of any end consumer;
- unregulated prices for end consumers are set freely by all market participants, except for "guaranteeing suppliers"; and
- competition between retail power producers.

The New Retail Market Rules give consumers an opportunity to choose their energy suppliers. However, not all electricity suppliers are under an obligation to enter into contracts with requesting consumers, only "guaranteeing suppliers" have this obligation.

"Guaranteeing suppliers" will be appointed pursuant to the public tender procedures, and pending the tenders, electricity supply companies, which have been spun-off from the AO-Energos, have been appointed "guaranteeing suppliers". "Guaranteeing suppliers" will be in existence throughout the entire territory of the Russian Federation. In each region, their individual areas of operation will be defined individually by regional authorities. Regional authorities are monitoring, on an on-going basis, the activities performed by guaranteeing suppliers, as well as their financial condition.

The New Retail Market Rules also establish a system of pricing within the retail market. Tariffs for each region are to be set by the relevant regional tariff authority and are subject to the minimum and maximum levels established by the FTS.

The new retail pricing regime has been altered in conjunction with the liberalization of wholesale prices. This means that parts of the electricity volumes supplied in the retail electricity market will be supplied at regulated prices, while the other parts will be supplied at prices that reflect the cost of electricity in the competitive wholesale electricity markets within the maximum unregulated prices calculated according to a specific formula and is based on the average weighted price of one unit of electric power (1 kW/h) in the wholesale market (published monthly by the Trade System Administrator) in the previous month. It also takes into account government-regulated tariffs for power transmission services, services provided by the Trade System Administrator and RAO UESR, and the retail sales mark-up.

Supply companies will only be able to sell electricity at unregulated prices if they do not have any customers who are individuals or if they still have excess electricity after supplying those of their customers who are individuals and such electricity was purchased at unregulated prices.

Under the current retail pricing regime, households are, in effect, subsidised by large industrial consumers of electricity since tariffs for households are set at less than commercially viable levels at the expense of higher tariffs for industrial and commercial consumers. It is expected that the removal of such cross-subsidies would cause average electricity prices for domestic consumers to double. The possibility of using state subsidies to avoid such a substantial increase for domestic consumers is under consideration.

The new rules for the operation of the retail market set out the new pricing principles for the retail electricity market. These rules envisage that the deregulation of the retail electricity market be carried out in conjunction with the deregulation of the wholesale market so that the end consumers of electricity are provided with adequate information on the actual cost of electricity. All consumers, except for households and similar consumer groups, have begun to purchase part of their electricity requirements at unregulated prices.

During the transition period, electricity is supplied to consumers who are individuals only at regulated prices and at tariffs fixed by the FTS.

Heat market

Heat markets are regional retail markets and heat tariffs are regulated and set within the general guidelines provided by the FTS and by regional authorities.

Prices of retail heat energy markets in Russia are regulated by the Federal Law "On State Regulation of tariffs for electric and heat energy in the Russian Federation" No. 41-FZ dated April 14, 1995 and Resolution No. 109. The FTS is responsible for setting the minimum and maximum tariffs with respect to heat energy sold on Russian retail markets, which are established for a period of at least one year. There are separate tariff ranges for each Russian region.

After the minimum and maximum tariffs are approved by the FTS, the Russian regional authorities establish heat energy tariffs for the relevant territories with the range set by the FTS. When determining regional tariffs, the authorities are required take into account (i) changes with respect to the types and prices of fuel used to produce heat energy and (ii) volumes of heat energy purchased by consumers, as well as reduction in such volumes due to use of autonomous heat energy sources.

Fuel supply

There are six fuel sources used for electricity generation: hydro, nuclear, coal, natural gas and, to a lesser degree, fuel oil or distillate. Due to its high price, fuel oil is used only as reserve fuel in periods of peak load when all other fuel sources have been exhausted.

Hydrogeneration is weather-dependent and location dependent. Only certain regions of Russia experience enough precipitation to feed the river systems that provide sufficient waterflow for hydro power plants to operate.

Nuclear plants play a significant role in the generation of the electricity in the European part of Russia. Rosenergoatom is the sole authorized owner and operator of nuclear plants in Russia. See "— Current Industry Structure — Rosenergoatom".

The remaining electricity demand is satisfied by fossil-fired power plants. The thermal generation is supplied primarily by gas and coal, with gas playing a dominant role as the most efficient fuel type.

Most power plants are also capable of using oil residue as reserve fuel, which they utilize when there is a disruption in the fuel oil supplies.

Heat is mainly produced either by fossil-fueled power plants or fossil-fueled boilers with the remaining small volumes of heat being supplied by electricity-powered boilers.

The table below shares a breakdown of the types of fuel used by all thermal generation companies in the RAO UESR Group in 2006.

Fuel Expenses	Share in generation consumption (%)
Gas	70.0
Coal	26.0
Oil residue	3.4
Other	0.6
Total	**100.0%**

Source: RAO UESR 2006 Annual Report

Fossil-fired plants are expected to continue to maintain their role as the primary source for electricity generation. Russia's energy strategy promotes the construction of advanced coal-fired generation facilities in the coal-rich Siberian region, as well as the Urals region, which is close to coal-producing regions of Siberia and Kazakhstan. The strategy also recommends a focus on efficient natural-gas-fired capacity for the western and far eastern areas of the country.

Gas supply

The Russian gas supply market is highly monopolistic, with a vast majority of supplies, reserves, production facilities and transportation infrastructure controlled by the state-owned monopoly Gazprom. There are also a small number of independent gas suppliers in Russia, such as NOVATEK.

Gas Quotas

Gas is supplied by Gazprom and its regional affiliates under pre-agreed quotas established for each generation unit within the total quote established for a region in which such generation unit operates at regulated prices determined by the FTS. Gas required in excess of these quotas can be bought on the market, but will be supplied at commercial prices, which can be significantly higher than the tariffs established by the FTS for gas supplied within the quotas.

At the end of 2006, the Russian Federation approved the total amounts of gas to be supplied to Russian electricity generating companies: 162.9 bln cubic meters for 2007, 166.9 bln cubic meters for 2008, 174.8 bln cubic meters for 2009 and 186.0 bln cubic meters for 2010.

It is expected by RAO UESR and the Russian government that generators and Gazprom will enter into long-term contracts for gas supply in order to secure stability in the electricity market.

Gas Price

In Russia, prices for gas supplied by Gazprom do not fluctuate according to supply and demand. Instead, they are regulated by the FTS, in accordance with Russian government Resolution No. 1021 "On State Regulation of Gas Prices and Tariffs for Gas Transportation in the Territory of the Russian Federation", dated December 29, 2000. The gas prices of independent suppliers are not regulated, but reflect prevailing domestic prices in the market.

Gas prices for the domestic market in Russia have remained significantly less than export gas prices (even if amounts payable due to export tariffs, excise duties and transportation costs are disregarded), primarily due to regulation of the domestic prices. In 2006, the Russian government recently approved a gas liberalization schedule which aims to increase gradually the regulated natural gas price until that price is equal to European gas prices (net of export tariffs, excise duties and transportation costs) by 2011. Under this schedule, it is anticipated that gas prices will rise by 15% from January 2007, by 25% from January 2008, by 13% from each of January and July in 2009 and 2010 and, finally, by the required rate from January 2011.

Significant future increases in gas prices are likely to have a significant impact on the potential profitability of the generating companies, as it will increase their expenses, or require them to source more costly fuel for their plants. In addition, they may have obligations to continue supplying energy directly or indirectly to residential consumers, regardless of those consumers' ability to pay the increased tariffs.

Coal Supply

Coal is supplied at prevailing market prices by a number of large private producers derived from Russian deposits through short- and mid-term supply contracts and is also imported, primarily from Kazakhstan. The major Russian coal suppliers are Siberian Coal Energy Company, Kuzbassrazrezugol and Russian Coal. Many Russian coal-fired power plants were designed to use coal of a specific grade, and thus certain generating companies are dependent on specific coal suppliers.

Fuel Oil

Fuel oil, or oil residue, is often used as a backup fuel for peaking power plants in the event the supply of natural gas or coal is interrupted. Fuel oil is also used in the ignition process in coal-based thermal power plants. Though fuel oil, due to its high cost, traditionally serves as a "reserve" fuel, it has recently become a more important fuel source. During the 2005-2006 winter, many gas-fired plants had to switch to fuel oil, as a result of a shortage of gas supplies from Gazprom. As gas shortages cannot be excluded in the future, electricity prices in certain regions may be affected by the need for such power plants to use higher-cost fuel oil.

LEGAL AND REGULATORY MATTERS APPLICABLE TO THE ENERGOPOLYUS GROUP

Below is a summary of certain regulatory matters that will be applicable to the operations of the EnergoPolyus Group, if the Spin-off is implemented.

Electricity Industry Regulation

The Russian electricity market is currently in the process of restructuring and its regulation was and is subject to constant renewal and amendments. Generally, the applicable laws and regulations deal with three major issues relating to the electricity industry, which are: (i) establishing a legal framework for the electricity industry and market; (ii) electricity wholesale market regulation; and (iii) establishing tariffs. See "Electricity Industry Overview."

Resolution No. 526 established the principles of restructuring the Russian electricity industry and the goals of such restructuring. According to Resolution No. 526, the result of such restructuring is the conversion of the existing federal wholesale electricity and electric capacity market into a truly competitive wholesale market and the creation of regional retail electricity and electric capacity markets. See "Electricity Industry Overview — Sector Reform".

Federal Law "On the Electricity Industry" No. 35-FZ dated 26 March 2003 (the "Electricity Industry Law") addressed the issues provided by Resolution No. 526 in more details. However, some of its provisions, which address the results of the restructuring of the electricity industry and market will enter into force in the future, when the transitional period of the reform will be completed and the electricity market will be fully liberalized.

The Electricity Industry Law provides for the competence of the state authorities in the area of electricity industry and market. The Russian government is the principal body charged with the regulation of the wholesale electricity market in Russia, and its authority includes, among other things the following:

- approval of the wholesale market rules;
- approval of rules of non-discriminatory access to the electricity transmission services, system dispatching services and wholesale market administration services;
- approval of rules of conclusion and fulfillment of public agreements in the wholesale and retail markets;
- approval of principles of pricing and rules determining the tariffs for the electricity industry and market;
- determination of the order for submitting pricing bids by participants in the wholesale market, their selection and determination of the equilibrium prices of the wholesale market; and
- determination and modification of pricing zone borders in the wholesale market.

The Russian government or the federal governmental bodies authorized by the Russian government may, among other things take decisions on the following:

- establishment and maintenance of a system of long-term forecasting of supply and demand within the wholesale and retail markets;
- regulation of tariffs, excluding those which are under the competence of the regional authorities, including determination of cap limits for such tariffs;
- antimonopoly regulation and control;
- licensing of certain types of activities in the area of electricity industry and market; and
- approval of standards of information disclosure.

The regional authorities of the Russian Federation generally deal with the electricity retail market and heat power market, for instance, by determining tariffs for the transmission of electricity within local distribution electric grids and determining tariffs for heat power.

The Electricity Industry Law provides for specific antimonopoly regulations in relation to the wholesale and retail electricity markets. The governmental authorities supervise the activities of the market's participants in order to, among other things, prevent manipulation of prices, agreements between suppliers of the electricity regarding the establishment and maintenance of unfair prices and discriminatory or unreasonable refusal in supply or rendering services within the electricity market. The participants of the wholesale and retail markets should submit to such supervising authorities information in accordance with the applicable standards and provide the officers of such authorities with unlimited access to any other information about their business. In relation to the supplier of electricity which owns generation facilities accounting for 35 per cent or more of the installed capacity within one pricing zone, as well as in relation to a group of suppliers which own in aggregate 35 per cent of the installed capacity of the generation facilities in one pricing zone (where such a group is found to be in breach of anti-monopoly regulations), the Russian government may decide the following:

(a) establishment of state regulation of prices (tariffs) for the period up to six months; and

(b) involuntary separation.

Licensing of Operations

The EnergoPolyus Group will be required to obtain certain licenses, authorizations and permits from Russian governmental authorities for its operations. In particular, the EnergoPolyus Group will require licenses for the operation of hazardous industrial facilities. It is anticipated that the licensing regime for the operation of hazardous industrial facilities will be replaced by technical regulations issued under the Federal Law of December 27, 2002 "On Technical Regulation" as amended (the "Technical Regulation Law"). As of the date of this Information Statement, these technical regulations have not been introduced, and the operation of hazardous industrial facilities continues to be conducted on the basis of licenses issued under the Federal Law "On Licensing of Certain Types of Activities" of August 8, 2001, as amended (the "Licensing Law") and the regulations introduced thereunder (the "Licensing Regulations").

As of the date of this Information Statement, WGC-3 does not hold all the licenses that it requires to conduct its business. The required licenses and permits may be invalidated, may not be issued or renewed or may contain onerous terms and conditions that restrict its ability to conduct its operations or could result in substantial compliance costs or administrative penalties.

Licensing of the Operation of Hazardous Industrial Facilities

Licenses for the operation of hazardous industrial facilities are issued by the Federal Service for Ecological, Technological and Nuclear Supervision. This authority also monitors compliance with legislation governing atmospherical emissions and waste management, sets limits on waste disposal and maintains a register of hazardous industrial facilities. Under the Licensing Law and the Licensing Regulations, licenses are issued for a term of five years and may be extended upon the application of the licensee. The issuance of the licence is subject to completion of an industrial safety declaration and a state industrial safety review. See "— Health and Safety".

In the event that a licensee breaches the terms of its license, the licensing authorities may seek a court order to suspend the activities of such licensee and the license. If, following a suspension of the activities and the license, the licensee fails to cure the relevant breach within the prescribed period, the licensing authorities may seek a court order to terminate that license.

Licensing of Underground Water Use

Users of underground water resources in Russia require a subsoil licence issued under the Law "On Subsoil" of February 21, 1992, as amended, and the regulations adopted thereunder. Licenses for use of underground water are currently issued by the Federal Agency for Subsoil Use following a decision process which involves representatives of the federal and regional subsoil authorities. Licenses may be granted for a term of up to twenty five years. The conditions of a subsoil licence, including its term, may only be amended by further application to the licensing authorities. The user must also enter into an agreement with the licensing authorities which sets out further terms of use of the relevant resources. In addition, the licensee is required to hold a right of use (through ownership, lease or otherwise) to the land where the licensed deposit is located.

In the event of repeated breaches by the licensee of the applicable regulations or the material terms of the license, as well as upon the occurrence of certain emergency situations, the licensing authorities may amend, suspend or terminate the license and such breaches may also result in the imposition of fines.

Use of surface waters

The Water Code of the Russian Federation No. 74-FZ dated June 3, 2006, which came into force on January 1, 2007 (the "Water Code"), does not require licensing of surface water use. However, previously issued licenses remain in force until their expiration. Under the Water Code, surface water use may be effected either on the basis of (i) a water use agreement concluded with state or local authorities, (ii) a decision of state or local authorities on granting rights to the use of surface water or (iii) without any such agreements or decisions, depending on the purpose of surface water use. An agreement on water use may be concluded for a period of up to 20 years.

Technical Regulation

The Technical Regulation Law introduced a new regime for the development, enactment, application and enforcement of mandatory rules applicable to products, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification.

Technical regulations set forth mandatory requirements for different products and processes. In addition, detailed characteristics of different products and processes are established according to national standards and standards of organizations. Following their adoption, technical regulations and standards will replace the previously adopted state standards (the "GOSTs"). However, since most technical regulations have not yet been adopted (for example, technical regulations "On Safety of Power Plants and Networks" are scheduled to be adopted by January 1, 2010), the existing federal laws and regulations, including GOSTs, establishing requirements for different products and processes shall remain mandatory to the extent they facilitate protection of heath, life, property and environment and prevent actions which may mislead consumers.

Compliance with the requirements of technical regulations, standards and terms of contracts is confirmed by mandatory or voluntary certification. Mandatory certification is given through either the issuance of a compliance certificate or certification by the respective authority of a compliance declaration. Mandatory certification confirms compliance only with the requirements of a technical regulation and only when such certification is prescribed by the respective technical regulation. Such technical regulations have not been adopted yet, and currently the list of products subject to obligatory certification is established by Government Resolution No. 1013 dated August 13, 1997, as amended. Electricity is currently included in this list.

In contrast, a voluntary certification is carried out at the request of a particular company and is done in order to confirm the compliance of products and processes with the requirements of different standards and terms of contracts. Voluntary certification is carried out by an authorized certifying authority, which issues a compliance certificate and grants to an applicant the right to use a compliance mark.

Environmental Regulation

EnergoPolyus Group will be subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites and the protection of flora and fauna. Environmental protection in Russia is regulated primarily by the Federal Law "On Environmental Protection" No. 7-FZ of January 10, 2002, as amended (the "Environmental Protection Law"), as well as by a number of other federal and local legal acts. The Russian government, the Ministry of Natural Resources, the Federal Service for Supervision of Use of Natural Resources, the Federal Service for Ecological, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches), as well as other state authorities and public and non-governmental organizations, are responsible for the monitoring, implementation and enforcement of relevant environmental laws and regulations.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. Additional payment obligations may arise under the Water Code, the Federal Law "On the Wastes of Production and Consumption" of June 24, 1998, as amended, and the Federal Law "On Atmospheric Air Protection" of May 4, 1999, as amended.

The Russian government and the Federal Service for Ecological, Technological and Nuclear Supervision have established standards which govern the permissible impact of industrial and other business activities on the environment. They have also determined limits for emissions and disposal of hazardous substances, waste disposal and soil and subsoil contamination. Companies must develop their own pollution standards on the basis of these statutory standards, as modified to take into account the type and scale of the environmental impact of their operations. These standards must then be submitted for approval by the Federal Service for Ecological, Technological and Nuclear Supervision, which, in the event that those standards do not comply with the relevant regulations, may itself determine the applicable limit for pollution and require the company to prepare and submit a programme for the reduction of emissions or disposals to the prescribed limit. The emission reduction programme is generally required to be implemented within a specified period. If, by the end of that period, the company still exceeds the prescribed limit, a new emission reduction programme must be submitted for approval.

Payments are assessed on a sliding scale, ranging from pollution within the standards (the lowest fees) through pollution within individually approved limits (higher fees) to pollution in excess of those limits (the highest fees). Payments must be made on a quarterly basis, and any failure to make such payments when due may lead to an administrative fine of up to RUB 100,000. These payments do not relieve the relevant company from its responsibility to implement environmental protection measures and undertake restoration and clean-up activities.

Ecological Impact Assessment

A company intending to conduct activities that may have an adverse impact on the environment must perform an ecological impact assessment of those activities in accordance with the Environmental Protection Law, the Federal Law "On Ecological Impact Assessment" No. 174-FZ of November 23, 1995, and certain ancillary regulations. The authorities are also required to assess those activities to develop a programme to ensure compliance with applicable environmental legislation. A failure to obtain the required assessments or any subsequent non-compliance with the prescribed programme may result in administrative fines of up to RUB 150,000, as well as certain other liabilities. See "— Environmental Liability".

Environmental liability

If the operations of a company breach environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or prohibit those operations and require the company to remedy the effects of the breach. The statute of limitations for such actions is 20 years. Any company and/or the employees of such company that fail to comply with environmental regulations may be subject to administrative and/or civil liability, including fines and clean-up orders, and individuals may also incur criminal liability in such circumstances. For instance, WGC-3 was in the past subject to fines for breaches of environmental regulations. Although no court actions or fines have had a material adverse effect on WGC-3 and its business, there can be no assurance that any such possible court actions or fines will not materially adversely effect WGC-3 and its business in the future.

Regulation of Real Estate

At the present time, most land in Russia is owned by the Russian Federation or the Russian regions and municipalities, and only a small proportion of land is in private ownership. A relatively higher proportion of buildings and similar real estate is privately owned due to a less restrictive regulatory regime which applies to such assets.

Land Use Rights

Under the Land Code of the Russian Federation of October 25, 2001, as amended (the "Land Code"), companies generally have the right to the use of land in the Russian Federation arising from one of the following: (1) ownership; (2) right of free use for a fixed term; or (3) lease. Companies that have acquired rights to land plots before the Land Code became effective may currently hold such land plots with the right of perpetual use. The majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which, through public auctions or tenders or through private negotiations, can sell, lease or grant other rights to use the land to third parties. Companies that obtained the right to perpetually use a given land plot prior to the enactment of the Land Code are required by January 1, 2010 either to purchase the land from or to enter into a lease agreement with the relevant federal, regional or municipal authority owning the land.

Details of land plots, including their measurements and boundaries, are recorded in a unified register, or cadastre. As a general rule, a state cadastre number must be obtained for a land plot as a condition to selling, leasing or otherwise transferring interests in that plot. As described below, a separate register is maintained for the registration of all real estate and transactions relating to that real estate.

All land is categorized as having a particular designated purpose, for example, agricultural land, land for use by industrial enterprises, power companies and communication companies, land for military purposes, forestry land and reserved land (i.e. land which is owned by the state but which may be transferred to any of the other categories). Land may only be used in accordance with the purpose designated by the relevant category.

Under the Land Code, land plots owned by the state or municipalities may generally be sold or leased to Russian and foreign individuals or legal entities. However, certain land plots owned by the state may not be sold or leased to the private sector and are referred to as being "withdrawn from commerce" (for example, natural reserves and land used for military purposes). Other land plots may be subject to ownership restrictions which stipulate that such plots may be held by the private sector only under a lease (for example, land reserved for cultural heritage).

Under Russian law, it is possible that the ownership rights to a building and the land plot on which it is constructed may not be held by the same person or entity. In such circumstances, the owner of that building, as a general rule, has the right of permanent use over the relevant portion of that plot of land, unless otherwise determined by law, contract or the regulatory decision which determined the allocation of that plot of land. Moreover, an owner of a building or plot of land may request that the owner of an adjoining plot of land grant rights in favour of that first owner. In addition, federal, regional or municipal authorities may exercise similar rights in the interests of the state, municipality or local population.

State Registration of Real Estate and Transactions Involving Registered Real Estate

The Federal Registration Service maintains the Unified State Register of Rights to Immovable Property and Transactions Therewith (the "Register of Rights"). Under the Federal Law "On State Registration of Rights to Immovable Property and Transactions Therewith" of July 21, 1997, as amended, registration with the Register of Rights is, inter alia, required for: (i) buildings, facilities, land plots and other real estate and (ii) specified transactions involving such registered real estate, including the establishment of trusts, sales, mortgages, as well as leases for a term of not less than one year. Registration is effected in the Russian region where the property is located, and rights to the relevant real estate are acquired only upon such state registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered null and void.

Regulation of the Sale and Lease of Real Estate

The Civil Code requires that agreements for the sale or lease of buildings expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration with the exception of sale agreements for residential premises, which require state registration.

Health and Safety

The EnergoPolyus Group's operations will be subject to various Russian health and safety regulations.

The principal law regulating industrial safety is the Federal Law "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ of July 21, 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites at which lifting machines are used. The Safety Law also contains a comprehensive list of sites and facilities where dangerous substances are used.

Maintenance of Industrial Safety

Companies that operate industrial facilities and sites of the type specified in the Safety Law have a wide range of obligations under both that law and the Labor Code of the Russian Federation of December 30, 2001, as amended (the "Labor Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and maintain insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or, in certain circumstances, create their own wrecking services, conduct personnel training programmes, develop and maintain systems to cope with accidents and inform the Federal Service for Ecological, Technological and Nuclear Supervision of any such accidents.

Industrial Safety Review

The authorities are required to conduct an industrial safety review of any construction, reconstruction, liquidation or other activities conducted at regulated industrial sites. Any deviation from the relevant project documentation during the process of construction, reconstruction or liquidation of industrial sites is prohibited unless it has been reviewed by a licensed expert and approved by the Federal Service for Ecological, Technological and Nuclear Supervision.

Declarations of Industrial Safety

In certain cases, companies operating industrial sites must also prepare a declaration of industrial safety which summarizes both the risks associated with operating a particular industrial site and the measures that the company is implementing in order to mitigate such risks and ensure compliance with applicable industrial safety requirements. This declaration must be made by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein.

State Control over Industrial Safety

The Federal Service for Ecological, Technological and Nuclear Supervision has broad authority in the area of industrial safety. Industrial accidents may be investigated by a special commission led by a representative of the Federal Service for Ecological, Technological and Nuclear Supervision. The company operating the hazardous industrial facility where the accident took place bears all the costs of such investigation. Officials of the Federal Service for Ecological, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure the company's compliance with safety rules. The Federal Service for Ecological, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability on the company exploiting hazardous productive facilities.

Liability

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that has an adverse impact on the health of an individual may also be required to compensate that individual for lost earnings, as well as health-related damages.

Employment and Labor

Labor matters in Russia are primarily governed by the Labor Code, which regulates the establishment and termination of labor relations and the rights and duties of employees and employers.

Employment contracts

As a general rule, employment contracts are concluded for an indefinite term. However, Russian labor legislation permits employment contracts to be entered into for a fixed term of up to five years.

Employment may be terminated by the agreement of the employer and employee upon the expiration of the relevant employment contract or on the basis of other grounds established by law. In addition, an employee has the right to terminate an employment contract on giving a minimum of two weeks' notice. An employer may terminate an employment contract only on the grounds specified by the Labor Code, including absenteeism, breach of industrial safety rules and certain other serious breaches of employment duties.

Employees' Rights

The Labor Code provides an employee with certain minimum rights, which may be extended by an employment contract, including the right to a working environment which complies with health and safety requirements and the right to receive a salary on a timely basis and participate in the management of the organization.

In addition, an employee is entitled to certain protections in specified circumstances. For example, an employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation, including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labor Code also provides protections for specified categories of employees. For example, except under a limited number of circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code may be invalidated by a court, and the employee may be reinstated and compensated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for emotional distress.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for legal strikes. An employer may not use an employee's participation in a legal strike as grounds for terminating that employee's employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of an employment contract.

Trade Unions

Trade unions in Russia still retain significant influence over employees and may affect the operations of large industrial companies in Russia. The activities of trade unions are generally governed by the Labor Code and the Federal Law "On Trade Unions, Their Rights and Guaranties of Their Activity" of January 12, 1996, as amended (the "Trade Union Law").

The Trade Union Law defines a trade union as a voluntary union of individuals with common industrial and professional interests that is incorporated for the purposes of representing and protecting the social and labor rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- represent their members and guarantee their individual rights;
- represent and guarantee the collective rights of employees;
- negotiate and conclude collective contracts and agreements on behalf of employees;
- participate in the settlement of individual and collective labor disputes;
- request information relating to social and labor issues from employers, their unions and state and municipal authorities;
- monitor compliance by employers and offices with labor legislation;
- participate in the formation of state programmes for employee rights and environmental protection;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities.

If a trade union discovers a breach of labor laws, it may notify the employer with a request that the breach be remedied and, if there is an immediate threat to the health of employees, work be suspended. The trade union may also apply to state authorities and labor inspectors and prosecutors to ensure that an employer does not violate Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration.

Although the Trade Union Law provides that those who violate the legal rights granted to trade unions and their officers may be subject to disciplinary, administrative or criminal liability, no specific sanctions for these violations are set forth in Russian legislation.

NORILSK GROUP

OJSC Mining and Metallurgical Company Norilsk Nickel is an open joint stock company organized under the laws of the Russian Federation which was incorporated on July 4, 1997. Its principal executive offices are at 22 Voznesensky Pereulok, Moscow 125993, Russian Federation and its registered office is located at the City of Dudinka, Krasnoyarsk Territory, Russian Federation.

Overview

The Norilsk Group is one of the world's premier metals and mining operations and the leading producer of nickel and palladium and a major producer of platinum and copper. The Norilsk Group's nickel reserve base is one of the largest in the world and its ore deposits contain a rich mixture of other valuable resources. The Norilsk Group conducts mining, enrichment and metallurgical activities relating to base metals and PGMs through its Polar Division on the Taimyr Peninsula in Northern Siberia and through its Kola Division on the Kola Peninsula in the North-West region of Russia. In addition, the Norilsk Group mines, processes and refines PGMs in southern Montana in the United States through its U.S. subsidiary, Stillwater Mining Company, and, following its acquisition of the ex-OM Group's nickel business in March 2007, it holds mining and refining assets in Australia and Finland. In August 2007, Norilsk completed the acquisition of LionOre, an international nickel producer with operations in Australia, Botswana and the Republic of South Africa. Immediately following the Spin-off, the Norilsk Group will retain all of the current assets of the Norilsk Group other than the Power Companies. In particular, the Norilsk Group will retain certain strategic power assets that are required by Norilsk to provide power to its core mining and metallurgical operations on the Taimyr Peninsula.

History and Development

On the Taimyr Peninsula, copper-nickel ore deposits were first discovered in the 1920s and the 1930s. On June 23, 1935, the Council of People's Commissars of the USSR passed a resolution "On Building the Norilsk Combine" and the first copper-nickel matte was produced in Norilsk in 1939. On the Kola Peninsula, the Severonickel industrial complex was commissioned in 1935 and the Pechenganickel mining and industrial complex was commissioned in 1940.

On November 4, 1989, the Council of Ministers of the USSR passed a resolution creating the State Concern for Non-Ferrous Metals Production Norilsk Nickel. The State Concern brought together a number of enterprises, including the Norilsk, Severonickel and Pechenganickel industrial complexes.

Privatization and Principal Shareholders of Norilsk

On June 30, 1993, by decree of the Russian President, the State Concern was reorganized into the Russian Joint Stock Company for Production of Non-Ferrous and Precious Metals Norilsk Nickel ("RAO Norilsk Nickel"). In 1994, as part of RAO Norilsk Nickel's privatization program, company shares were distributed to employees and sold at voucher auctions, as a result of which 250,000 individuals became shareholders. The Russian government retained a controlling shareholding representing 38% of all issued capital and comprising 51% of the ordinary voting shares. In November 1995, the government placed its shareholding at a pledge auction, as a result of which the shareholding was pledged to JSB Uneximbank as a security for a loan made by JSB Uneximbank to the government. In August 1997, the Russian government sold the shareholding at an auction conducted by JSB Uneximbank to CJSC Swift, which represented the beneficial interests of Vladimir O. Potanin and Mikhail D. Prokhorov.

Through subsequent purchases, Messrs. Potanin and Prokhorov increased their holdings in RAO Norilsk Nickel and, following the restructuring described below, by May 2005, Messrs. Potanin and Prokhorov each beneficially owned around 27% of the Company. Mr. Prokhorov until April 2007 served as the Company's Chief Executive Officer and played an important role in the Company's management. Mr. Potanin takes part in the strategic management of the Norilsk Group through participation in shareholders' meetings. See "Major Shareholders of Norilsk".

Restructuring

In 2000, the Norilsk Group began a major corporate restructuring aimed at consolidating its assets and increasing its transparency, thus creating a more efficient financial and corporate structure. The restructuring was implemented by means of the issue of ordinary shares of the Company, through a closed subscription, to shareholders of RAO Norilsk Nickel in exchange for ordinary and preferred shares of

RAO Norilsk Nickel. The restructuring also involved a liquidation of RAO Norilsk Nickel's ownership shareholding in the Company, which was accomplished through a reduction of the Company's charter capital. By 2001, the restructuring was substantially completed, with shares of the Company listed and trading publicly on RTS and MICEX and the Norilsk ADRs trading in the over-the-counter section of the NASDAQ Stock Market Inc., on the IOB of the London Stock Exchange and on the Freiverkehr, Berlin-Bremen Stock Exchange.

As a result of the restructuring, the Company replaced RAO Norilsk Nickel as the holding company of the Norilsk Group. RAO Norilsk Nickel remains a sub-holding company within the Norilsk Group. The Company is registered in the Unified State Register of Legal Entities under the number 1028400000298. The business objective of the Company, set forth in Article 3 of its charter, is operating at a profit, and its principle operations, set forth in Article 3 of its charter, include exploration and mining of reserves and various ancillary operations.

In 2001, as a result of two stages of conversion, 96.9% of RAO Norilsk Nickel shares were swapped for Norilsk shares, and Norilsk became capitalization center of the Norilsk Group.

However, not all shareholders of RAO Norilsk Nickel exercised their rights, — some shares of RAO Norilsk Nickel, mainly owned by retired employees of the Norilsk Combine, were not exchanged for shares of Norilsk. Acknowledging the merits of these shareholders and their contribution to the development of the Company, it was decided to launch additional swaps of RAO Norilsk Nickel shares for Norilsk shares for all shareholders who had not exchanged their shares during the previous swap offers. As a result, during 2002 — 2006 more than 4 million shares were exchanged additionally.

Stillwater Mining Company

On June 23, 2003, the Norilsk Group acquired 45,463,222 ordinary shares of Stillwater Mining Company, which is located in Montana, USA, and is the largest producer of platinum group metals in the USA, for a cash consideration of USD 100 million and about 877 thousand ounces of palladium. The value of transaction comprised USD 257 million.

On September 3, 2003, the Norilsk Group acquired additionally 435,000 ordinary shares of Stillwater for USD 7.5 per share. As a result of the transaction, the Norilsk Group acquired 55.5% of Stillwater Mining Company's shares. The Stillwater Mining Company acquisition helped to increase the consumers confidence in palladium supply market and to stimulate the metal demand. This investment contributed to successful sales of palladium produced by Norilsk. As of September 30, 2007, Norilsk held 54.01% of shares in Stillwater Mining Company.

Polyus Gold

In March 2006, Norilsk transferred in course of a spin-off all of its shares in its gold-mining subsidiary, CJSC Polus, together with a cash contribution of RUB 10 billion (approximately $360 million), to OJSC Polyus Gold, a newly-formed Russian open joint stock company. This spin-off consolidated Norilsk's gold-mining subsidiaries. Shares of Gold Fields Ltd. were sold before the spin-off. In May 2006, official trading of shares of Polyus Gold began on the RTS Stock Exchange and MICEX, and, in July 2006, OJSC Polyus Gold established a Level 1 ADR Program and in December 2006, its American depositary receipts were listed on the London Stock Exchange. Following this spin-off, Norilsk continued to mine gold through its Kola and Taimyr divisions.

Acquisition of OM Group's nickel business

In March 2007, Norilsk completed the acquisition of the ex-OM Group's nickel business. As a result, Norilsk obtained Norilsk Nickel Cawse Pty. Ltd., which mines and processes nickel in Western Australia, and Norilsk Nickel Harjavalta Oy, which operates a nickel processing plant in Finland, as well as a shareholding of 20% in MPI Nickel Pty. Ltd. (which operates nickel mines in Western Australia) and a shareholding of 7.5% in Talvivaaran Kaivososakeyhtio (which operates a biological heap-leaching project in Finland), which was diluted to 5.5% after an initial public offering of the company.

LionOre

In August 2007, the Norilsk Group completed the acquisition of a 100% shareholding in LionOre, an international nickel and gold producer, with operations in Australia, Botswana and the Republic of South Africa. In 2006, LionOre produced 34,094 tonnes of nickel and 155,203 ounces of gold. LionOre's nickel production is supported by significant by-product credits in the form of copper, cobalt, gold and platinum group metals.

Power Companies and the Spin-off

On March 26, 2007, Norilsk increased its shareholding in the wholesale electricity generating company WGC-3 to 46.62% (which, together with shares held in trust management for the benefit of Norilsk constituted 46.88% of WGC-3 shares), and, on May 2, 2007, Norilsk launched a mandatory tender offer to all WGC-3 shareholders to purchase their shares. Following the completion of the mandatory tender offer process in August 2007, the subsequent acquisition of shares in WGC-3 from RAO UESR and transfer to Norilsk of shares held in trust management for the benefit of Norilsk by Deutsche Bank, Norilsk increased its total shareholding in WGC-3 to a controlling interest of 65.15%. WGC-3 was consolidated into the Norilsk Group in August 2007.

RAO UESR is the state-controlled power holding company in the Russian Federation. The RAO UESR is the largest power holding company in Russia, and through its subsidiaries and affiliates controls the vast majority of electricity generation, transmission, distribution and sale in Russia. RAO UESR is in the process of a reorganization, the final stage of which was approved by shareholders of RAO UESR on October 26, 2007 and will involve the spin-off by RAO UESR of its remaining assets to separate legal entities, shares in which will be distributed to the shareholders of RAO UESR, which is expected to take place in July 2008. In the Spin-off, EnergoPolyus will receive a 3.52% in the share capital of RAO UESR. EnergoPolyus will not be able to dispose of its RAO UESR shareholding until the completion of reorganization of RAO UESR, as a result of which such shareholding in RAO UESR will be converted into shares of FSK as a result of merger of RAO UESR into FSK, which is expected to occur in July 2008. See “Electricity Industry Overview — Final Steps in the Creation of the Post-Reform Industry Structure — Dissolution of RAO UESR”.

Pursuant to the terms and conditions of reorganization of RAO UESR, EnergoPolyus will receive in the contemplated spin-off by RAO UESR, the following assets: shares in OJSC MRSK Holding, OJSC RAO East Energy Systems and OJSC Sochinskaya TES (following the merger of OJSC Inter RAO Holding into it), as well as the following shareholdings which it will hold through its majority shareholding in Intergeneration, a holding company to be set up as a result of RAO UESR reorganization: a 14.08% shareholding in WGC-3; a 3.43% shareholding in HydroOGK; a 2.69% shareholding in FSK; a 3.43% shareholding in System Operator; and other minority stakes in companies to be spun-off from RAO UESR.

If the Spin-off is approved at the EGM, the transfer to EnergoPolyus of all the shares that Norilsk holds in WGC-3, OGK-5, TGK-1, TGK-5 and TGK-14, together with the Portfolio Companies and debt in the amount of 15 billion rubles (approximately USD 600 million based on the U.S. dollar/ruble exchange rate on November 2, 2007), which is expected to be secured by a pledge of shares in WGC-3 and possibly TGK-14, will be effected as a matter of Russian law on or promptly following the Formation Date. Following the Spin-off, EnergoPolyus will not own any Norilsk shares, and it is expected that the Norilsk Group will own not more than approximately 1% of the shares of EnergoPolyus.

Immediately following the Spin-off, the Norilsk Group will retain all of the current assets of the Norilsk Group other than the Power Companies. In particular, the Norilsk Group will retain certain strategic power assets that provide energy to its mining and metallurgical operations on the Taimyr Peninsula. See “— Operations — Strategic Power Assets”. If the Spin-off is implemented as currently planned, it is expected that EnergoPolyus will acquire in the future from the Norilsk Group at market price a 49.995% shareholding in Smart Hydrogen, which as at September 30, 2007, held a 34.88% shareholding in the U.S. fuel cell technology company, Plug Power, Inc., although there can be no assurance if this will take place or when this may take place.

A pro forma consolidated balance sheet and a pro forma consolidated income statement, each giving effect to the Spin-off as if it occurred on January 1, 2006, is attached hereto as Exhibit V.

Strategy

The Norilsk Group’s overall strategic goal is to strengthen its leadership position in the global mining and metals industry and the role of a responsible producer and supplier of base and precious metals through:

- effective use of unique mineral resources and stability of operating costs;
- growth in prospecting, exploration and development world class mineral deposits; and
- support of sustainable development in the regions in which Norilsk operates.

Management believes that the Spin-off, if implemented, will assist in the furtherance of this strategy by enabling the Norilsk Group to focus on its core business (see “The Spin-off”).

Management expects that the focus on cost reduction, in combination with these capital projects (which are part of a developing balanced plan of capital expenditure to refurbish or replace older assets and create options for production growth), will enable the Norilsk Group to respond more effectively to the rapidly growing demand for metals.

Organizational structure

The following map shows the principal operating units and subsidiaries of the Norilsk Group as of September 30, 2007. The map does not include WGC-3 since WGC-3 was not consolidated into the Norilsk Group until August 2007. See "— EnergoPolyus — Business — Power Generation Companies — WGC-3 — History and Development.

The following table shows the names, the nature of business and the addresses of the registered offices of the Norilsk Group's significant subsidiaries as at September 30, 2007. The table does not include WGC-3, in which Norilsk holds a 65.15% shareholding (calculated as of September 30, 2007, including shares held in trust management for the benefit of Norilsk as of such date) that it intends to transfer to EnergoPolyus in the Spin-off, since WGC-3 was not consolidated into the Norilsk Group until August 2007. See "— History and Development". Each of the subsidiaries listed below are expected to continue to be significant subsidiaries of the Norilsk Group immediately following the Spin-off.

Subsidiaries by country of incorporation	Nature of business	Percentage ownership as at September 30, 2007[(1)(2)]	Registered office
		(%)	
Russia			
OJSC RAO Norilsk Nickel	Retail sale of precious and non-precious metals	98.9	1, Korotkaya St., Dudinka, Krasnoyarsk Territory, Russian Federation
OJSC Taimyrgaz	Gas extraction	98.7	24, Lenina Str., Dudinka, Krasnoyarsk Territory, Russian Federation
OJSC Yenisey River Shipping Company	River cargo shipping operations	43.9	15, Bograda St., Krasnoyarsk, 660049, Russian Federation
CJSC NORMETIMPEX	Marketing intermediary	100.0	22, Vosnesensky Pereulok, Moscow 103009, Russian Federation

Subsidiaries by country of incorporation	Nature of business	Percentage ownership as at September 30, 2007(1)(2)	Registered office
		(%)	
OJSC Kola Mining and Metallurgical Company	Mining, processing and metallurgy	100.0	Monchegorsk, Murmansk District, 184507, Russian Federation
OJSC Arkhangelsk Commercial Sea Port	Sea shipping operations	53.1 (53.05)(3)	52, Troitsky Prospekt, Archangelsk 163000, Russian Federation
CJSC Alykel	Air transport	100.0	64, Nansena St., Norilsk, Russian Federation
LLC Institut Gypronickel	Science	100.0	11, Grazhdansky Prospect, St. Petersburg 195220, Russian Federation
OJSC "Norilsky Kombinat"	Lessor of equipment	99.9	Norilsk, Krasnoyarsk Territory, Russian Federation
OJSC "Kombinat "Severonickel"	Lessor of equipment	100.0	Monchegorsk-7, Murmansk Region, Russian Federation
OJSC "Gornometallurgichesky Kombinat "Pechenganickel"	Lessor of equipment	100.0	Zapolyarny, Pechengsky District, Murmansk Region, Russian Federation
CJSC Taimyr Fuel Company	Transportation; storage of oil and oil products	100.0	2-a, Kopylova St., Krasnoyarsk, 660021, Russian Federation
LLC Taimyr Oil Company	Geological research and geochemical works in the sphere of subsoil research	51.0	½, Korotkaya St., Dudinka, Krasnoyarsk Territory, 647000, Russian Federation
OJSC NTPO	Canteens at plants and enterprises	100.0 (99.998)(3)	9, Metallurgov Square, Norilsk, Krasnoyarsk Territory, Russian Federation
OJSC Torginvest	Lease of real estate, vehicles and equipment; storage	100.0 (99.997)(3)	67, Gorkiy St., Dudinka, Krasnoyarsk Territory, 663210, Russian Federation
LLC Norilsk-Telecom	Telephone and teletype communication	100.0	Norilsk, Krasnoyarsk Territory, Russian Federation
LLC Management Company Zapolyarnaya Stolitsa	Design of engineering constructions	100.0	19, Veteranov St., Norilsk, 663310, Russian Federation
LLC Mining Leasing Company	Leasing of equipment	100.0	7/10, bld. 3, Bol. Polyanka St., Moscow, 109180, Russian Federation
LLC Terminal	Servicing of vessels, shipchandlery	100.0	31, Portovy proezd, Murmansk, Russian Federation
LLC National Innovation Company NEP	Design, scientific research, technological study services	74.0	18, Prechistenka St., Moscow, 119034, Russian Federation

Subsidiaries by country of incorporation	Nature of business	Percentage ownership as at September 30, 2007[1][2]	Registered office
		(%)	
OJSC Norilsk-Taimyr Energy Company	Electricity and heat production	100.0	19, Veteranov St., Norilsk, Krasnoyarsk Territory, 663310, Russian Federation
LLC RioNor-Geological Research	Management and commercial activity consulting	51.0	9/1, bld. 16A, B. Spasoglinishchevskiy Pereulok, Moscow, 101000, Russian Federation
LLC Kingashskaya Mining Company	Precious metals extraction	100.0	2-a, Kopylova St., Krasnoyarsk, 660021, Russian Federation
LLC Karelnickel	Precious metals extraction	100.0	City of Monchegorsk — 7, Murmansk Region 184507, Russian Federation
LLC Titan Mining Company	Geological research	100.0	2a, N. Virty St., Tambov, 392020, Russian Federation
LLC Zapolyarnaya Construction Company	Construction and repair works	100.0	14, Oktyabrskaya St., Norilsk, 663316, Russian Federation
LLC Norilskyi obespechivaushyi complex	Producer of spare parts	100.0	ZZHBI Territory, Norilsk, Krasnoyarsk Territory, Russian Federation
LLC Norilskgeologiya	Geological works	100.0	1, LLC Norilskgeologiya, Promzona, Krasnoyarsk Territory, 663330, Russian Federation
LLC GRK Bystrinskoye	Mining	100.0	30, Rabochaya Str., Gazimursky Plant, Gazimursky Plant District, Chita Region, 673630, Russian Federation
OJSC Taimyrenergo	Lessor of equipment	100.0	29, Severny Gorodok, Igarka, Krasnoyarsk Territory, 663200, Russian Federation
LLC Norilsknickelremont	Commissioning and repair of drilling rigs	100.0	2, Gvardeiskaya Square, Norilsk, 663310, Russian Federation
LLC Intergeoproject	Geological research services	100.0	13, bld. 1, Tverskoi Boulevard, Moscow, 123104, Russian Federation
LLC Norilskpromtransport	Transportation services	100.0	6-v,Oktyabrskaya St., Norilsk, Krasnoyarsk Territory, Russian Federation
China			
Norilsk Nickel (Asia) Limited	Distribution	100.0	Unit 6310, 63/F., The Center, 99 Queen's Road Central, Hong Kong

Subsidiaries by country of incorporation	Nature of business	Percentage ownership as at September 30, 2007[(1)(2)]	Registered office
		(%)	
United Kingdom			
Norimet Limited	Investment holding	100.0	51, Eastcheap Street London EC3M 1JP, United Kingdom
Norilsk Nickel Europe Limited	Distribution	100.0	51, Eastcheap Street London EC3M 1JP, United Kingdom
Luxembourg			
Norilsk Nickel Finance Luxembourg S.A.	Financing	100.0	16, Avenue de la Porte Neuve, L-2227 Luxembourg
Australia			
Norilsk Nickel Cawse Pty Ltd	Mining	100.0	Kalgoorlie 6433, Western Australia, Australia
MPI Nickel Limited	Mining	100.0	Level 3, 88 Colin Street, West Perth, WA 6005
Norilsk Nickel Australia Pty Limited	Mining	100.0	Level 3, 88 Colin Street, West Perth, WA 6005
Norilsk Process Technology Pty Limited	Science	100.0	Level 3, 88 Colin Street, West Perth, WA 6005
Switzerland			
Norilsk Nickel Holding S.A.	Investment holding	100.0	50, rue du Rhone, 1204 Geneve, Switzerland
Metal Trade Overseas S.A.	Trading	100.0	20 Bahnhofstrasse, 6300 Zug, Switzerland
USA			
Stillwater Mining Company	Mining	54.01	2711, Centerville Road, Suite 400, Wilmington, DE 19808, USA
Norilsk Nickel USA Inc	Trading	100.0	Suite 330, Building Two, Penn Center West, Pittsburgh, PA 15276, USA
Cyprus			
Norilsk Nickel (Cyprus) Limited	Investment holding	100.0	6, C. Paparigopoulou Street, Maximos Plaza, Tower N.3, 4th Floor, Office 3403, P.C. 3106 Limassol, Cyprus
Canada			
0789970 B.C. Ltd	Investment holding	100.0	1900-355 Burrard Street, Vancouver, BC V6C 2G8, Canada
Finland			
Norilsk Nickel Harjavalta Oy	Mining	100.0	Teollisuuskatu 1, FIN-29200 Harjavalta, Finland
Norilsk Nickel Finland Oy	Investment holding	100.0	Ahventie 4 B, P.O. Box 46 FI-02171 Espoo, Finland

Subsidiaries by country of incorporation	Nature of business	Percentage ownership as at September 30, 2007(1)(2)	Registered office
		(%)	
Botswana			
Tati Nickel Mining Company Pty Limited	Mining	85.0	Ltd Phoenix Mine Site, Administration Building, Tati Nickel Mine, Francistown, Botswana
The Republic of South Africa			
Norilsk Nickel Africa Pty Limited	Mining	100.0	33 Sloane Street, Knightsbridge Manor, Bryanston 2021
Dependent companies			
British Virgin Islands			
Smart Hydrogen Inc.	Investment holding	50.0 (49.995)(3)	4 University Row, Suite #405, Cambridge, Massachusetts 02138, USA

Source: Norilsk

1 Percentage of nominal ownership.

2 Percentages include shares held by Norilsk and entities within Norilsk Group.

3 Exact shareholding without rounding.

Operations

The Norilsk Group operates through its two principal divisions in Russia, and its subsidiaries operate in Australia, Botswana, Finland, the Republic of South Africa and the United States of America:

- The Polar Division and ancillary activities, located in the Taimyr Peninsula;
- The Kola Division and ancillary activities, located in the Kola Peninsula (and incorporating the Pecheneganickel and Severonickel Combines);
- Stillwater Mining Company, located in Columbus, Montana in the United States of America;
- Norilsk Nickel Cawse Pty. Ltd., located in Western Australia;
- Norilsk Nickel Harjavalta Oy, located in Finland; and
- LionOre assets, located in Australia, Botswana and the Republic of South Africa.

Mining

The Norilsk Group currently extracts rich, cuprous and disseminated ores from deposits on the Taimyr and Kola Peninsulas in Russia. These deposits contain a mixture of metals, including nickel, copper, PGMs and gold.

The Norilsk Group currently operates 11 mines on the Taimyr and Kola Peninsulas, which in 2006 produced approximately 21,761 million tonnes of ore, with the majority being produced from the Polar Division mines on the Taimyr Peninsula. In addition, Stillwater Mining Company operates another two mines in the United States of America. The Norilsk Group will seek to maintain at least the current level of production until at least 2015. The Norilsk Group is currently studying opportunities to increase mining and production volumes by increasing the mining of disseminated ores, while maintaining the mining of rich and cuprous ores at current levels. In addition, the Norilsk Group now conducts nickel mining operations in Australia, Botswana, the Republic of South Africa through Norilsk Nickel Cawse Pty. Ltd. and Lion Ore assets.

Metals Production

In 2006, according to the Norilsk Group's estimates, it was, in terms of production volume, the world's leading producer of nickel (approximately 18.0% of global production), the leading producer of palladium (approximately 49.6% of global production), the fourth-largest producer of platinum (approximately 12.6% of global production, making the Norilsk Group the largest producer of platinum outside the Republic of South Africa), and the tenth largest producer of copper (approximately 2.9% of global production). The Norilsk Group also produces cobalt, rhodium, silver, iridium, ruthenium, gold, selenium, tellurium, although revenues from the sale of these metals were not material in 2006 to the Norilsk Group's total sales revenue. In 2006, the Norilsk Group produced 244,000 tonnes of nickel, 425,000 tonnes of copper, 3,627 thousand ounces of palladium, 890 thousand ounces of platinum and 154 thousand ounces of gold.

Reserves and resources

In 2006, Micon International Co. Limited conducted an independent audit of the mineral resources and ore reserves of the Norilsk Group. Based on the results of that audit, as of December 31, 2006, the Norilsk Group had proved and probable reserves of 465.7 million tonnes of ore in the Taimyr and Kola Peninsulas, which contain, in aggregate, 6.06 million tonnes of nickel, 9.13 million tonnes of copper, 63.38 million ounces of palladium, 16.6 million ounces of platinum and 3.26 million ounces of gold.

For a detailed description of the business and operations of Norilsk, shareholders should refer to the annual report of Norilsk for the fiscal year ended December 31, 2006, which is available on the Company's website at http://www.nornik.ru/en. The annual report is incorporated by reference herein. See also "Operating and Financial Review and Prospects of the Norilsk Group".

Strategic Power Assets

If the Spin-off is implemented, the Norilsk Group will retain certain strategic power assets, comprising its subdivision Norilskenergo, a 100% shareholding in OJSC Taimyrenergo, a 98.4% shareholding in JSC Taimyrgaz and a 29.4% shareholding in JSC Norilskgazprom. OJSC Taimyrenergo, which operates two hydroelectric power plants on the Taimyr Peninsula, and Norilskenergo, which operates three thermal power plants on the Taimyr Peninsula and supply energy to Norilsk's mining operations at its Polar Division on the Taimyr Peninsula. Norilskenergo's power plants are gas-fired, and it currently obtains its gas supplies from JSC Taimyrgaz and Norilskgazprom.

Recent Developments

At its meeting on November 2, 2007 the Board of Directors of Norilsk adopted a resolution to hold an extraordinary general shareholders' meeting to vote on declaration of interim dividends for 2007. Such shareholders' meeting will be held on December 21, 2007. The Board of Directors of Norilsk recommended that the shareholders approve the dividends on Norilsk Shares for 9 months of 2007 in the amount of RUB 108 per one Norilsk Share. November 13, 2007 was set as the record date to determine the shareholders entitled to vote at such extraordinary general shareholders' meeting.

Management

In accordance with Russian legislation governing joint stock companies and the Company's charter, the Company's principal governance bodies are the shareholders' meeting, the board of directors, the management board and the General Director. This corporate governance system will not change as a result of the Spin-off.

Board of Directors

The table below shows the current members of the Board of Directors of the Company. The Board of Directors was elected by the Annual General Meeting of shareholders of the Company on June 28, 2007 until the next Annual General Meeting of the Company.

Name	Year of Birth	Position
Andrey A. Klishas	1972	Chairman of the Board of Directors since 2001. From 1998 to 2001, Director on legal issues, Deputy General Director of CJSC Holding Company Interros. From 1999 to 2003, member of the Board of Directors of OJSC AKB Rosbank. From 2000 to 2001, member of the Board of Directors of OJSC Sidanko. From 2001 to 2002, member of the Board of Directors of OJSC Federal Contracting Corporation Roskhleboprodukt. From 2002 to 2005, member of the Board of Directors of OJSC Power Machines — Elektrosila, Energomashexport. From 2003 to 2006, member of the Supervisory Board of LLC Fincom — Investment and Management. Since 1998, member of the Board of Directors of RAO Norilsk Nickel. Since 2001, Chairman of the Board of Directors of RAO Norilsk Nickel. Since 2001, General Director and Chairman of the Management Board of CJSC Holding Company Interros. Since 2002, member of the Board of Directors of CJSC Agricultural Complex Agros. Since 2003, member of the Expert Council under the Interior Ministry of the Russian Federation. Since 2004, Chairman of the Board of Directors of OJSC AKB Rosbank. Since 2006, member of the Board of Directors of OJSC Polyus Gold and LLC Roza Hutor.
Andrei E. Bougrov	1952	Member of the Board of Directors since 2002. Member of the Audit Committee since 2004. From 1993 to 2002, acted as the Representative of the Russian Federation with the World Bank Group, and Executive Director of the International Bank for Reconstruction and Development, International Finance Corporation and Investment Guarantee Agency. From 2002 to 2003, member of the Board of Directors of OJSC Power Machines—Elektrosila, Energomashexport; Chairman of the Board of Directors and President of OJSC AKB Rosbank. From 2002 to 2004, Deputy Chairman of the Management Board of CJSC Holding Company Interros. From 2002 to 2006, member of the Committee on financial markets and credit organizations under the Russian Chamber of Commerce. From 2003 to 2005, member of the Board of Directors of OJSC Russian Utility Systems. From 2003 to 2006, Chairman of the Supervisory Board of LLC Fincom — Investment and Management. From 2003 to 2007, Director of AIG-Interros Advisor, Ltd; Director of AIG-Interros RCF, Ltd. From 2004 to 2006, Chairman of the Board of Directors of CJSC Prof-Media Publishers. From 2004 to 2007, Chairman of the Board of Directors of OJSC Open Investments. In 2005, member of the Board of Directors of OJSC Territorial Generating Company No. 1 and OJSC Power machines — Elektrosila, Energomashexport.

Name	Year of Birth	Position
		Since 2002, member of the Board of the Non-Governmental Public Association Council for external and defense policy, and Board for financial markets and credit organizations under the Russian Chamber of Commerce. Since 2003, member of the Board of Directors of OJSC AKB Rosbank. Since 2004, Managing Director and Member of the Board of Directors of CJSC Holding Company Interros; Member of the Board of Directors of OJSC RAO UESR of Russia. Since 2005, Chairman of the Board of Directors of LLC Prof-Media Management. Since 2006, member of the Board of the Russian Union of Industrialists and Entrepreneurs and the Bureau of Economic Analysis Fund; Member of the Board of Directors of IST Capital GP LLC. Since 2007, Chairman of the Board of Directors of OJSC WGC-3.
Vladimir I. Dolgikh.	1924	Member of the Board of Directors since 2001. From 1966 to 1990, Deputy of the Supreme Soviet of the USSR. From 1969 to 1972, First Secretary of the Krasnoyarsk regional CPSU Committee. In 1972, elected Secretary of the Central Committee of the CPSU. From 1982 to 1988. Candidate to the Political Bureau of the CPSU Central Committee. Since 1992, Chairman of the Management Board, Krasnoyarskoye Zemlyachestvo Society. Since 1999, member of the Board of Directors of RAO Norilsk Nickel. Since 2002, Chairman of the Moscow City Council of Veterans of war, labor, armed forces and law enforcement agencies.
Denis S. Morozov	1973	Member of the Board of Directors since 2007. Chairman of the Management Board and General Director since April 3, 2007. Before joining Norilsk Nickel Group, worked for the Insurance Company Ingosstrakh and Commercial Innovation Bank Alfa Bank. Also held the position of the Director of commercial banking operations department with Joint Stock Commercial Bank International Financial Company. In 1999, came to RAO Norilsk Nickel as the Head of the Corporate structures department. Then served as the Head of the Corporate capital, shareholder and investor relations department of RAO Norilsk Nickel. From 2001 to 2003, Head of the Legal department of Norilsk. From 2002 to 2003, member of the Board of Directors of RAO Norilsk Nickel and Head of staff of the Board of Directors of Norilsk. From 2002 to 2005, member of the Board of Directors of CJSC Polus. From 2002 to 2007, member of the Management Board of RAO Norilsk Nickel. From 2003 to 2005, Deputy General Director, and, from 2005 to 2007, Deputy General Director — member of the Management Board, of Norilsk. From 2006 to 2007, member of the Board of Directors of OJSC Polyus Gold.

Name	Year of Birth	Position
Ralph T. Morgan	1968	Member of the Board of Directors since 2005. Member of the Management Board and Deputy General Director (Head of the Mining and metallurgical business unit, Head of the Strategy and development block) since 2004. From 1995 to April 30, 2004, Moscow Office of McKinsey & Company. Since 2005, Chairman of the Scientific and Technical Council of Norilsk. Since 2006, Chairman of the Board of Directors of Non-commercial organization Institute of Nickel.
Ekaterina M. Salnikova ...	1957	Member of the Board of Directors since 2004. From 1998 to 2003, member of the Supervisory Board of LLC Fincom — Investment and Management. From 1998 to 2004, Director for corporate structures of CJSC Holding Company Interros. From 2000 to 2004, member of the Board of Directors of CJSC Prof-Media Publishers. From 2000 to 2005, member of the Board of Directors of OJSC Power Machines — Elektrosila, Energomashexport. From 2001 to 2003, member of the Board of Directors of CJSC Holding Company Interros. From 2004 to 2005, member of the Board of Directors of CJSC Agricultural Complex Agros. From 2004 to 2006, member of the Board of Directors of OJSC AKB Rosbank. From 2005 to 2007, Deputy Director of the Finance department on corporate governance of CJSC Holding Company Interros. Since 2003, member of the Board of Directors of OJSC Open Investments. Since 2006, member of the Board of Directors of OJSC Polyus Gold and OJSC Power Machines — Elektrosila, Energomashexport.
Guy de Selliers	1952	Member of the Board of Directors since 2002. Chairman of the Audit Committee since 2004. From 1998 to 2001, member of the Board of Directors of NIF Holding. In 2001, member of the Board of Directors of British Titanium. From 2001 to 2005, member of the International Advisory Board of Fortis Group. From 2002 to 2003, Co-Chairman of the Expert group advising the European Commission and the Russian government on energy projects of mutual interest. Since 1993, member of the Board of Directors of Solvay S.A. Since 2000, Chairman of the Board of Trustees of Partners in Hope. Since 2001, member of the Board of Directors of OJSC Wimm Bill Dann Foods. Since 2003, Chairman of the Board of Directors of HB Advisors/Hatch Corporate Finance, member of the Board of Directors of OJSC Furniture Factory Shatura. Since 2005, a non-executive Director of the Allied Resource Corporation.

Name	Year of Birth	Position
Kirill L. Ugolnikov	1961	Member of the Board of Directors since 2005. Member of the Audit Committee since 2005. From 1995 to 2000, Deputy Head of the Federal Tax Inspectorate of the Russian Federation and First Deputy Minister of the Ministry of Tax and Excise of the Russian Federation. Since 2000, Director of Tax Department of CJSC Vneshyurkollegiya and member of the Board of Directors of OJSC Investsberbank.
Heinz Schimmelbusch.	1944	Member of the Board of Directors since 2003. Since 1994, Chairman of the Board and CEO of Allied Resource Corporation (United States). Since 1997, Executive director, partner and founder of Safeguard International Fund L.P. (United States). From 1998, Chairman of the Board of Directors of Metallurg Holdings GmbH, Inc. (CEO since 2002), Chairman of the Board of ALD Vacuum Technologies (Germany). Since 2001, Chairman of the Supervisory Board of Pfal-Flugzengwerke Aerospace AG (Germany). Since 2003, member of the Board of Directors of Millstream Acquisition Corporation and Chairman of the Board of Timminco Limited (Canada).

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law and the Company's charter as being the exclusive responsibility of the shareholders' meeting. See "Description of Norilsk Capital Stock — Shareholders' meetings". Members of the Board of Directors are elected at the Company's annual shareholders' meeting until the next annual shareholders' meeting and may be re-elected an unlimited number of times. The Board of Directors consists of nine members, four of whom are independent in accordance with criteria, based on the corporate governance recommendations of the FCSM (the predecessor of the FSFM), set out in the Company's charter.

Audit Committee

The Audit Committee of the Board of Directors of Norilsk was established in December 2004 in order to assist the Board of Directors in supervising the financial and operating activities of the Company by through the preliminary consideration of issues and the preparation of recommendations to the Board of Directors. In accordance with international corporate governance practices, only independent and non-executive members of the Board of Directors may be appointed to the Audit Committee, and its chairman must be an independent director at the meeting. The current members of the Audit Committee are Guy de Selliers (an independent director and Chairman of the Audit Committee), Andrei Bougrov (a non-executive director), and Kirill Ugolnikov (an independent director).

Management Board

The Company's management board (the "Management Board") comprises its collective executive body and will continue to fulfil this function following the Spin-off. The Management Board is appointed by the Board of Directors, and its members serve until their resignation or dismissal from the Company. The Management Board meets as necessary and makes its decisions by simple majority, provided that a quorum of half of the appointed members of the Management Board is present. Members of the Management Board are responsible for the Company's day-to-day management and administration. The Chairman of the Management Board represents the Company and acts as its Chief Executive Officer (General Director).

The table below shows the members of the Management Board of the Company as at November 2, 2007.

Name	Year of Birth	Position
Denis S. Morozov	1973	General Director and Chairman of the Management Board since 2007. See "— Board of Directors" for a biography of Mr. Morozov.
Maxim V. Finsky	1966	Member of the Management Board and Deputy General Director since 2001. Head of the Geology business unit. From 1998 to 2001, Head of the Client relations department, Director of the Commercial banking operations, Deputy Chairman of the Management Board, First Deputy Chairman of AKB International Financial Company. From 2000 to 2002, member of the Board of Directors of OJSC International Financial Company. From 2001 to 2002, Chairman of the Board of Directors of OJSC Babaevsky Confectionery Concern. From 2002 to 2003, member of the Board of Directors of OJSC Murmansk Sea Shipping Company. From 2002 to 2005, member of the Board of Directors of International Platinum Association. From 2004 to 2006, Chairman of the Board of Directors of Metal Trade Overseas SA. Since 2006, Chairman of the Board of Directors of LLC RioNor-Geologorazvedka.
Igor A. Komarov	1964	Member of the Management Board and Deputy General Director since 2002. Head of the Finance and economics block. From 2000 to 2002, Deputy Chairman of the Management Board of OJSC AKB Savings Bank of the Russian Federation. From 2002 to 2004, member of the Board of Directors of OJSC AKB Rosbank. Since 2003, member of the Management Board of the National Organization for Financial Accounting and Reporting Standards Fund.
Yuri A. Kotlyar	1938	Member of the Management Board since 2001. From 1997 to 2001, First Deputy General Director of RAO Norilsk Nickel. From 1999 to 2003, member of the Board of Directors and Chairman of the Board of Directors of RAO Norilsk Nickel. From 2001 to 2002, General Director and member of the Management Board of LLC Gipronickel Institute. Since 2001, General Director and Chairman of the Management Board of RAO Norilsk Nickel.
Ralph T. Morgan	1968	Member of the Management Board and Deputy General Director since 2004. Head of the Mining and metallurgical business unit, Head of the Strategy and business development block. See "— Board of Directors" for a biography of Mr. Morgan.

Name	Year of Birth	Position
Jacques I. Rozenberg .	1943	Member of the Management Board and Deputy General Director since 2001. Head of the Technical regulation and ecology block. From 1998 to 2000, Deputy General Director of RAO Norilsk Nickel. From 1998 to 2003, member of the Board of Directors of OJSC Norilskgasprom. From 1999 to 2003, member of the Scientific and Technical Council of LLC Gipronickel Institute. In 2001, member of the Board of Directors of CJSC Normetimpex. From 2001 to 2003, Chairman of the Scientific and Technical Council of Norilsk.
Victor E. Sprogis	1961	Member of the Management Board and Deputy General Director since 2001. Head of the Sales business unit. From 2000 to 2001, First Deputy General Director of OJSC Raznoimport.
Viktor P. Tomenko. . . .	1971	Member of the Management Board since 2006. Director of the Polar Division since 2004. From 2000 to 2005, member of the Board of Directors of OJSC Norilsk Trade and Production Association and OJSC Torginvest. From 2001 to 2002, member of the Board of Directors of OJSC Kola MMC, OJSC Krasnoyarsk branch of Norilsk and OJSC Novolipetsk Metallurgical Combine and Deputy General Director of the Polar Division of Norilsk for economics and finance. From 2001 to 2003, member of the Board of Directors of OJSC Norilskgasprom. From 2002 to 2004, First Deputy General Director and Chairman of the Management Board of the Polar Division of Norilsk. From 2003 to 2005, member of the Board of Directors of OJSC Agricultural and Construction Complex Tes. From 2003 to 2006, Director of OJSC Zavenyagin Norilsk Mining Combine.

Shareholdings of members of Norilsk's Board of Directors and Management Board

The table below shows the shares of Norilsk held directly by the current members of its Board of Directors and Management Board as at September 30, 2007.

Name and position	Number of shares	Proportion of issued share capital
		(%)
J.I. Rozenberg, Member of the Management Board	897	0.000471
V.I. Dolgikh, Member of the Board of Directors.	479	0.000251
V.P. Tomenko, Member of the Management Board.	261	0.000137
D.S. Morozov, Member of the Board of Directors, General Director and Chairman of the Management Board.	7	0.000004
Total held by members of the Management Board and the Board of Directors	**1,644**	**0.000863**

Employees

As at June 30, 2007, the Norilsk Group had 82,919 employees, 55,166 of whom were based in the Norilsk Industrial Area, 25,508 elsewhere in Russia and 2,245 outside Russia. This total does not include the 5,291 employees of WGC-3 as of June 30, 2007, since WGC-3 was not consolidated into the Norilsk Group until August 2007 (See "—History and Development"). Excluding these WGC-3 employees, management does not expect that the aggregate number of employees of the Norilsk Group will change as a result of the Spin-off.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE NORILSK GROUP

The table below shows financial information of the Norilsk Group as at and for the years ended December 31, 2006, 2005 and 2004 and for the six months ended June 30, 2007 and 2006, which are extracted without material adjustments from the Norilsk Group's consolidated financial statements.

The selected financial data should be read in conjunction with "Operating and Financial Review and Prospects of the Norilsk Group" and the Norilsk Group's consolidated financial statements (including the notes thereto) included elsewhere in this Information Statement.

	For the six months ended June 30,		For the years ended December 31,		
Consolidated income statement data highlights	**2007**	**2006(1)**	**2006(1)**	**2005(1)**	**2004(1)**
	(millions of U.S. dollars, except earnings per share amounts as indicated)				
Metal sales	**7,645**	**4,191**	**11,550**	**7,169**	**6,591**
Cost of metal sales	(1,805)	(1,375)	(3,158)	(2,994)	(2,938)
Gross profit on metal sales	**5,840**	**2,816**	**8,392**	**4,175**	**3,653**
Selling, general and administrative expenses	(668)	(472)	(1,090)	(841)	(821)
Other net operating expenses	(148)	(133)	(272)	(156)	(294)
Operating profit	**5,024**	**2,211**	**7,030**	**3,178**	**2,538**
Net finance (cost)/benefit	(52)	2	(21)	(121)	(37)
Net income/(loss) from investments	68	(368)	(199)	57	38
Share of profits/(losses) of associates	34	6	(33)	2	(32)
Profit before income tax	**5,074**	**1,851**	**6,777**	**3,116**	**2,507**
Income tax	(1,266)	(477)	(1,805)	(838)	(642)
Profit for the period from continuing operations	**3,808**	**1,374**	**4,972**	**2,278**	**1,865**
Profit/(loss) for the period from discontinued operation(2)	—	993	993	74	(8)
Profit for the period	**3,808**	**2,367**	**5,965**	**2,352**	**1,857**
Attributable to:					
Shareholders of the parent company	3,792	2,370	5,989	2,355	1,878
Minority interest	16	(3)	(24)	(3)	(21)

Notes:

1 Certain comparative information, presented in information statement for the periods before the six months ended June 30, 2007, has been reclassified. Management has chosen to present loss on disposal of investments in subsidiaries, previously presented within net loss from investments, donations and expenditures on maintenance of social sphere facilities, previously presented within other non-operating expenses, within net operating expenses. In addition, all exchange differences related to financing activities were reclassified to net finance benefit/(cost). In previous reporting periods share of profits of associates was not presented separately in the consolidated income statement, but included in net income/(loss) from investments. Commencing 2007 it is presented separately in consolidated income statement.

2 Due to the spin-off of the gold mining assets the financial results of the Polus Group intended for disposal were presented separately as profit/(loss) for the period from discontinued operation. Income statement for the year ended December 31, 2004 was changed accordingly.

	For the six months ended June 30,		For the years ended December 31,		
	2007	2006	2006	2005	2004
	(millions of U.S. dollars, except earnings per share amounts as indicated)				
EARNINGS PER SHARE					
Weighted average number of ordinary shares in issue during the period	181,417,913	188,750,738	188,767,177	201,242,833	210,642,516
Basic and diluted earnings per share from continuing and discontinued operations attributable to shareholders of the parent company (US dollars)	20.9	12.6	31.7	11.7	8.9
Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent company (US dollars)	20.9	7.3	26.5	11.3	8.9
Consolidated cash flow data highlights for the period					
Net cash generated from operating activities	3,399	1,791	5,647	2,961	2,486
Net cash (used in)/generated from investing activities	(3,517)	1,548	378	(1,427)	(2,010)
Net cash generated from/(used in) financing activities	5,398	(3,259)	(4,909)	(1,873)	42
Consolidated balance sheet data highlights					
Cash and cash equivalents	7,573	1,061	2,178	922	1,346
Total assets	34,717	12,941	16,279	14,730	13,632
Total debt (long-term and short-term borrowings, bank overdrafts and capitalized finance leases)					
Long-term borrowings	4,119	629	632	635	657
Total liabilities	17,254	2,866	3,143	3,333	2,989
Total shareholders' equity	17,463	10,075	13,136	11,397	10,643
Equity attributable to shareholders of the parent company	16,508	9,773	12,817	11,063	10,277
Minority interest	955	302	319	334	366

Source: Norilsk

OPERATING AND FINANCIAL REVIEW AND PROSPECTS OF THE NORILSK GROUP

Investors should read the following discussion and analysis together with "Selected Financial Information of the Norilsk Group" and the Norilsk Group's financial statements and the notes thereto included in this Information Statement.

The following discussion and analysis of the Norilsk Group's financial condition and results of operations includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause the actual results to differ materially from the results described in the forward-looking statements contained in this Information Statement.

Overview

The Norilsk Group is one of the world's premier metals and mining operations and one of the leading producers of nickel and palladium and a major producer of platinum and copper. In addition to this, the Norilsk Group also produces a variety of by-products, such as cobalt, rhodium, silver, iridium and ruthenium. The Norilsk Group's nickel reserve base is one of the largest in the world and its ore deposits contain a rich mixture of other valuable resources. The Norilsk Group conducts mining, concentrating and metallurgical activities relating to base metals and PGMs, as well as gold, through its Polar Division on the Taimyr Peninsula in Northern Siberia and through its Kola Division on the Kola Peninsula in the North-West region of Russia. In addition, the Norilsk Group mines, processes and refines PGMs in southern Montana in the United States of America through its U.S. subsidiary, Stillwater Mining Company. The Norilsk Group houses the recently acquired international nickel assets, with mining, processing and refining operations covering Finland, Australia, Botswana and the Republic of South Africa. In 2006, the Norilsk Group produced 244 thousand tonnes of nickel, 425 thousand tonnes of copper, 3,627 thousand ounces of palladium, 890 thousand ounces of platinum and 154 thousand ounces of gold.

Significant factors affecting the results of operations

The Norilsk Group's performance is affected by a number of external factors, including the demand and price for its products in the markets in which it operates, macroeconomic trends, production costs and currency exchange fluctuations. For a description of these and other factors affecting the Norilsk Group's business and financial results, see "Risk Factors".

The majority of the Norilsk Group operations are located in Russia. Therefore, some Russian macroeconomic trends influence the Norilsk Group's results of operations including, for example, inflation, which has resulted in increased costs, such as salaries, that are linked to general price levels in Russia. While all of the Norilsk Group's revenues are either denominated in, or tightly linked to, the U.S. dollar, a significant proportion of the Norilsk Group's costs and expenditures are incurred in rubles. As a result, the strengthening of the ruble against the U.S. dollar has contributed to the increase in some expenses of the Norilsk Group when converted from rubles to U.S. dollars. In 2005, 2006 and the six months ended June 30, 2007 the ruble decreased by 3.7%, and increased by 8.5% and 2%, respectively, against the U.S. dollar.

Taxation

Generally, in accordance with the laws of the Russian Federation, tax declarations remain open and subject to inspection for a period of three years following the end of the tax year.

Russian tax legislation is subject to varying interpretations and changes, which can and do occur frequently. The management of the Company believes that the Norilsk Group has adequately provided for tax liabilities in its financial statements. The risk remains, however, that the relevant authorities could take differing positions with regard to interpretive issues, which could have a significant effect on the financial condition or results of operations of the Norilsk Group.

Acquisitions

During the periods under review, the Norilsk Group acquired ownership interests in the following companies:

Strategic acquisitions of interests in energy companies and related opportunities

In June 2005, the Norilsk Group acquired an additional 2.5% of RAO UESR for a total consideration of USD 326 million, raising its total equity stake in RAO UESR to 3.5%.

In order to secure reliable energy supplies for the Norilsk Group's operations in the Taimyr Peninsula the Norilsk Group acquired 100% of the ordinary shares of OJSC Taimyrenergo at an open auction in July 2006.

In 2006, Smart Hydrogen Incorporated, BVI, a joint venture formed by Norilsk and CJSC "Holding Company Interros", acquired 35% of stake in Plug Power, a US developer of environmentally safe and reliable energy products.

In March 2007, the Norilsk Group increased its ownership interest in WGC-3 from 14.6% to 46.62% (which together with shares held in trust management for the benefit of Norilsk constituted 46.88%), and, on May 2, 2007, Norilsk launched a mandatory tender offer to all WGC-3 shareholders to purchase their shares in WGC-3. As a result of the completion of the tender process in August 2007 and the subsequent acquisition of shares in WGC-3 from RAO UESR, the Norilsk Group increased its total stake in WGC-3 to a controlling interest of 65.15% (including shares held in trust management for the benefit of Norilsk), and, as a result, WGC-3 was consolidated into the Norilsk Group in August 2007.

Acquisition of international nickel assets

In March 2007, the Norilsk Group acquired the ex-OM Group's nickel business. As a result, the Norilsk Group as of September 30, 2007, owned Norilsk Nickel Cawse Pty. Ltd. (which mines and processes nickel in Australia), and Norilsk Nickel Harjavalta Oy (which operates a nickel processing plant in Finland), as well as a stake of 20% in MPI Nickel Pty. Ltd. (which operates nickel mines in Australia) and 4% of ordinary shares of Talvivaaran Kaivososakeyhtiö and a debt interest convertible up to a maximum of 7% of ordinary shares of Talvivaaran Kaivososakeyhtiö (which operates a biological heap-leaching project in Finland). As a result of IPO of Talvivaaran in May 2007, the Norilsk Group's ownership interest was diluted to 5.5% of Talvivaaran's stake.

During June – August 2007, the Norilsk Group acquired 100% of the common shares of LionOre Mining International Ltd ("LionOre"), an international nickel producer with operations in Australia, Botswana and the Republic of South Africa. In 2006, LionOre produced 34,094 tonnes of nickel.

Geological exploration

From year to year, the Norilsk Group continues to focus on the increase and diversification of its mineral resource base, as well as on gaining the best international experience in mineral exploration. Nowadays, mineral exploration is carried out in copper-porphyry-gold, molybdenum porphyry and skarn deposits in Siberia and the Far East, as well as in nickel deposits in Southern Siberia.

Bystrinskoye deposit

Bystrinskoye deposit is located in the southeast part of the Chita region close to northeast China.

Copper-gold skarn and gold-copper-porphyry mineralization have been explored since 2005 and drilling has been completed to generally 300 meters and locally to 500 meters depth. The deposits are rich in copper, gold, silver and iron.

An independent audit of exploration results and copper, iron, silver and gold reserves and resources was carried out by Micon International Co. Ltd. (Micon) according to JORC Code standards, and covered Upper Ildikan, Bystrinskoe-2, Yuzhno-Rodstvenniy and Little Copper Kettle areas of the Bystrinskoe deposit. These studies have shown that the deposits can be mined by open pit methods. At the end of December 2006, Bystrinskoe reserves and resources were also approved by the State Reserves Committee (Gosudarstvennaia Komissia Po Zapasam) of Russian Federation (GKZ).

In order to support the development of the resources, the Russian Government (under the Governmental Resolution No 1708) has taken the decision to co-finance the building of an access railway in the project area. On the terms of a state-private partnership, the Investment Fund of the Russian Federation will finance 69% of the construction cost of the railway connecting the deposits in the south Chita region with the Trans-Siberian Railway. Norilsk will invest the remaining 31%. The total amount of financing is estimated at USD 1,981 million (at ex-rate 26 RUB per 1 USD). The railway would allow accelerated exploration of the deposits and creation of a large copper business in the southeast of Russia. The length of the railway is expected to be 375 kilometers.

The new transportation route will substantially enhance the development of both the region and the deposits to be developed by Norilsk.

Currently, the Norilsk Group continues exploration works in the region.

Kingash Nickel Project

Kingash is located in the Krasnoyarsk Territory of southern Siberia, approximately 200 kilometers southeast of the commercial center of Krasnoyarsk, a significant industrial and transportation center.

Exploration over the last year has identified this area as one of few remaining under-explored nickel sulphide belts in the world with excellent potential for large tonnage nickel-copper-PGM deposits amenable to open pit mining. There is also good potential for smaller associated massive sulphide bodies (rich ores).

In 2007, the Norilsk Group plans to:

- define the resources and reserves of the Upper Kingash and Kuyev deposits according to GKZ and JORC requirements;
- begin drilling at the Kuskansky area;
- a helicopter electromagnetic survey (AeroTEM) will be flown to search for high grade (rich) deposits; and
- extend exploration southeast throughout the license areas.

International geological cooperation in Russian Federation

In January 2006, a joint venture agreement was signed between the Norilsk Group and Rio Tinto, one of the largest global mining companies. The joint venture is focused on:

- finding potentially attractive geological exploration projects in the agreed Russian regions;
- further analysis of such projects and related mineral exploration; and
- organized development of such deposits, provided that they prove benefits for both partners.

Project identification and analysis are coordinated by LLC "RioNor-Geologorazvedka" (Norilsk — 51% and Rio Tinto — 49%) which was established by the partners. Any future development will be conducted by separate entities, where 50%+1 share will be controlled by Norilsk and 50%–1 share — by Rio Tinto.

Currently, LLC "RioNor-Geologorazvedka" is studying potential projects in southern parts of Siberia and the Far East Federal regions of the Russian Federation.

The combination of the natural resources to which the Norilsk Group has access and the technical exploration and mining skills of Rio Tinto opens new perspectives for the mining industry, ensuring favorable conditions for geological exploration, mineral deposit development and the development of national resources.

In June 2006, the Norilsk Group signed a cooperation agreement with BHP Billiton — the largest global resource development company. At the initial stage, the partners are focused on identifying attractive sites for geological exploration in Western Siberia and the North-Western regions of the Russian Federation. Upon confirmation of the investment potential of each separate project, a local company will be established for further mineral exploration and development of the respective deposit. Such company will be controlled as follows: 50%+1 share will be held by Norilsk and 50%–1 share by BHP Billiton.

These joint efforts will allow the Norilsk Group to capitalize on the strengths of each of its joint venture partners with maximum benefit. As the largest Russian mining company Norilsk has all the appropriate knowledge and experience to successfully operate in the Russian Federation. BHP Billiton contributes its world-class geological exploration technologies and deposit development experience to this alliance.

Disposals

In March 2006, the Norilsk Group transferred all of its shares in its gold-mining subsidiary, CJSC Polus, together with a cash contribution of RUB 10 billion (approximately USD 360 million), to OJSC Polyus Gold, a newly-formed Russian open joint stock company, as part of the spin-off. The spin-off consolidated the Norilsk Group's gold mining subsidiaries into OJSC Polyus Gold.

The financial performance of the Polus Group was reflected in the consolidated financial statements of the Norilsk Group as follows:

Consolidated income statement

- The financial results of operations of the Polus Group for the period from January 1, 2006 to March 17, 2006 (date of completion of the spin-off transaction) were consolidated and shown separately as income for the period from discontinued operation.
- The financial results of operations of the Polus Group for the year ended December 31, 2005 were consolidated and shown separately as income for the year from discontinuing operation.
- The financial results of operations of the Polus Group for the year ended December 31, 2004 were consolidated and shown separately as income for the year from discontinuing operation.

Consolidated balance sheet

- The consolidated balance sheet of the Norilsk Group as at December 31, 2006 was presented excluding the Polus Group data effective from March 17, 2006.
- The consolidated balance sheet of the Norilsk Group as at December 31, 2005 was presented with the Polus Group data being disclosed separately as assets and liabilities of the disposal group.
- The consolidated balance sheet of the Norilsk Group as at December 31, 2004 was presented with Polus Group data being included in the balance sheet as a subsidiary of the Norilsk Group.

Consolidated cash flow statement

- The consolidated cash flow statement of the Norilsk Group for the year ended December 31, 2006 was presented inclusive of the Polus Group data for the period from January 1, 2006 to March 17, 2006.
- The consolidated cash flow statements of the Norilsk Group for the two years ended December 31, 2004 and 2005 were presented inclusive of the Polus Group data for the full years ended December 31, 2004 and 2005.

Results of operations

The following sets forth the components of the Norilsk Group's revenues and expenses.

Metal sales revenue

The Norilsk Group derives revenue from the sale of joint product metals consisting of nickel, copper, palladium, platinum and gold. Metal sales revenue represents the net invoiced value for all joint product metal supplied to customers, net of value added tax. Revenue from the sale of by-products, consisting of cobalt, rhodium, ruthenium, iridium and silver, is netted-off against production costs.

Cost of metal sales and gross profit

Cost of metal sales include:

- on-mine and concentrating costs, including labour costs, costs of consumables and spares, repairs and maintenance costs, insurance, utilities, tailing pile maintenance and relocation costs, transportation costs, rent expenses and sundry on-mine and concentrating costs;
- smelting costs, including labour costs, costs of consumables and spares, non-ferrous scrap metal purchased costs, platinum group scrap metals purchased costs, insurance costs, utilities costs, external tolling costs, repairs and maintenance costs, transportation costs, rent expenses and sundry smelting costs;

- treatment and refining costs, including cost of purchased concentrate, labour costs, cost of consumables and spares, platinum group metals toll refining costs, utilities, insurance, repairs and maintenance, transportation costs, rent expenses and sundry treatment and refining costs;
- other costs, including costs of refined metals purchased from third parties, tax on mining and pollution levies, exploration expenses, costs of transportation of metals and other costs;
- amortization and depreciation of operating assets; and
- change in metal inventories.

Gross profit represents metal sales revenue less cost of metal sales.

Unit cost of production

Production costs are allocated among joint products based on the following key principles:

- all mining and processing costs are allocated among the five joint products, comprising nickel, copper, palladium, platinum and gold, using the Relative Sales Value (RSV) of joint products produced as a mechanism for the allocation. The RSV of joint products is calculated as the actual saleable production during the period multiplied by the ruling market prices on the London Metal Exchange, the London Platinum and Palladium Market or the London Bullion Market Association over the same period;
- all mining and processing costs allocated to joint products are reduced by the sales revenue generated from by-products, including cobalt, rhodium, ruthenium, iridium and silver, as well as the net realizable value of any by-product stock holdings at period end; and
- unit cost of production for each joint product is then calculated by dividing the net production cost related to that joint product by the actual saleable output of that joint product.

Selling, general and administrative expenses

Selling, general and administrative expenses include export customs duties; salaries; taxes other than mining, income taxes and pollution levies; advertising; external research and development; transportation expenses; consulting and other professional services; legal and audit services; commission paid; repairs and maintenance; amortization and depreciation; and insurance and other expenses.

Other net operating expenses

Other net operating expenses include loss on disposal of property, plant and equipment; maintenance of social sphere facilities; donations; change in allowance for value added tax recoverable; change in provision for impairment of property, plant and equipment; foreign exchange gain/loss related to the operating activity; change in allowance for doubtful debts; change in provision for tax penalties; operating profit/loss of non-mining entities and other gains and losses.

Operating profit

Operating profit is gross profit less selling, general and administrative expenses and other net operating expenses.

Profit before income tax

Profit before income tax is operating profit less/add net finance cost/benefit, net income/loss from investments and share of profits/losses of associates. Finance cost/benefit principally comprises interest paid on the Norilsk Group's outstanding debt facilities, related foreign exchange gain/loss and expenses associated with the arrangement and maintenance of these facilities.

Taxation

The principal liability of the Norilsk Group, as shown in the consolidated financial statements for the periods under review, consists of income taxes of the Russian Federation, as well as income taxes of the Company's subsidiaries in Australia, Finland, Switzerland, Cyprus and the United States. As a legal entity incorporated in the Russian Federation, the Company had its taxable profits taxed at a rate of 24% in the periods under review.

The charge for taxation is based on the taxable profit for each period and takes account of deferred tax attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Profit for the period from continuing operations

Profit for the period from continuing operations is profit after income tax.

Profit/(loss) for the period from discontinued operation

Due to the spin-off of the gold mining assets the financial results of the Polus Group intended for disposal were presented separately in the respective sections of the financial statements.

Profit for the period

Profit for the period is profit from continuing and discontinued operations.

Consolidated Financial Results Overview

The following table sets forth a summary of the Norilsk Group's consolidated financial results for the years ended December 31, 2006, 2005 and 2004 and for the six months ended June 30, 2007 and 2006.

(US Dollars million)	Six months ended June 30, 2007	Six months ended June 30, 2006[1]	Year ended December 31, 2006[1]	Year ended December 31, 2005[1]	Year ended December 31, 2004[1]
Metal sales					
Nickel	5,254	2,026	6,228	3,674	3,564
Copper	1,174	1,095	2,841	1,644	1,265
Palladium	660	559	1,265	914	1,005
Platinum	512	474	1,116	864	706
Gold	45	37	100	73	51
Metal sales	**7,645**	**4,191**	**11,550**	**7,169**	**6,591**
Cost of metal sales	(1,805)	(1,375)	(3,158)	(2,994)	(2,938)
Gross profit on metal sales	**5,840**	**2,816**	**8,392**	**4,175**	**3,653**
Selling, general and administrative expenses	(668)	(472)	(1,090)	(841)	(821)
Other net operating expenses	(148)	(133)	(272)	(156)	(294)
Operating profit	**5,024**	**2,211**	**7,030**	**3,178**	**2,538**
Net finance (cost)/benefit	(52)	2	(21)	(121)	(37)
Net income/(loss) from investments	68	(368)	(199)	57	38
Share of profits/(losses) of associates	34	6	(33)	2	(32)
Profit before income tax	**5,074**	**1,851**	**6,777**	**3,116**	**2,507**
Income tax	(1,266)	(477)	(1,805)	(838)	(642)
Profit for the period from continuing operations	**3,808**	**1,374**	**4,972**	**2,278**	**1,865**
Profit/(loss) for the period from discontinued operation[2]	—	993	993	74	(8)
Profit for the period	**3,808**	**2,367**	**5,965**	**2,352**	**1,857**
Attributable to:					
Shareholders of the parent company	3,792	2,370	5,989	2,355	1,878
Minority interest	16	(3)	(24)	(3)	(21)

Notes:

1 Certain comparative information, presented in the information statement for the periods before the six months ended June 30, 2007, has been reclassified. Management has chosen to present a loss on disposal of investments in subsidiaries, which previously presented within net loss from investments, donations and expenditures on maintenance of social sphere facilities and was previously presented within other non-operating expenses, within net operating expenses. In addition, all exchange differences related to financing activities were reclassified to net finance benefit/(cost). In previous reporting periods, the share of profits of associates was not presented separately in the consolidated income statement, but included in net income/(loss) from investments. Commencing 2007 it is presented separately in consolidated income statement.

2 Due to the spin-off of the gold mining assets the financial results of the Polus Group intended for disposal were presented separately as profit/(loss) for the period from discontinued operation. Income statement for the year ended December 31, 2004 was changed accordingly.

Results of operations for the six months ended June 30, 2007 compared with the six months ended June 30, 2006

Metal sales

In the six months ended June 30, 2007, revenue from metal sales totalled USD 7,645 million, which represented an 82% increase as compared to the six months ended June 30, 2006. There are two major factors for the revenue growth in the six months ended June 30, 2007. The first and main factor which contributed 75% of the growth was the overall increase of sales prices for the metals produced by the Norilsk Group. The second factor that accounted for about 7% of the growth (or 11,000 tonnes nickel and 2,000 tonnes of copper) was the acquisition on 1 March, 2007 of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries).

The favorable situation in the metals market, expansion of the production and sales geography and the focus on end customers enabled the Norilsk Group to realise a revenue increase for all metals of USD 3,454 million, of which USD 3,307 million (or 96%) was for base metals, and USD 147 million (or 4%) for platinum group metals and gold.

Adjusted [1] average selling prices of metals (excluding Polus Group) for the period

Metal	Six months ended June 30, 2007	Six months ended June 30, 2006	% change p-o-p[2]
Norilsk			
Nickel (US Dollars per tonne)[1]	44,708	17,330	158
Copper (US Dollars per tonne)	6,770	5,848	16
Palladium (US Dollars per ounce)	356	326	9
Platinum (US Dollars per ounce)	1,214	1,083	12
Gold (US Dollars per ounce)	666	583	14
Stillwater Mining Company			
Palladium (US Dollars per ounce)	374	265	41
Platinum (US Dollars per ounce)	1,048	1,048	—
Gold (US Dollars per ounce)	661	—	n/a
Harjavalta Nickel Oy [3]			
Nickel (US Dollars per tonne)	47,340	—	n/a
Copper (US Dollars per tonne)	6,850	—	n/a

Physical volumes of metal sales (excluding Polus Group) for the period

Metal	Six months ended June 30, 2007	Six months ended June 30, 2006	% change p-o-p[2]
Norilsk			
Nickel ('000 tonnes)[1]	103	117	(12)
Copper ('000 tonnes)	172	187	(8)
Palladium ('000 ounces)	1,545	1,446	7
Platinum ('000 ounces)	314	336	(7)
Gold ('000 ounces)	62	63	(2)
Stillwater Mining Company			
Palladium ('000 ounces)	294[4]	332[4]	(11)
Platinum ('000 ounces)	125	105	19
Gold ('000 ounces)	6	—	n/a
Harjavalta Nickel Oy[3]			
Nickel ('000 tonnes)	11	—	n/a
Copper ('000 tonnes)	2	—	n/a

Notes:

1 Excluding the sales of metal purchased from third parties.

2 Period-on-period (p-o-p) comparison.

3 Information presented for the period from March 1, 2007 (date of acquisition) to June 30, 2007.

4 Including nil, 63 and 63 thousand troy ounces of palladium sold in the six months ended June 30, 2007, the six months ended June 30, 2006 and 2006, respectively received from Norilsk in 2003 as part of the purchase consideration paid for the acquired shares of Stillwater Mining Company.

Nickel

The revenue from nickel sales increased by 159% and reached USD 5,254 million in the six months ended June 30, 2007 as compared to USD 2,026 million in the six months ended June 30, 2006 due to a significant growth in the adjusted average selling price of nickel by 158% — from USD 17,330 per tonne in the six months ended June 30, 2006 to USD 44,708 per tonne in the six months ended June 30, 2007. During the six months ended June 30, 2007 the physical volume of nickel sales (excluding sales of metal purchased from third parties) decreased by 3% (or 3,000 tonnes) to 114,000 tonnes as compared to 117,000 in the six months ended June 30, 2006, of which 10% (or 11,000 tonnes) was generated by the acquisition of the ex-OM Group nickel subsidiaries.

Copper

Revenue from copper sales increased by 7% from USD 1,095 million in the six months ended June 30, 2006 to USD 1,174 million in the six months ended June 30, 2007. In the six months ended June 30, 2007, a decrease in physical copper sales by 7% (or 13,000 tonnes) to 174,000 tonnes as compared to 187,000 tonnes in the six months ended June 30, 2006 was offset by an increase in the average selling price by 16% from USD 5,848 per tonne in the six months ended June 30, 2006 to USD 6,770 in the six months ended June 30, 2007.

Palladium

Palladium sales increased by 18% from USD 559 million in the six months ended June 30, 2006 to USD 660 million in the six months ended June 30, 2007.

Palladium sales excluding sales of Stillwater Mining Company increased by 17% from USD 471 million in the six months ended June 30, 2006 to USD 550 million in the six months ended June 30, 2007. In physical terms, sales of palladium produced by the Norilsk Group in Russia amounted to 1,545,000 ounces in the six months ended June 30, 2007, which is 7% higher compared to the sales for the six months ended June 30, 2006 which amounted to 1,446,000 ounces. This increase in physical sales was supported by the growth of the average sales price.

Palladium sales by Stillwater Mining Company increased by 25% from USD 88 million in the six months ended June 30, 2006 to USD 110 million in the six months ended June 30, 2007. The increase in revenue is explained by a 41% growth in the average sales price which was partially offset by 11% decrease in physical volumes of sales, which was due to the sales in previous periods of metal received by the company from the Norilsk Group as part of the purchase price consideration paid for the acquisition of Stillwater Mining Company shares, and an increase in the sales of palladium received from processing scrap. In the six months ended June 30, 2007, Stillwater Mining Company sold 294,000 ounces of palladium as compared to 332,000 ounces in the six months ended June 30, 2006, including 63,000 ounces received from the Norilsk Group in 2003.

Platinum

Platinum sales increased by 8% from USD 474 million in the six months ended June 30, 2006 to USD 512 million in the six months ended June 30, 2007.

Sales of platinum produced by the Norilsk Group in Russia increased by 5% from USD 364 million in the six months ended June 30, 2006 to USD 381 million in the six months ended June 30, 2007. The increase is explained mainly by the growth of the sales price by 12% from USD 1,083 per ounce in the six months ended June 30, 2006 to USD 1,214 per ounce in the six months ended June 30, 2007. There was a slight decline in the physical sales volume by 7% (or 22,000 ounces) from 336,000 ounces in the six months ended June 30, 2006 to 314,000 ounces in the six months ended June 30, 2007.

Platinum sales by Stillwater Mining Company increased by 19% from USD 110 million in the six months ended June 30, 2006 to USD 131 million in the six months ended June 30, 2007. The main growth factor is the increase of sales in physical terms by 19% (or 20,000 ounces) from 105,000 ounces in the six months ended June 30, 2006 to 125,000 ounces in the six months ended June 30, 2007, which relates primarily to the growth of sales of platinum received from processing secondary material.

Gold (excluding Polus Group)

Gold sales increased by 22% from USD 37 million in the six months ended June 30, 2006 to USD 45 million in the six months ended June 30, 2007. The increase is explained mainly by an increase in sales prices of 14% from USD 583 per ounce in the six months ended June 30, 2006 to USD 666 per ounce in the six months ended June 30, 2007. In physical terms, sales of gold produced by the Norilsk Group in Russia amounted to 62,000 ounces and by Stillwater Mining Company to 6,000 ounces or 68,000 ounces in total as compared to 63,000 ounces of gold sold in the six months ended June 30, 2006.

Cost of metal sales

Cost of metal sales (excluding Polus Group) for the period

(US Dollars million)

	Six months ended June 30, 2007				Six months ended June 30, 2006				
	Group	% from total	Group excluding ex-OMG nickel business	Harjavalta Nickel Oy & Cawse	Group	% from total	Group excluding ex-OMG nickel business	Group % change p-o-p	Group excluding ex-OMG nickel business % change p-o-p
Total cash operating costs (see table below)	1,861	87	1,504	357	1,259	82	1,259	48	19
Amortisation and depreciation of operating assets	273	13	268	5	270	18	270	1	(1)
Total production costs	**2,134**	**100**	**1,772**	**362**	**1,529**	**100**	**1,529**	**40**	**16**
Increase in metal inventories	(329)		(275)	(54)	(154)		(154)	114	79
Cost of metal sales	**1,805**	**100**	**1,497**	**308**	**1,375**	**100**	**1,375**	**31**	**9**

Cost of metal sales increased by 31% from USD 1,375 million in the six months ended June 30, 2006 to USD 1,805 million in the six months ended June 30, 2007.

Cash operating costs

Cash operating costs increased by 48% and amounted to USD 1,861 million in the six months ended June 30, 2007 against USD 1,259 million in the six months ended June 30, 2006.

The cash operating cost structure changed slightly in the six months ended June 30, 2007 compared to the six months ended June 30, 2006 mainly due to the effect of the acquisitions of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries), for the details see the schedule of cash operating costs, presented below.

The key reasons for the growth of total cash operating costs of USD 726 million in the six months ended June 30, 2007, before revenue from sales of by-products, compared to the six months ended June 30, 2006 included:

- consolidation of cash operating costs of Harjavalta Nickel Oy and Cawse (ex-OMG nickel business) — USD 375 million;
- absolute increase of cash operating costs by USD 278 million; and
- effect of the translation of rouble amounts into U.S. dollar amounts by USD 73 million.

Cash operating costs (excluding Polus Group) for the period
(US Dollars million)

	Six months ended June 30, 2007				Six months ended June 30, 2006				
	Group	% from total	Group excluding ex-OMG nickel business	Harjavalta Nickel Oy & Cawse	Group	% from total	Group excluding ex-OMG nickel business	Group % change p-o-p	Group excluding ex-OMG nickel business % change p-o-p
Labour	636	28	628	8	512	33	512	24	23
Consumables and spares	453	20	438	15	418	27	418	8	5
Purchase of nickel concentrate	303	13	—	303	—	—	—	n/a	n/a
PGM scrap purchased	160	7	160	—	114	7	114	40	40
Cost of refined metals purchased from third parties	98	4	98	—	28	2	28	250	250
Transportation	92	4	91	1	78	5	78	18	17
Repairs and maintenance	89	4	79	10	70	5	70	27	13
Exploration expenses	82	4	82	—	18	1	18	356	356
Tax on mining and pollution levies	78	3	78	—	62	4	62	26	26
Insurance	67	3	67	—	62	4	62	8	8
Utilities	58	3	38	20	39	3	39	49	(3)
PGM toll refining costs	44	2	44	—	40	3	40	10	10
Other costs	96	5	78	18	89	6	89	8	(12)
Total cash operating costs	**2,256**	**100**	**1,881**	**375**	**1,530**	**100**	**1,530**	**47**	**23**
Revenue from the sale of by-products	(395)		(377)	(18)	(271)		(271)	46	39
Total cash operating costs	**1,861**		**1,504**	**357**	**1,259**		**1,259**	**48**	**19**

Labour

Labour remained the most significant item of cash operating costs, decreasing its share of the general structure of operating costs from 33% in the six months ended June 30, 2006 to 28% in the six months ended June 30, 2007. In the six months ended June 30, 2007, labour costs increased by USD 124 million (or 24%) to USD 636 million. The increase is caused by the effect of the translation of rouble amounts into U.S. dollar amounts by USD 30 million, consolidation of the results of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) by USD 8 million and an increase in the salary level by USD 86 million.

Consumables and spares

Consumables and spares costs in the six months ended June 30, 2007 increased by USD 35 million (or 8%) up to USD 453 million. The increase is mainly caused by the effect of the translation of rouble amounts into U.S. dollar amounts by USD 24 million, consolidation of the results of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) by USD 15 million.

Purchase of nickel concentrate

This item represents the purchases of nickel concentrate from MPI Nickel Proprietary Limited, an associate of the Norilsk Group during the six months ended June 30, 2007, and other producers, and also includes related transportation expenses. The full amount of expenses relates to the consolidation of the results of Harjavalta Nickel Oy (ex-OM Group nickel business subsidiaries).

PGM scrap purchased

In the six months ended June 30, 2007, purchase of PGM scrap increased by USD 46 million (or 40%) to USD 160 million due to the increase of market prices with a corresponding increase in purchase prices and an increase in the physical volume purchased by Stillwater Mining Company to effectively utilise the existing production capacities and increase PGM production.

Cost of refined metals purchased from third parties

In the six months ended June 30, 2007, the cost of refined metal purchased from third parties increased by USD 70 million (or 250%) to USD 98 million due to an increase of market price for nickel with a corresponding increase of physical volume of nickel acquired.

Transportation

The transportation costs increased by USD 14 million (or 18%) up to USD 92 million in the six months ended June 30, 2007. The increase is caused by the effect of the translation of rouble amounts into U.S. dollar amounts of USD 5 million and remaining portion to the increase in transportation tariffs. In addition, there was an increase in cargo insurance, which generally is in line with the growth for metal sales.

Repairs and maintenance

In the six months ended June 30, 2007, repairs and maintenance costs increased by USD 19 million (or 27%) up to USD 89 million due to the effect of the translation of rouble amounts into U.S. dollar amounts of USD 4 million, consolidation of results of business combination of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) by USD 10 million and the remaining portion is due to inflation.

Exploration expenses

The increase in exploration expenditures in the six months ended June 30, 2007 of USD 64 million (or 356%) to USD 82 million as compared with the six months ended June 30, 2006 is caused by significant growth of exploration work performed by the Norilsk Group aimed at expanding its mineral resource base.

Tax on mining and pollution levies

Tax on mining and pollution levies increased by USD 16 million (or 26%) up to USD 78 million in the six months ended June 30, 2007, which is mainly caused by an increase in the taxable base for mining tax purposes due to the increase in production cost and the effect of the translation of rouble amounts into U.S. dollar amounts.

Insurance

Insurance expenses in the six months ended June 30, 2007 increased by USD 5 million (or 8%) up to USD 67 million, which is mainly caused by the effect of the translation of rouble amounts into U.S. dollar amounts.

Utilities

In the six months ended June 30, 2007, expenses on utilities increased by USD 19 million (or 49%) to USD 58 million. Without the effect of consolidation of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) which contributed an additional USD 20 million the main reason for the decrease was the effect of the acquisition of a 100% in OJSC Taimyrenergo after which the utility services were replaced with the respective increase of depreciation charges.

PGM toll refining costs

PGM toll refining costs in the six months ended June 30, 2007 increased by USD 4 million (or 10%) up to USD 44 million, which is mainly caused by the effect of the translation of rouble amounts into U.S. dollar amounts.

Other cash costs

In the six months ended June 30, 2007, other cash costs increased by USD 7 million (or 8%) to USD 96 million, which is practically in line with the effect of the translation of rouble amounts into U.S. dollar amounts of USD 5 million and the consolidation of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) by USD 18 million.

Revenue from the sale of by-products

Sales of by-products in the six months ended June 30, 2007 increased by USD 124 million (or 46%) and totalled USD 395 million mainly is due to an increase of selling prices for by-products.

Amortisation and depreciation of operating assets

In the six months ended June 30, 2007, amortisation and depreciation of operating assets increased by USD 3 million (or 1%) to USD 273 million, which is practically in line with results achieved in the six months ended June 30, 2006.

Increase in metal inventories

The main reasons for the increase in the balance of metal inventories in the six months ended June 30, 2007 were as follows:

- decrease of PGM and by-product sales from Taimyr and Kola Peninsula in the six months ended June 30, 2007 due to renewal of the PGM license resulted in the increase in by-product inventories by USD 168 million; and increase in operating expenses at Taimyr and Kola Peninsulas resulted generally in the increase of unit cost of production, which, in turn, led to the increase in the value of inventories by USD 108 million;
- the consolidation of the results of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) resulted in the increase of metal inventory by USD 53 million, mainly due to significant growth of nickel and nickel concentrate selling prices.

Total production cost per unit of metal produced for the period

Metal	Six months ended June 30, 2007	Six months ended June 30, 2006	% change p-o-p
Taimyr Peninsula			
Nickel (US Dollars per tonne)	5,218	4,753	10
Copper (US Dollars per tonne)	1,328	1,170	14
Palladium (US Dollars per ounces)	82	90	(9)
Platinum (US Dollars per ounces)	320	384	(17)
Gold (US Dollars per ounces)	171	191	(10)
Kola Peninsula			
Nickel (US Dollars per tonne)	6,371	5,488	16
Copper (US Dollars per tonne)	1,516	2,374	(36)
Palladium (US Dollars per ounces)	108	97	11
Platinum (US Dollars per ounces)	387	409	(5)
Gold (US Dollars per ounces)	204	212	(4)
Stillwater Mining Company			
Palladium (US Dollars per ounces)	345	301	15
Platinum (US Dollars per ounces)	994	889	12
Harjavalta Nickel Oy			
Nickel (US Dollars per tonne)	40,874	—	n/a

In the six months ended June 30, 2007, the cost of nickel production (per tonne) in the Taimyr Peninsula increased by 10% to USD 5,218 per tonne, and in the Kola Peninsula the cost of nickel production increased by 16% to USD 6,371 per tonne.

In the six months ended June 30, 2007, the cost of copper production (per tonne) in the Taimyr Peninsula increased by 14% to USD 1,328 per tonne, and in the Kola Peninsula the cost of copper production decreased by 36% to USD 1,516 per tonne.

The main reason for the increase in both nickel and copper production cost in the Taimyr Peninsula was the reallocation of production costs between base metals (nickel and copper) and PGM's, based on the relative sales value of these joint products, to increase the proportionate share of production cost of base metals (nickel and copper) as a result of the higher prices (158% for nickel and 16% for copper) as compared to prices for PGMs (9% for palladium and 12% for platinum) in the six months ended June 30, 2007.

The increase in the cost of nickel production (per tonne) and decrease in the cost of copper production (per tonne) in the Kola Peninsula is due to the reallocation of costs between nickel and copper, based on the relative sales values of the base metals, to increase the share of production cost of nickel as a result of copper production decline in the six months ended June 30, 2007 by 8% mainly as a result of the actual abandonment of the purchases of copper scrap for processing, and the higher nickel price (158%) as compared to copper (16%) in the six months ended June 30, 2007.

In the six months ended June 30, 2007, the cost of palladium production in the Taimyr Peninsula decreased by 9% to USD 82 per ounce, and increased by 11% to USD 108 per ounce in the Kola Peninsula. The changes in the cost of palladium production in the Peninsulas were due to:

- a general increase in the overall production costs;
- a moderate increase of the average selling price by 9% compared to the growth demonstrated by base metals and other PGMs; and
- a large allocation of production cost in the Kola Peninsula to palladium is due to the abandonment of the purchase and processing of copper scrap.

In the six months ended June 30, 2007, the cost of platinum production in the Taimyr Peninsula decreased by 17% to USD 320 per ounce, and decreased by 5% to USD 387 per ounce in the Kola Peninsula. The decrease in the cost of platinum production in the Peninsulas was due to:

- a general increase in the overall production costs;
- a large allocation of production cost to nickel is due to the higher nickel prices; and
- an allocation of production cost in the Kola Peninsula to palladium is due to the abandonment of the purchase and processing of copper scrap.

In the six months ended June 30, 2007, the cost of gold production in the Taimyr Peninsula decreased by 10% to USD 171 per ounce, and by 4% to USD 204 per ounce in the Kola Peninsula. Ignoring the effect of the translation of rouble amounts into U.S. dollar amounts, the product unit cost decreased more substantially, which was explained by the reallocation of production costs between base metals (nickel and copper) and PGMs. The increase in prices for nickel and copper significantly outperformed the prices realised for the PGMs (including gold) sold by the Norilsk Group. The less sharp decrease of the cost of gold production in the Kola Peninsula is explained by the abandonment of the purchase and processing of copper scrap.

Selling, general and administrative expenses

In the six months ended June 30, 2007, selling, general and administrative expenses increased by USD 196 million (or 42%) to USD 668 million as compared to USD 472 million in the six months ended June 30, 2006. The increase due to the effect of the translation of rouble amounts into U.S. dollar amounts amounted to USD 27 million.

Selling, general and administrative expenses (excluding Polus Group) for the period
(US Dollars million)

	Six months ended June 30, 2007	% from total	Six months ended June 30, 2006	% from total	% change p-o-p
Export custom duties	289	43	182	39	59
Salaries	161	24	113	24	42
Advertising	44	7	33	7	33
Taxes other than mining and income taxes and pollution levies	43	6	41	9	5
Other expenses	131	20	103	21	27
Total	**668**	**100**	**472**	**100**	**42**

Export custom duties

Export custom duties increased by USD 107 million (or 59%) to USD 289 million in the six months ended June 30, 2007, which is completely in line with the dynamics of the growth of export revenue, which basically forms the basis for calculation of custom payments.

Salaries

Labour costs increased by USD 48 million (or 42%) to USD 161 million. The main reasons for the growth were the consolidation of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and salary increases.

Other expenses

Other types of expenses such as advertising, taxes, legal, auditing, insurance and other expenses increased practically in line with inflation.

Other net operating expenses

During the six months ended June 30, 2007 other net operating expenses increased by USD 15 million to USD 148 million as compared to USD 133 million in the six months ended June 30, 2006. The main reason for the growth was the substantial increase of donations and expenses associated with the maintenance of social sphere facilities in the regions of the Norilsk Group's operations.

Other operating expenses (excluding Polus Group) for the period

(US Dollars million)

	Six months ended June 30, 2007	Six months ended June 30, 2006	% change p-o-p
Donations	73	32	128
Maintenance of social sphere facilities	30	15	100
Foreign exchange loss, net	18	18	—
Change in allowance for doubtful debts	18	50	(64)
Loss on disposal of property, plant and equipment	14	17	(18)
Impairment of property, plant and equipment	12	(2)	(700)
Change in allowance for value added tax recoverable	5	13	(62)
Change in provision for tax penalties	(4)	8	(150)
Excess of acquirer's interest in the fair value of net assets acquired	(9)	—	n/a
Operating profit from non-mining entities	(27)	(12)	125
Other	18	(6)	(400)
Total other operating expenses, net	**148**	**133**	**11**

Net finance cost/(benefit)

During the six months ended June 30, 2007 net finance costs increased by USD 54 million to USD 52 million as compared to a USD 2 million finance benefit in the six months ended June 30, 2006. The main reason for the increase was the effect of currency exchange differences during the six months ended June 30, 2007 as compared to the six months ended June 30, 2006, which effected the revaluation of borrowings denominated in US Dollars. In addition, interest expenses on loans and borrowings also increased by USD 9 million to USD 43 million as compared to USD 34 million in the six months ended June 30, 2006 as a result of the increase of the averaged borrowed amount for the period, which was used for the acquisition of the shares of WGC-3 and other business combinations.

Net finance cost/(benefit) (excluding Polus Group) for the period
(US Dollars million)

	Six months ended June 30, 2007	Six months ended June 30, 2006	% change p-o-p
Interest expense on borrowings	43	34	26
Unwinding of discount on decommissioning obligations	10	9	11
Interest expense on pension obligations	4	4	—
Foreign currency exchange gain from revaluation of borrowings, net	(5)	(49)	(90)
Total finance cost/(benefit), net	**52**	**(2)**	

Net income/(loss) from investments

During the six months ended June 30, 2007, the net result from investing activities increased by USD 436 million to USD 68 million income as compared to the loss from investing activities of USD 368 million in the six months ended June 30, 2006.

The main reasons for the increase were as follows:

- non-recurring losses of USD 317 million realised by Norilsk on the disposal of the investment in Gold Fields Ltd. in the six months ended June 30, 2006; and
- increase of interest income on bank deposits to USD 62 million in the six months ended June 30, 2007 compared to the interest income of USD 22 million in the six months ended June 30, 2006, as a result of increase of the deposited amounts for the period.

Share of profits/(losses) of associates

During the six months ended June 30, 2007, the share of profit of associates increased by USD 28 million to USD 34 million profits as compared to USD 6 million in the six months ended June 30, 2006.

The main reasons for the increase were as follows:

- contribution of WGC-3 from 1 April of 2007 (date of obtaining significant influence over the investee) in the amount of USD 17 million; and
- contribution of MPI Nickel Proprietary Limited from 1 March of 2007 (date of obtaining significant influence over the investee) in the amount of USD 12 million.

Income tax

Income tax for the period
(US Dollars million)

	Six months ended June 30, 2007	Six months ended June 30, 2006	% change p-o-p
Current tax expense	1,266	602	110
Deferred tax benefit	—	(125)	n/a
Total	**1,266**	**477**	**165**

During the six months ended June 30, 2007, the income tax provision increased by 165% to USD 1,266 million from USD 477 million in the six months ended June 30, 2006. This increase was mainly due to the growth of pre-tax income of the Norilsk Group, the main reason for which was the growth of the revenue from metal sales.

During the six months ended June 30, 2007, the effective tax rate amounted to 25% (the six months ended June 30, 2006: 17%) due to significant non-taxable gain on disposal of investment in Gold Fields Ltd. realized in the six months ended June 30, 2006.

Profit for the period

Profit for the period increased from USD 2,367 million in the six months ended June 30, 2006 to USD 3,808 million in the six months ended June 30, 2007 as a result of the higher prices for metals sold, consolidating the results of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and partially eliminated by the effect of discontinued operations due to the spin-off of Polyus Gold assets in the six months ended June 30, 2006.

Results of operations for the year ended December 31, 2006 compared with the year ended December 31, 2005

Metal sales

In 2006, revenues from metal sales totalled USD 11,550 million, which represented a 61% increase as compared to 2005. The main factor for the revenue growth in 2006 was the overall increase of sales prices for the metals produced by the Norilsk Group.

The favourable situation in the metal markets, expansion of the sales geography and focus on end customers enabled the Norilsk Group to have a revenue increase for all metals of USD 4,381 million, of which USD 3,751 million (or 86%) was for base metals, and USD 630 million (or 14%) for PGMs and gold.

Adjusted[(1)] average selling prices of metals (excluding Polus Group) for the year

Metal	2006	2005	% change y-o-y[(2)]
Norilsk			
Nickel (US Dollars per tonne)[(1)]	24,081	14,560	65
Copper (US Dollars per tonne)	6,689	3,652	83
Palladium (US Dollars per ounce)	321	205	57
Platinum (US Dollars per ounce)	1,133	901	26
Gold (US Dollars per ounce)	608	450	35
Stillwater Mining Company			
Palladium (US Dollars per ounce)	350	272	29
Platinum (US Dollars per ounce)	993	838	18
Gold (US Dollars per ounce)	603	—	—

Physical volumes of metal sales (excluding Polus Group) for the year

Metal	2006	2005	% change y-o-y[(2)]
Norilsk			
Nickel (‘000 tonnes)[(1)]	257	244	5
Copper (‘000 tonnes)	424	450	(6)
Palladium (‘000 ounces)	3,220	3,231	—
Platinum (‘000 ounces)	750	758	(1)
Gold (‘000 ounces)	153	162	(6)
Stillwater Mining Company			
Palladium (‘000 ounces)	662[(3)]	933[(4)]	(29)
Platinum (‘000 ounces)	268	216	24
Gold (‘000 ounces)	11	—	n/a

Notes:

1 Excluding sales of metal purchased from third parties.

2 Year-on-year (y-o-y) comparison.

3 Including 63 thousand troy ounces of palladium received from Norilsk in 2003 as part of the purchase consideration paid for the acquired shares of Stillwater Mining Company and sold in 2006.

4 Including 439 thousand troy ounces of palladium received from Norilsk in 2003 as part of the purchase consideration paid for the acquired shares of Stillwater Mining Company and sold in 2005.

Nickel

The revenue from nickel sales increased by 70% and reached USD 6,228 million in 2006 as compared to USD 3,674 million in 2005, due to a significant growth in the adjusted average selling price of nickel by 65% — from USD 14,560 per tonne in 2005 to USD 24,081 per tonne in 2006. During 2006 the physical volumes of nickel sales (excluding sales of metal purchased from third parties) increased by 5% (or 13,000 tonnes) to 257,000 tonnes as compared to 244,000 tonnes in 2005.

Copper

Revenue from copper sales increased by 73% from USD 1,644 million in 2005 to USD 2,841 million in 2006. In 2006, the decrease in physical volume of copper sales by 6% (or 26,000 tonnes) to 424,000 tonnes as compared to 450,000 tonnes in 2005 was offset by an increase in the average selling price by 83% — from USD 3,652 per tonne in 2005 to USD 6,689 in 2006.

Palladium

Palladium sales increased by 38% from USD 914 million in 2005 to USD 1,265 million in 2006.

Palladium sales excluding sales of Stillwater Mining Company increased by 56% from USD 661 million in 2005 to USD 1,033 million in 2006. In physical terms, sales of palladium produced by the Norilsk Group in Russia amounted to 3,220,000 ounces in 2006, which is practically the same as sales for 2005, which amounted to 3,231,000 ounces.

The palladium sales by Stillwater Mining Company decreased by 8% from USD 253 million in 2005 to USD 232 million in 2006. The decrease in revenue is explained by a 29% decrease in physical volumes of sales, which was due to the sales in the previous periods of metal received by the company from the Norilsk Group as part payment for the purchase of Stillwater Mining Company shares, which was partially offset by an increase in the sales of palladium received from processing scrap. In 2006, Stillwater Mining Company sold 662,000 ounces of palladium, including 63,000 ounces of palladium received from the Norilsk Group in 2003 (as compared to 933,000 ounces in 2005, including 439,000 ounces received from the Norilsk Group in 2003). The decrease in the physical volume of sales was offset by the increase in the sales price.

Platinum

Platinum sales increased by 29% from USD 864 million in 2005 to USD 1,116 million in 2006.

Sales of platinum produced by the Norilsk Group in Russia increased by 24% from USD 683 million in 2005 to USD 850 million in 2006. The increase is explained mainly by the growth of the sales price by 26% from USD 901 per ounce in 2005 to USD 1,133 per ounce in 2006, with a slight decline in the physical sales volumes of 1% (or 8,000 ounces) to 750,000 ounces in 2006.

Platinum sales by Stillwater Mining Company increased by 47% from USD 181 million in 2005 to USD 266 million in 2006. The main growth factor is the increase of sales in physical terms by 24% (or 52,000 ounces) from 216,000 ounces in 2005 to 268,000 ounces in 2006, which relates primarily to the growth of sales of platinum received from processing secondary material.

Gold (excluding Polus Group)

Gold sales increased by 37% from USD 73 million in 2005 to USD 100 million in 2006. The increase is explained mainly by an increase in sales prices for 35% from USD 450 per ounce in 2005 to USD 608 per ounce in 2006. In physical terms, sales of gold produced by the Norilsk Group in Russia amounted to 153,000 ounces and by Stillwater Mining Company to 11,000 ounces or 164,000 ounces in total as compared to 162,000 ounces of gold sold in 2005.

Cost of metals sales

Cost of metal sales (excluding Polus Group) for the year
(US Dollars million)

	2006	% from total	2005	% from total	% change y-o-y
Total cash operating costs (see table below)	2,538	82	2,410	83	5
Amortisation and depreciation of operating assets	568	18	498	17	14
Total production costs	**3,106**	**100**	**2,908**	**100**	**7**
Decrease in metal inventories	52		86		(40)
Cost of metal sales	**3,158**	**100**	**2,994**	**100**	**5**

Cost of metal sales increased by 5% from USD 2,994 million in 2005 to USD 3,158 million in 2006.

Cash operating costs

Cash operating costs increased by 5% to USD 2,538 million in 2006 against USD 2,410 million in 2005.

The cash operating cost structure virtually did not change in 2006. Labour remained the most significant item of cash operating costs, increasing its share of the general structure of operating costs from 32% in 2005 to 34% in 2006. In addition, the share of scrap PGM costs also increased from 3% in 2005 to 8% in 2006 due to continuing growth of purchases by Stillwater Mining Company.

In 2006, the Norilsk Group continued to cut expenses on metals purchased from third parties. The share of this item in the general structure of cash operating costs changed from 3% in 2005 to 1% in 2006. Additionally, in 2006 the Norilsk Group substantially reduced the purchases and processing of scrap copper, which resulted in the reduction of the share of this item in the total volume of cash costs — from 3% in 2005 to almost zero in 2006.

Key reasons for the growth in total cash operating costs of USD 467 million in 2006, before revenue from sales of by-products, compared to 2005 included:

- an increase effect arising from the translation of rouble amounts into U.S. dollar amounts by USD 94 million; and
- an absolute increase of cash operating costs by USD 373 million.

Cash operating costs (excluding Polus Group) for the year
(US Dollars million)

	2006	% from total	2005	% from total	% change y-o-y
Labour	1,060	34	862	32	23
Consumables and spares	833	27	765	28	9
PGM scrap purchase	268	8	82	3	227
Repairs and maintenance	171	5	134	5	28
Transportation	143	4	117	4	22
Insurance	139	4	116	4	20
Tax on mining and pollution levies	127	4	119	4	7
PGM toll refining costs	77	2	76	3	1
Utilities	73	2	88	3	(17)
Exploration expenses	49	2	39	1	26
Cost of refined metals purchased from third parties	28	1	91	3	(69)
Non-ferrous scrap metal purchased	5	—	87	3	(94)
Other costs	237	7	167	7	42
Total cash operating costs	**3,210**	**100**	**2,743**	**100**	**17**
Revenue from sales of by-products	(672)		(333)		102
Total cash operating costs	**2,538**		**2,410**		**5**

Labour

In 2006, labour costs increased by USD 198 million (or 23%) to USD 1,060 million. The increase is caused by the effect of the translation of rouble amounts into U.S. dollar amounts by USD 34 million and an increase in the salary level by USD 164 million.

Consumables and spares

Consumables and spares costs in 2006 increased by USD 68 million (or 9%) up to USD 833 million. The increase is caused by the effect of the translation of rouble amounts into U.S. dollar amounts by USD 30 million and the growth of purchase prices for inventories due to inflation.

PGM scrap purchase

In 2006, purchases of PGM scrap increased by USD 186 million (or 227%) to USD 268 million due to the increase in purchases by Stillwater Mining Company to effectively utilize production capacities and increase PGM production.

Repairs and maintenance

In 2006, repairs and maintenance costs increased by USD 37 million (or 28%) to USD 171 million due to mid-life repair of the flash smelting line in the Taimyr Peninsula and also due to inflation.

Transportation

The increase of metals transportation cost by USD 26 million (or 22%) up to USD 143 million in 2006 are related mainly to the increase in transportation tariffs. In addition, there was an increase in cargo insurance, which generally is in line with the growth of prices for metal products.

Insurance

Insurance expenses in 2006 increased by USD 23 million (or 20%) up to USD 139 million. The reason was the introduction of additional insurance related to the risk of downtime of the main production unit.

Tax on mining and pollution levies

Tax on mining and pollution levies increased by USD 8 million (or 7%) up to USD 127 million in 2006, which is mainly caused by the increase in the taxable base for mining tax purposes due to the increase in cost of production and the effect of the translation of rouble amounts into U.S. dollar amounts.

PGM toll refining costs

In 2006, PGM toll refining costs increased by USD 1 million (or 1%) up to USD 77 million due to the effect of the translation of rouble amounts into U.S. dollar amounts.

Utilities

In 2006, expenses for utilities decreased by USD 15 million (or 17%) to USD 73 million. The main reason for the decrease was the agreement signed in August 2005 for the long-term lease of generating and transmitting capacities of OJSC Taimyrenergo as a single production facility and replacement of expenses for electric power supplies and utilities with corresponding lease payments. Lease costs within cash operating expenses were recorded as other expenses, which partially explain the related dynamics of other expenses growth. After the acquisition in July 2006 of a 100% stake in OJSC Taimyrenergo, lease expenses were replaced with the respective depreciation charges recorded as depreciation of property, plant and equipment.

Exploration expenses

The increase in exploration expenditures in 2006 by USD 10 million (or 26%) to USD 49 million as compared with 2005 was caused by a significant growth of exploration work (more than twice as large) performed by GRK Bystrinskoye and aimed at classifying and expanding mineral resource base of the Norilsk Group.

Cost of refined metals purchased from third parties

In 2006, the cost of refined metal purchased from third parties decreased by USD 63 million (or 69%) to USD 28 million, mainly due to a decrease of beneficial offerings in the market.

Non-ferrous scrap metal purchased

In 2006, the purchase of scrap non-ferrous metals decreased by USD 82 million (or 94%) and amounted to USD 5 million as a result of the cessation of scrap copper processing at OJSC "Kolskaya MMC" due to high purchasing prices and a sharp decline in the profitability of finished copper from scrap.

Other cash costs

In 2006, other cash costs increased by USD 70 million (or 42%) up to USD 237 million due to the increase in transportation expenses related to the increase of copper transportation to high-value added production and growth of internal transportation tariffs, the increase in the volume and cost of services related to tailings pipe maintenance and relocation, the growth of lease tariffs and the increase in other expenses related mainly to inflation.

Revenue from sales of by-products

Sales of by-products in 2006 increased by USD 339 million (or 102%) and totalled USD 672 million mainly due to the increase of selling prices for by-product metals.

Amortisation and depreciation of operating assets

In 2006, amortisation and depreciation charges increased by USD 70 million (or 14%) up to USD 568 million as compared with 2005 due to the launch of the facilities of:

- the second start-up complex at Severny Gluboky Mine in the Kola Peninsula;
- the start-up complex of OJSC "Taimyrgaz";
- the resource base and enrichment facilities in the Taimyr Peninsula; and
- the purchase of OJSC Taimyrenergo assets in July 2006.

Decrease in metal inventories

The main reasons for the decrease in the balance of metal inventories in 2006 were as follows:

- increase in operating expenses at Taimyr and Kola Peninsulas resulted generally in the increase of unit cost of production, which, in turn, led to an increase in the value of inventories by USD 24 million;
- the actual cessation of the scrap copper purchases made a material impact on the unit cost of production of copper at Kola Peninsula and resulted in a significant decline in both the value and the volume of copper stock by USD 10 million at Kola Peninsula; and
- reduction of palladium received in 2003 from Norilsk as part payment of the share purchase transaction of Stillwater Mining Company balances by USD 11 million.

Total production cost per unit of metal produced for the year

Metal	2006	2005	% change y-o-y
Taimyr Peninsula			
Nickel (US Dollars per tonne)	4,477	4,637	(3)
Copper (US Dollars per tonne)	1,265	1,020	24
Palladium (US Dollars per ounces)	92	85	8
Platinum (US Dollars per ounces)	350	364	(4)
Gold (US Dollars per ounces)	183	181	1
Kola Peninsula			
Nickel (US Dollars per tonne)	5,701	5,177	10
Copper (US Dollars per tonne)	1,659	2,940	(44)
Palladium (US Dollars per ounces)	116	88	32
Platinum (US Dollars per ounces)	439	374	17
Gold (US Dollars per ounces)	227	185	23
Stillwater Mining Company			
Palladium (US Dollars per ounces)	308	268	15
Platinum (US Dollars per ounces)	918	853	8

In 2006, the total cost of nickel production per tonne in the Taimyr Peninsula decreased by 3% to USD 4,477 per tonne, whereas in the Kola Peninsula the cost of nickel production increased by 10% to USD 5,701 per tonne.

The main reason for the decrease in nickel production cost in the Taimyr Peninsula was the reallocation of production costs between nickel and copper, based on the relative sales value of the joint products, to increase the proportionate share of production cost of copper as a result of the higher copper price (+83%) as compared to nickel (+65%) in 2006. The increase in the cost of nickel production in the Kola Peninsula is due to the reallocation of costs between nickel and copper, based on the relative sales values of the joint products, to increase the share of production cost of nickel as a result of the decline of the copper production in 2006 by 38% mainly as a result of the actual abandonment of the purchase of scrap copper for processing, and the growth of production costs generally.

In 2006, the cost of copper production per tonne in the Taimyr Peninsula increased by 24% to USD 1,265 per tonne, and decreased by 44% to USD 1,659 per tonne in the Kola Peninsula. The main reason for the increase in the copper production cost in the Taimyr Peninsula was the reallocation of production costs to copper due to higher copper price. The cost of copper production in the Kola Peninsula decreased due to the actual abandonment of the processing of scrap copper.

In 2006, the cost of palladium production per ounce in the Taimyr Peninsula increased by 8% to USD 92 per ounce, and increased by 32% to USD 116 per ounce in the Kola Peninsula. The increase in the cost of palladium production in the Peninsulas was due to:

- a general increase in the overall production costs;
- a larger allocation of production cost in the Kola Peninsula to palladium due to the abandonment of the purchase and processing of scrap copper; and
- the increase in the relative sales value of palladium due to the reduction in the volume of copper produced due to the abandonment of the purchase and processing of scrap copper, as compared to 2005.

In 2006, the cost of platinum production in the Taimyr Peninsula decreased by 4% to USD 350 per ounce, and increased by 17% to USD 439 per ounce in the Kola Peninsula. The decrease of the cost of platinum in the Taimyr Peninsula relates to the reallocation of production costs between copper and palladium, and the increase in the Kola Peninsula — to the reallocation of costs to nickel, palladium and platinum, the growth of general production costs and the effect of the translation of rouble amounts into U.S. dollar amounts.

In 2006, the cost of gold production in the Taimyr Peninsula increased by 1% to USD 183 per ounce, and by 23% to USD 227 per ounce in the Kola Peninsula. Ignoring the effect of the translation of rouble amounts into U.S. dollar amounts, the production unit cost even decreased, which was explained by the reallocation of production costs between base metals (copper and nickel) and PGMs (including gold). The increase in prices for copper, nickel and palladium significantly outperformed the prices realized for the other metals sold by the Norilsk Group. The increase of the cost of gold production in the Kola Peninsula is explained by the general increase of production costs.

Selling, general and administrative expenses

During 2006, selling, general and administrative expenses increased by USD 249 million (or 30%), to USD 1,090 million as compared to USD 841 million in 2005. The increase is due to the effect of the translation of rouble amounts into U.S. dollar amounts amounted to USD 33 million.

Selling, general and administrative expenses (excluding Polus Group) for the year
(US Dollars million)

	2006	% from total	2005	% from total	% change y-o-y
Export custom duties	484	44	301	36	61
Salaries	240	22	194	23	24
Taxes other than mining and income taxes and pollution levies	82	8	68	8	21
Advertising	70	6	58	7	21
Other expenses	214	20	220	26	(3)
Total	**1,090**	**100**	**841**	**100**	**30**

Export custom duties

Export custom duties increased by USD 183 million (or 61%) to USD 484 million in 2006, which is completely in line with the dynamics of growth of export revenue, which basically forms the basis for calculation of custom payments.

Salaries

Labour costs increased by USD 46 million (or 24%) to USD 240 million. The main reason for the growth was salary increases.

Other expenses

Such as transportation, legal, auditing, insurance and other expenses decreased during 2006.

Other net operating expenses

During 2006, other net operating expenses increased by USD 116 million to USD 272 million as compared to USD 156 million in 2005. The main reason for the growth was the increase of expenses related to recognition of loss from impairment of property, plant and equipment, and the effect of exchange rate differences as a result of the Russian rouble's appreciation against the US Dollar during 2006.

Other net operating expenses (excluding Polus Group) for the year
(US Dollars million)

	2006	2005	% change y-o-y
Impairment of property, plant and equipment	87	10	770
Maintenance of social sphere facilities	78	69	13
Donations	68	49	39
Foreign exchange loss/(gain), net	33	(1)	(3,400)
Loss on disposal of property, plant and equipment	21	28	(25)
Change in provision for tax penalties	19	15	27
Change in allowance for value added tax recoverable	9	15	(40)
Change in allowance for doubtful debts	5	(10)	(150)
Operating profit from non-mining entities	(28)	(16)	75
Other	(20)	(3)	567
Total other operating expenses, net	**272**	**156**	**74**

Finance cost/(benefit)

During 2006, finance costs decreased by USD 100 million to USD 21 million as compared to USD 121 million in 2005. The main reason for the decrease was the appreciation of the RUB against the US Dollar during 2006 as compared to a depreciation of the same in 2005, and the currency exchange gain arising from the revaluation of borrowings denominated in US Dollars. Interest expenses on borrowings also decreased by USD 15 million to USD 60 million as compared to USD 75 million in 2005 as a result of decrease of the averaged amount borrowed for the year.

Net finance cost (excluding Polus Group) for the year
(US Dollars million)

	2006	2005	% change y-o-y
Interest expense on borrowings	60	75	(20)
Unwinding of discount on decommissioning obligations	19	12	58
Interest expense on pension obligations	7	8	(13)
Foreign currency exchange (gain)/loss on revaluation of borrowings, net	(65)	26	(350)
Total finance cost, net	**21**	**121**	**(83)**

Net (loss)/income from investments

During 2006, losses arising from investments increased by USD 256 million to USD 199 million as compared to income from investments of USD 57 million in 2005. The main reason for the result was the loss arising on the disposal of investments in Gold Fields Ltd.

Share of profits/(losses) of associates

During 2006, the share of losses of associates increased by USD 35 million to USD 33 million as compared to the share of profits of associates of USD 2 million in 2005. The main reason for the result was identification of an impairment of investment in Smart Hydrogen Incorporated, BVI in the amount of USD 36 million at end of 2006.

Income tax

During 2006, the total income tax expense increased by 115% to USD 1,805 million from USD 838 million in 2005. This increase was mainly due to the increase of pre-tax income of the Norilsk Group, the main reason for which was the growth of revenue from metal sales. The effective tax rate decreased from 2005 and amounted to 23% due to significant non-taxable gain on disposal of investment in Gold Fields Ltd. realized in 2006.

Income tax for the year
(US Dollars million)

	2006	2005	% change y-o-y
Current tax expense	1,893	911	108
Deferred tax benefit	(88)	(73)	(21)
Total	**1,805**	**838**	**115**

Profit for the year from discontinued operation

Profit from discontinued operations for the year ended December 31, 2006 increased by USD 919 million to USD 993 million as compared to USD 74 million in 2005 due to gain realized by the Polus Group in 2006 on disposal of investment in Gold Fields Ltd. in the total amount of USD 973 million.

Profit for the year

Profit for the year increased from USD 2,352 million in 2005 to USD 5,965 million in 2006 as a result of higher prices for metals sold and better control over expenditures.

Results of operations for the year ended December 31, 2005 compared with the year ended December 31, 2004

Metal sales

In 2005, revenue from metal sales totalled USD 7,169 million, which represented a 9% increase as compared to 2004. The main reason for the growth in revenue in 2005 was the increase of the average selling prices for all metals sold by the Norilsk Group except for palladium.

The favorable situation in the metal markets, the extension of the sales geography and the focus on final customers enabled the Norilsk Group to have a revenue increase for all metals of USD 578 million, of which USD 489 million (or 85%) was for base metals and USD 89 million (or 15%) for platinum group metals and gold.

Adjusted[1] average selling prices of metals (excluding Polus Group) for the year

Metal	2005	2004	% change y-o-y
Norilsk			
Nickel (US Dollars per tonne)[1]	14,560	14,121	3
Copper (US Dollars per tonne)	3,652	2,820	30
Palladium (US Dollars per ounce)[2]	205	n/a	n/a
Platinum (US Dollars per ounce)[2]	901	n/a	n/a
Stillwater Mining Company			
Palladium (US Dollars per ounce)	272	330	(18)
Platinum (US Dollars per ounce)	838	827	1

Physical volumes of metal sales (excluding Polus Group) for the year

Metal	2005	2004	% change y-o-y
Norilsk			
Nickel ('000 tonnes)[1]	244	250	(2)
Copper ('000 tonnes)	450	451	—
Palladium ('000 ounces)[2]	3,231	n/a	n/a
Platinum ('000 ounces)[2]	758	n/a	n/a
Gold ('000 ounces)	162	135	20
Stillwater Mining Company			
Palladium ('000 ounces)	933[3]	850[4]	10
Platinum ('000 ounces)	216	202	7

Notes:

1 Except for sales of refined metal purchased from third parties.

2 Until 2005 the information on the sales of PGM's produced by the Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes to the legislation and other regulatory acts on state secrecy made in 2005, the Norilsk Nickel Group is now allowed to disclose information on PGM's, beginning from February 18, 2004. Information on the periods before that date remains secret.

3 Includes 439 thousand ounces of palladium delivered ex the inventory received in 2003 as partial payment in the Norilsk Nickel transaction.

4 Includes 375 thousand ounces of palladium delivered ex the inventory received in 2003 as partial payment in the Norilsk Nickel transaction.

Nickel

Revenue from nickel sales increased by 3% from USD 3,564 million in 2004 to USD 3,674 million in 2005. In 2005, the decrease in the physical volume of nickel sales (not including sales of refined metals purchased from third parties) by 2% (or 6,000 tonnes) to 244,000 tonnes as compared to 2004 was offset by an increase in the average annual nickel selling price by 3% from USD 14,121 per tonne in 2004 to USD 14,560 in 2005.

Copper

During 2005, the physical volume of copper sales amounted to 450,000 tonnes, which corresponds to the level of sales in 2004. Due to a significant growth in the average copper selling price of 30% from USD 2,820 per tonne in 2004 to USD 3,652 per tonne in 2005, the revenue from copper sales increased by 30% and reached USD 1,644 million in 2005 as compared to USD 1,265 million in 2004.

Palladium

Palladium sales decreased by 9% from USD 1,005 million in 2004 to USD 914 million in 2005. The main contributing factor for the palladium sales decrease is the decline in the average palladium selling price. Palladium sales without Stillwater Mining Company decreased by 9% from USD 725 million to USD 661 million in 2005. In physical terms, sales of palladium produced by the Norilsk Nickel Group in Russia amounted to 3,231,000 ounces in 2005.

Palladium sales by Stillwater Mining Company decreased by 10% from USD 280 million in 2004 to USD 253 million in 2005. The decrease of revenue is explained by a decrease in the average selling price, which was offset by an increase of palladium sales in physical terms. Palladium sales in physical volume by Stillwater Mining Company increased by 10% from 850,000 ounces in 2004 to 933,000 ounces in 2005. In 2005, Stillwater Mining Company sold 439,000 ounces of palladium, received from the Norilsk Group in 2003 (as compared to 375,000 ounces in 2004). This was the main reason, which affected the increase of sales in physical volume by Stillwater Mining Company.

Platinum

Platinum sales increased by 22% from USD 706 million in 2004 to USD 864 million in 2005. Sales of platinum produced by the Norilsk Nickel Group in Russia increased by 33% from USD 515 million in 2004 to USD 683 million in 2005. The increase is explained mainly by the increase in the average platinum selling price. In physical terms, platinum sales amounted to 758,000 ounces in 2005.

Platinum sales by Stillwater Mining Company increased by 8% from USD 167 million in 2004 to USD 181 million in 2005. The increase of revenue was in line with the increase of sales of platinum in physical terms. Platinum sales in physical volume by Stillwater Mining Company increased 7% from 202,000 ounces in 2004 to 216,000 ounces in 2005. The increase was due to the growth of sales of platinum received from processing secondary material.

Gold (excluding Polus Group)

Gold sales increased by 43% from USD 51 million in 2004 to USD 73 million in 2005. The increase is due to both the growth of the average gold selling price and the growth of the physical sales. In physical terms, gold sales amounted to 162,000 ounces in 2005.

Cost of metal sales

Cost of metal sales (excluding Polus Group) for the year
(US Dollars million)

	2005	% from total	2004	% from total	% change y-o-y
Total cash operating costs (see table below)	2,410	83	2,208	82	9
Amortisation and depreciation of operating assets	498	17	489	18	2
Total production costs	**2,908**	**100**	**2,697**	**100**	**8**
Decrease in metal inventories	86		241		(64)
Cost of metal sales	**2,994**	**100**	**2,938**	**100**	**2**

Cost of metal sales increased by 2% from USD 2,938 million in 2004 to USD 2,994 million in 2005.

Cash operating costs

Cash operating costs increased by 9% and amounted to USD 2,410 million in 2005 as compared to USD 2,208 million in 2004.

The breakdown of cash operating costs almost did not change in 2005. Labour cost remained the most significant item of cash operating costs, and its share decreased from 33% in 2004 to 32% in 2005. At the same time, the share of consumables and spares increased (from 22% in 2004 to 28% in 2005). In addition, the expenses on the metal purchased from third parties decreased (from 9% in 2004 to 3% in 2005). The share of other items remained virtually unchanged.

Key reasons for the growth of cash operating costs in 2005 included:

- increase of cash operating costs by USD 41 million due to RUB appreciation against the USD, which amounted to 2% based on the average annual exchange rate;
- increase of actual cash operating costs by USD 163 million; and
- increase of cash operating costs was offset by the amount of increase in revenue generated from the sale of by-products of USD 2 million.

Cash operating costs (excluding Polus Group) for the year
(US Dollars million)

	2005	% from total	2004	% from total	% change y-o-y
Labour	862	32	830	33	4
Consumables and spares	765	28	561	22	36
Repairs and maintenance	134	5	133	5	1
Tax on mining and pollution levies	119	4	115	5	3
Transportation	117	4	96	4	22
Insurance	116	4	128	5	(9)
Cost of refined metals purchased from third parties	91	3	211	8	(57)
Utilities	88	3	85	3	4
Non-ferrous scrap metal purchased	87	3	98	4	(11)
PGM scrap purchase	82	3	77	3	6
PGM toll refining costs	76	3	64	3	19
Exploration expenses	39	1	12	—	225
Other costs	167	7	129	5	29
Total cash operating costs	**2,743**	**100**	**2,539**	**100**	**8**
Revenue from sales of by-products	(333)		(331)		1
Total cash operating costs	**2,410**		**2,208**		**9**

Labour

During 2005, labour costs increased by USD 32 million to USD 862 million. The increase is due to the effect of the translation of rouble amounts into U.S. dollar amounts resulting from the appreciation of the RUB against the USD and increase in the salary level.

Consumables and spares

Consumables and spares costs increased by USD 204 million in 2005 to USD 765 million. In addition to the effect of the translation of rouble amounts into U.S. dollar amounts, this increase was due to the growth of consumables prices resulting from inflation, especially fuel price in the global markets, and the growth of Stillwater Mining Company's costs.

Repairs and maintenance

In 2005 repairs and maintenance costs increased by USD 1 million up to USD 134 million due to the growth of these expenses at Stillwater and as a result of the RUB appreciation against the USD.

Tax on mining and pollution levies

The increase in mineral extraction tax and pollution tax by USD 4 million up to USD 119 million in 2005 is mainly due to the appreciation of the RUB against the USD.

Transportation

The increase of metal transportation costs by USD 21 million to USD 117 million in 2005 related to the increase of fine grade matte transportation from Dudinka to the Kola Peninsula and the transportation of base metals out of Russia.

Insurance

The decrease of insurance costs by USD 12 million to USD 116 million in 2005 resulted from the implementation of the new corporate property insurance policy, which changed the existing property risk insurance model.

Cost of refined metals purchased from third parties

In 2005, the cost of refined metal purchased from third parties decreased by USD 120 million to USD 91 million, mainly due to a decrease of physical volume of nickel acquired.

Utilities

In 2005, utility costs increased by USD 3 million to USD 88 million as a result of power resource price increases in the Kola Peninsula and at Stillwater Mining Company and as a result of the RUB appreciation against USD.

Non-ferrous scrap metal purchased

In 2005, the cost of non-ferrous scrap metal purchased reduced by USD 11 million to USD 87 million due to decreased volumes of scrap copper bought by the entities in the Taimyr and Kola Peninsulas.

PGM scrap metal purchase

In 2005, the cost of PGM scrap metal purchased increased by USD 5 million to USD 82 million due to an increase in physical volume purchased by Stillwater Mining Company to effectively utilize the existing production capacities.

PGM toll refining costs

In 2005, PGM toll refining costs increased by USD 12 million to USD 76 million due to higher refining tariffs and increased volumes of PGM produced.

Exploration expenses

The increase in exploration expenditures in 2005 by USD 27 million (or 225%) to USD 39 million as compared with 2004 was caused by significant growth of exploration work and the expanding mineral resource base of the Norilsk Group.

Other cash costs

In 2005, other cash costs increased by USD 38 million to USD 167 million due to the growth of volume and tariffs on tailing pile maintenance and relocation, the rise of the expenses on security services, the rise of transportation tariffs and the effect of the translation of rouble amounts into U.S. dollar amounts.

Amortization and depreciation of operating assets

In 2005, amortization and depreciation charges increased by USD 9 million to USD 498 million as compared to 2004 as a result of the commissioning of capital construction-in-progress assets, which was partly offset by appreciation of the RUB against the USD which led to the decrease of depreciation charges.

Decrease in metal inventories

During 2005, metal inventories decreased by USD 155 million to USD 86 million mainly on account of reduced production of work-in-progress in excess of limits in the Taimyr Peninsula.

Total production cost per unit of metal produced for the year

Metal	2005	2004	% change y-o-y
Taimyr Peninsula			
Nickel (US Dollars per tonne)	4,637	4,367	6
Copper (US Dollars per tonne)	1,020	978	4
Palladium (US Dollars per ounces)[1]	85	n/a	n/a
Platinum (US Dollars per ounces)[1]	364	n/a	n/a
Gold (US Dollars per ounces)	181	182	(1)
Kola Peninsula			
Nickel (US Dollars per tonne)	5,177	5,022	3
Copper (US Dollars per tonne)	2,940	867	239
Palladium (US Dollars per ounces)[1]	88	n/a	n/a
Platinum (US Dollars per ounces)[1]	374	n/a	n/a
Gold (US Dollars per ounces)	185	198	(7)
Stillwater Mining Company			
Palladium (US Dollars per ounces)	268	259	3
Platinum (US Dollars per ounces)	853	776	10

Note:

1 Until 2005, the information on the sales of PGM produced by Norilsk Nickel Group in Russia was subject to state secrecy legislation. As a result of changes to the legislation and other regulatory acts on state secrecy made in 2005, the Norilsk Nickel Group is now allowed to disclose information on PGM's, beginning from February 18, 2004. Information on the periods before that date remains secret.

In 2005, the cost of nickel production in the Taimyr Peninsula increased by 6% to USD 4,637 per tonne and by 3% to USD 5,177 per tonne in the Kola Peninsula. The main reason for the increase of the cost of nickel production was the inflationary growth of prices for materials and fuel.

In 2005, the cost of copper production in the Taimyr Peninsula increased by 4% to USD 1,020 per tonne and increased by more than 3 times to USD 2,940 per tonne in the Kola Peninsula. The main reason for the considerable growth of copper production cost in the Kola Peninsula was the transfer of purchases of scrap copper from the Taimyr Peninsula to the Kola Peninsula starting from 1 January 2005.

In 2005, the cost of palladium production in the Taimyr Peninsula was USD 85 per ounce and USD 88 per ounce in the Kola Peninsula.

In 2005, the cost of platinum production in the Taimyr Peninsula was USD 364 per ounce and USD 374 per ounce in the Kola Peninsula.

In 2005, the cost of gold production in the Taimyr Peninsula decreased by 1% to USD 181 per ounce and decreased by 7% to USD 185 per ounce in the Kola Peninsula. In the Taimyr Peninsula, the proportionate share of net production cost for the year allocated to the production of gold, based on gold's relative sales value, remained relatively unchanged in percentage terms with a corresponding 16% increase in the value of physical gold produced during the year resulting in more or less the same unit cost of production per ounce of gold produced.

In the Kola Peninsula, the proportionate share of net production costs for the year allocated to the production costs for the year allocated to the production of gold, based on gold's relative sales value, has decreased in relation to the other joint products due to a 33% decrease in the volume of physical gold produced during the year, resulting in a reduction in the unit cost of production per ounce of gold produced.

Selling, general and administrative expenses

During 2005, selling, general and administrative expenses increased by USD 20 million to USD 841 million as compared to USD 821 million in 2004. The increase was primarily due to an increase in export customs duties of USD 10 million, as a result of higher export revenues, as well as an increase in labour costs of USD 16 million.

Selling, general and administrative expenses (excluding Polus Group) for the year
(US Dollars million)

	2005	% from total	2004	% from total	% change y-o-y
Export custom duties	301	36	291	35	3
Salaries	194	23	178	22	9
Taxes other than mining and income taxes and pollution levies	68	8	74	9	(8)
Advertising	58	7	49	6	18
Other expenses	220	26	229	28	(4)
Total	**841**	**100**	**821**	**100**	**2**

Other net operating expenses

During 2005, other net operating expenses decreased by USD 138 million to USD 156 million as compared to USD 294 million in 2004. The main reason for the reduction was the decrease of expenses related to the loss on disposal of property, plant and equipment of USD 109 million to USD 28 million and the decrease in the allowance for value added tax recoverable of USD 57 million. In addition, the provision for tax penalties increased by USD 56 million and operating profit from non-mining operations decreased by USD 18 million, besides foreign exchange difference increased by USD 42 million.

Other net operating expenses (excluding Polus Group) for the year
(US Dollars million)

	2005	2004	% change y-o-y
Maintenance of social sphere facilities	69	51	35
Donations	49	51	(4)
Loss on disposal of property, plant and equipment	28	137	(80)
Change in provision for tax penalties	15	(41)	(137)
Change in allowance for value added tax recoverable	15	72	(79)
Impairment of property, plant and equipment	10	19	(47)
Foreign exchange (gain)/loss, net	(1)	41	(102)
Change in allowance for doubtful debts	(10)	3	(433)
Operating profit from non-mining entities	(16)	(34)	(53)
Other	(3)	(5)	(40)
Total other operating expenses, net	**156**	**294**	**(47)**

Finance cost

During 2005, net finance costs increased by USD 84 million to USD 121 million as compared to USD 37 million in 2004 mainly due to an increase of interest expenses on borrowings, unwinding of discount on decommissioning obligations, interest expense on pension obligations and foreign currency exchange losses from revaluation of borrowings denominated in USD.

Net finance cost (excluding Polus Group) for the year
(US Dollars million)

	2005	2004	% change y-o-y
Interest expense on borrowings	75	63	19
Unwinding of discount on decommissioning obligations	12	4	200
Interest expense on pension obligations	8	—	n/a
Foreign currency exchange loss/(gain) from revaluation of borrowings, net	26	(30)	(187)
Total finance cost, net	**121**	**37**	**227**

Net income from investments

During 2005, income from investments increased by USD 19 million to USD 57 million as compared to USD 38 million in 2004 mainly due to an increase of interest income.

Share of profits/(losses) of associates

The share of profits/losses of associates has significantly increased in 2005 due to an identification of an impairment of investments in OJSC "Kolenergo" in the amount of USD 36 million in 2004.

Income tax

During 2005, the income tax provision increased by 31% from USD 642 million in 2004 to USD 838 million in 2005. This increase was mainly due to the growth of pre-tax income of the Norilsk Nickel Group.

During 2005, the effective income tax rate increased to 27% from 26% in 2004 as a result of the increased effect from the application of different income tax rates in the countries where Norilsk Group's foreign operations are located and the increased tax effect from expenses not deductible for tax purposes.

Income tax for the year
(US Dollars million)

	2005	2004	% change y-o-y
Current tax expense	911	766	19
Deferred tax benefit	(73)	(124)	(41)
Total	**838**	**642**	**31**

Profit/(loss) for the year from discontinued operation

Profit for the year from discontinued operation increased from a loss of USD 8 million in 2004 to a profit of USD 74 million in 2005 mainly due to impairment of goodwill on the acquisition of OJSC "Lenzoloto", which was recognized in 2004 in the amount of USD 115 million.

Profit for the year

Profit for the year from continuing operations increased from USD 1,857 million in 2004 to USD 2,352 million in 2005 as a result of higher prices for metals sold and better control over expenditures.

Balance sheet

The following is a discussion of some of the most significant line items in the consolidated balance sheet of the Norilsk Group as at June 30, 2007, December 31, 2006, 2005 and 2004

	June 30, 2007	December 31, 2006	December 31, 2005	December 31, 2004
ASSETS				
Non-current assets				
Property, plant and equipment	15,644	8,134	7,145	7,852
Goodwill	26	25	14	—
Intangible assets	60	48	30	24
Investments in associates	4,209	208	95	162
Investments in securities and other financial assets	2,539	2,615	690	1,407
Taxes receivable	50	44	94	220
Deferred tax assets	26	—	—	—
Pension plans assets	37	—	—	—
Non-current assets of disposal group	—	—	1,109	—
	22,591	**11,074**	**9,177**	**9,665**
Current assets				
Inventories	2,235	1,471	1,301	1,442
Trade and other receivables	1,249	850	478	554
Investments in securities and other financial assets	390	104	134	30
Taxes receivable	679	602	529	595
Cash and cash equivalents	7,573	2,178	922	1,346
Current assets of disposal group	—	—	2,189	—
	12,126	**5,205**	**5,553**	**3,967**
TOTAL ASSETS	**34,717**	**16,279**	**14,730**	**13,632**

	June 30, 2007	December 31, 2006	December 31, 2005	December 31, 2004
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	8	8	9	9
Share premium	611	611	695	683
Treasury shares	(999)	(999)	(1,457)	—
Other reserves	3,348	2,562	1,438	1,070
Retained earnings	13,540	10,635	10,378	8,515
Equity attributable to shareholders of the parent company	**16,508**	**12,817**	**11,063**	**10,277**
Minority interest	955	319	334	366
	17,463	**13,136**	**11,397**	**10,643**
Non-current liabilities				
Long-term borrowings	4,119	632	635	657
Employee benefit obligations	11	57	56	50
Environmental obligations	412	322	269	155
Derivative financial liabilities	82	—	—	—
Liabilities associated with acquisition of business from OM Group	74	—	—	—
Deferred tax liabilities	2,739	881	543	740
Non-current liabilities of disposal group	—	—	236	—
	7,437	**1,892**	**1,739**	**1,602**
Current liabilities				
Short-term borrowings	2,368	158	357	552
Current portion of employee benefit obligations	275	259	212	265
Current portion of environmental obligations	26	—	—	—
Trade and other payables	5,847	421	300	299
Taxes payable	412	393	187	261
Derivative financial liabilities	13	15	—	—
Dividends payable	856	5	301	10
Liabilities associated with acquisition of business from OM Group	20	—	—	—
Current liabilities of disposal group	—	—	237	—
	9,817	**1,251**	**1,594**	**1,387**
TOTAL EQUITY AND LIABILITIES	**34,717**	**16,279**	**14,730**	**13,632**

The balance sheet total as at June 30, 2007 was USD 34,717 million and increased over the first six months of 2007 by USD 18,438 million (or 113%), of which USD 261 million (or 2%) is due to the effect of the translation of rouble amounts into U.S. dollar amounts.

The balance sheet structure as at June 30, 2007 has changed dramatically compared to the balance sheet as at December 31, 2006 mainly due to the latest acquisitions and consolidation of Harjavalta Nickel Oy, Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and LionOre Group and the increase of ownership in OJSC "WGC-3":

- the share of non-current assets decreased from 68% to 65%;
- the liquidity of current assets increased (the share of monetary assets in the overall current assets increased from 42% to 62%);
- the share of capital and reserves decreased to 51% as compared to 81% as at December 31, 2006;
- the share of non-current liabilities increased from 12% to 21%; and
- the share of current liabilities increased from 7% to 28%.

The share of other balance sheet items changed insignificantly.

The balance sheet total as at the end of 2006 was USD 16,279 million and increased by USD 1,549 million (or 11%) as compared to year ended December 31, 2005, of which USD 832 million is due to the effect of the translation of rouble amounts into U.S. dollar amounts.

The balance sheet structure has changed compared to 2005:

- the share of non-current assets increased from 62% to 68%;
- the liquidity of current assets increased (the share of cash and cash equivalents in the overall current assets increased from 17% to 42%);
- the share capital and reserves increased to 81% as compared to 77% in 2005;
- the share of current liabilities decreased from 11% to 7%.

Changes to other balance sheet items not discussed below were insignificant.

As at the end of 2005, the balance sheet total was USD 14,730 million and increased by USD 1,098 million (or 8%) as compared to year ended December 31, 2004.

Property, plant and equipment

As at June 30, 2007, property, plant and equipment amounted to USD 15,644 million as compared to USD 8,134 million as at December 31, 2006. The increase of property, plant and equipment by USD 7,510 million was due to an increase of capital construction-in-progress of mining, metallurgical and energy facilities, additions of property, plant and equipment of USD 122 million as a result of the acquisition and consolidation of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and LionOre Group of USD 7,380 million and the effect of the translation of rouble amounts into U.S. dollar amounts by USD 142 million. The remaining portion relates to the depreciation charge that is in line with year end results and the disposal of property plant and equipment.

As at December 31, 2006, property, plant and equipment amounted to USD 8,134 million as compared to USD 7,145 million as at December 31, 2005. The increase in property, plant and equipment by USD 989 million was due to an increase of capital construction-in-progress of mining, metallurgical and energy facilities, additions of property, plant and equipment of USD 313 million as a result of the acquisition of OJSC Taimyrenergo and the effect of the translation of rouble amounts into U.S. dollar amounts by USD 628 million. The increase was partially eliminated by a depreciation charge that amounted to USD 579 million, an impairment that amounted to USD 87 million and disposals of property, plant and equipment with carrying value of USD 66 million.

As at December 31, 2005, property, plant and equipment amounted to USD 7,145 million as compared to USD 7,852 million as at December 31, 2004. The decrease by USD 707 million was the result of a reclassification to non-current assets of the disposal group due to the spin-off of the Polus Group assets worth USD 1,238 million (less accumulated depreciation of USD 133 million); depreciation charges for 2005 amounted to USD 587 million and sale of subsidiaries worth USD 14 million (less accumulated depreciation USD 2 million). The decrease of fixed assets was partially offset by the commissioning of property, plant and equipment transferred from capital construction-in-progress amounting to USD 561 million and acquisitions through acquisitions of subsidiaries of new assets for USD 445 million.

Investments in associates

As at June 30, 2007, investments in associates amounted to USD 4,209 million as compared to USD 208 million as at December 31, 2006. The increase of investments in associates by USD 4,001 million was mainly due to the increase of the Group's ownership interest in OJSC "WGC-3" from 14.6% as at December 31, 2006 to 46.9% as at June 30, 2007 and the acquisition of a 50% joint-venture share in Nkomati Nickel Mine through the acquisition of control over the LionOre Group.

As at December 31, 2006, investments in associates amounted to USD 208 million as compared to USD 95 million as at December 31, 2005. The increase of investments in associates by USD 113 million was mainly due to the acquisition of 50% of ownership interests in Smart Hydrogen Inc., a joint venture formed by the Norilsk Group and Interros Holding Company in April 2006, for the total consideration of USD 150 million and due to a reclassification of investments in OJSC "Kolenergo" in the amount of USD 56 million from investments held for sale to investments in associates since management has changed its plan to sell this investment. Partially, the increase was eliminated by an impairment loss of investments in Smart Hydrogen Inc. recognized at the end of 2006 in the amount of USD 36 million.

As at December 31, 2005, investments in associates amounted to USD 95 million as compared to USD 162 million as at December 31, 2004. The decrease of investments in associates by USD 67 million was mainly due to a reclassification of investment in OJSC "Kolenergo" in the amount of USD 56 million to investments held for sale as a result of the Company's Board of Directors approval of decision to sell this investment.

Investments in securities and other financial assets

As at June 30, 2007, the current and non-current investments in securities and other financial assets amounted to USD 2,929 million compared to USD 2,719 million as at December 31, 2006. The increase by USD 155 million resulted primarily from the change of classification of investments in OJSC "WGC-3" (from available-for-sale to investments in associates) due to increase of ownership from 14.6% as at December 31, 2006 to 46.9% as at June 30, 2007, the acquisition of investments through the acquisitions and consolidation of Harjavalta Nickel Oy, Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and LionOre Group. The remaining portion reflects results of the valuation, which corresponds to the change in the market value of the respective assets.

As at December 31, 2006, the current and non-current investments in securities and other financial assets amounted to USD 2,719 million compared to USD 824 million as at December 31, 2005. The increase by USD 1,895 million resulted primarily from the acquisition of securities of OJSC "WGC-3", and the receipt of shares of OJSC "TGK-1" as a result of the reform of the Russian energy sector. The value of the Norilsk Group's financial investments in RAO UESR shares was adjusted to reflect the results of the valuation, which corresponds to the change in the market value of the respective assets.

At December 31, 2005, the current and non-current investment in securities and other financial assets amounted to USD 824 million as compared to USD 1,437 million at December 31, 2004. The decrease of USD 613 million resulted mainly from reclassification of the 20% stake in Gold Fields to current assets of the disposal group, aimed at the consolidation of the gold mining assets in the Polus Group and partly was compensated due to the acquisition of investments in RAO UESR in the amount of USD 326 million.

Pension plan assets and employee benefit obligations

Starting from the second half of the 2006 financial year, the Norilsk Group's pension plans were managed by a non-state Pension Fund "Norilsk Nickel". Contribution from the Norilsk Group to this Fund during the period ended June 30, 2007 amounted to USD 126 million (December 31, 2006: USD 11 million). The unearned portion in the amount of USD 37 million of these contributions were presented as pension plan assets and the remaining portion was set-off against employee benefit obligations.

Taxes receivable

As at June 30, 2007, current and non-current taxes receivable amounted to USD 729 million as compared to USD 646 million as at December 31, 2006. The increase was due to a rise in value added tax recoverable and custom duties prepaid. Value added tax recoverable arose due to an acquisition of subsidiaries made in the first half of 2007. The increase of prepaid export custom duties by USD 15 million is explained mainly by the metal prices growth.

As at December 31, 2006, current and non-current taxes receivable amounted to USD 646 million as compared to USD 623 million as at December 31, 2005. The increase was due to changes in the tax legislation for VAT and tax administration effective starting January 1, 2006.

At December 31, 2005 current and non-current taxes receivable amounted to USD 623 million as compared to USD 815 million at December 31, 2004. The net decrease was mainly due to the decrease in the non-current VAT recoverable of USD 60 million.

Assets and liabilities of disposal group

On September 30, 2005 at the Extraordinary General Meeting of Shareholders of Norilsk, the majority of shareholders voted in favour of the spin-off of CJSC "Gold Mining Company Polus" and its subsidiaries into a separate company OJSC "Polyus Gold" by way of a single transaction which was completed on March 17, 2006. Due to the spin-off of the gold mining assets, the financial results, assets and liabilities of the Polus Group intended for spin-off were presented separately in the respective sections of the consolidated balance sheet as of December 31, 2005, which is in compliance with the requirements of the International Financial Reporting Standard No. 5 "Non-Current Assets Held for Sale and Discontinued Operations". The results from Polus Group operations for the years ended December 31, 2004 and 2005 and from January 1, 2006 to March 17, 2006 — the completion date of the spin-off, are also shown separately as profit from discontinued operation.

Inventories

As at June 30, 2007, finished goods, work-in-process and stores and materials amounted to USD 2,235 million as compared to USD 1,471 million as at December 31, 2006. The increase is due to:

- the consolidation of the inventory balances of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and LionOre Group in the amount of USD 319 million;
- the growth of by-product balances by USD 138 million, primarily due to growth of the value of by-products stock;
- the growth of base metal stock (nickel and copper) by USD 219 million due to seasonality; and
- the effect of translation to presentation currency by USD 88 million.

As at December 31, 2006, finished goods, work-in-process and stores and materials amounted to USD 1,471 million as compared to USD 1,301 million as at December 31, 2005. The increase was mainly due to the growth in value of by-product balances and the increase in the balances of stores and materials due to inflation, as well as the effect of translation to presentation currency (USD 111 million).

As at December 31, 2005, finished goods, work-in-process and stores and materials amounted to USD 1,301 million as compared to USD 1,442 million as at December 31, 2004. The reduction was mainly due to a decrease of metal stock of USD 59 million, a decrease of materials of USD 70 million and an increase in the allowance for obsolescence of USD 12 million in respect of other stores and materials.

Cash and cash equivalents

As at June 30, 2007, cash and cash equivalents amounted to USD 7,573 million as compared to USD 2,178 million as at December 31, 2006. The increase in balances of cash and cash equivalents is mainly due to the July settlement of account payables for the acquisition of 90.7% of LionOre shares in the amount of USD 5,233 million.

As at December 31, 2006, cash and cash equivalents amounted to USD 2,178 million as compared to USD 922 million as at December 31, 2005. The increase in balances of cash and cash equivalents is mainly due to the significant growth of revenues from metal sales.

As at December 31, 2005, cash and cash equivalents amounted to USD 922 million as compared to USD 1,346 million as at December 31, 2004. The reduction of the cash balances is mainly due to the buy-back of the Company's ordinary shares.

Capital and reserves

As at June 30, 2007, capital and reserves amounted to USD 17,463 million (including minority interests of USD 955 million) as compared to USD 13,136 million (including minority interests of USD 319 million) as at December 31, 2006.

Key factors that affected capital and reserves were as follows:

- profit for the period in the amount of USD 3,808 million;
- dividends declared by the Norilsk Group during the six month period of 2007 amounted to USD 842 million;
- change in minority interest in the amount of USD 623 million due to the acquisition of LionOre;
- increase of the fair value reserve for investments available-for-sale in the amount of USD 539 million; and
- increase of the accumulated exchange rate differences reserve in the amount of USD 282 million.

As at December 31, 2006, sharecapital and reserves amounted to USD 13,136 million (including minority interests of USD 319 million) as compared to USD 11,397 million (including minority interests of USD 334 million) as at December 31, 2005.

Key factors that affected capital and reserves were as follows:

- profit for the year in the amount of USD 5,965 million;
- dividends declared by the Norilsk Group during the year ended December 31, 2006 amounted to USD 772 million;

- repurchase of the Company's shares for USD 999 million;
- increase of the fair value reserve for investments available-for-sale in the amount of USD 920 million; and
- increase of the accumulated exchange rate differences reserve in the amount of USD 1,044 million.

As at December 31, 2005, capital and reserves amounted to USD 11,397 million (including minority interests of USD 334 million) as compared to USD 10,643 million (including minority interests of USD 366 million) at December 31, 2004.

Key factors that affected the share capital and reserves were as follows:

- profit for the year in the amount of USD 2,352 million;
- dividends declared by the Norilsk Group during the year ended December 31, 2005 amounted to USD 492 million;
- repurchase of the Company's shares of USD 1,457 million;
- increase of the fair value reserve for investments available-for-sale in the amount of USD 744 million; and
- decrease of the accumulated exchange rate differences provision in the amount of USD 390 million.

Long and short term borrowings

As at June 30, 2007, loans and borrowings of the Norilsk Group increased by USD 5,697 million (or 721%) against USD 790 million as at December 31, 2006. The majority of the loans and borrowings were arranged in the form of a syndicated loan by Societe Generale (Paris) for the purpose of the acquisitions of LionOre Group.

As at December 31, 2006, loans and borrowings of the Norilsk Group decreased by USD 202 million (or 20%) against USD 992 million as at December 31, 2005. This decrease was mainly due to the material growth of cash generated by operations to a level sufficient to finance the Norilsk Group's investing activities.

As at December 31, 2005, loans and borrowings of the Norilsk Group decreased by USD 217 million (or 18%) against USD 1,209 million as at December 31, 2004. This decrease was mainly due to the material growth of cash generated by operations to a level sufficient to finance the Norilsk Group's investing activities.

Environmental obligations

As at June 30, 2007, environmental obligations amounted to USD 438 million as compared to USD 322 million as at December 31, 2006. The increase in balance of environmental obligations is mainly due to the acquisition of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and LionOre Group.

As at December 31, 2006, environmental obligations amounted to USD 322 million as compared to USD 269 million as at December 31, 2005. The increase in the balance of environmental obligations was mainly due to the unwinding of the discount on decommissioning obligations, which amounted to USD 19 million and the effect of the translation of rouble amounts into U.S. dollar amounts amounted to USD 24 million.

As at December 31, 2005, environmental obligations amounted to USD 269 million as compared to USD 155 million as at December 31, 2004. The increase in balance of environmental obligations was mainly due to a significant change in the estimate of the closure costs of mines at the end of 2005.

Derivative financial liabilities

As at June 30, 2007, derivative financial liabilities amounted to USD 95 million as compared USD 15 million as at December 31, 2006. The increase in the balance of derivative financial liabilities was mainly due to the effect of the acquisition and consolidation of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and the LionOre Group.

Liabilities associated with acquisition of business from OM Group

As a part of the business combination, the Norilsk Group entered into a five-year supply agreement with the OM Group Incorporated (ex-controlling owner of Harjavalta Nickel Oy and Cawse Proprietary Limited).

The value of liabilities under these contracts, at March 1, 2007 was provisionally determined to be USD 96 million.

Deferred tax liabilities

As at June 30, 2007, the deferred tax liabilities amounted to USD 2,739 million as compared to USD 881 million as at December 31, 2006. The increase in the balance of deferred tax liabilities was mainly due to the effect of the acquisition and consolidation of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and LionOre Group.

Liquidity and capital resources

In addition to financing its existing operations, the Norilsk Group's liquidity needs arise principally from the need to finance the acquisitions of strategic assets, capital construction and investments in property, plant and equipment. In general, the Norilsk Group was able to meet most of its liquidity needs using cash from operating activities in the periods under review.

Historical cash flows

(US Dollars million)

	Six months ended June 30, 2007	Six months ended June 30, 2006[1]	Year ended December 31, 2006	Year ended December 31, 2005[1]	Year ended December 31, 2004[1]
Net cash generated from operating activities	3,399	1,791	5,647	2,961	2,486
Net cash (used in)/generated from investing activities	(3,517)	1,548	378	(1,427)	(2,010)
Net cash generated from/(used in) financing activities	5,398	(3,259)	(4,909)	(1,873)	42
Net increase in cash and cash equivalents	**5,280**	**80**	**1,116**	**(339)**	**518**
Net cash and cash equivalents at beginning of the period	2,178	922	922	1,325	781
Effect of translation to presentation currency	115	59	140	(36)	47
Cash and cash equivalents of disposal group	—	—	—	(28)	
Net cash and cash equivalents at end of the period	**7,573**	**1,061**	**2,178**	**922**	**1,346**

Note:

1 Certain comparative information, presented in the information statement for the periods before the year ended December 31, 2006, has been reclassified. Reclassifications of comparative cash flow statements, individually or in the aggregate, were not material to the consolidated financial statements of the Norilsk Group.

Net cash generated from operating activities

The main source of cash for the Norilsk Group is net cash flows from operating activities. Due to the significant increase of revenue from metal sales in the six months ended June 30, 2007, net cash generated by operations increased nearly doubled and amounted to USD 3,399 million as compared to USD 1,791 million in the six months ended June 30, 2006.

During the six months ended June 30, 2007, a considerable growth in operating cash enabled Norilsk Nickel to expand the business through the acquisition and consolidation of Harjavalta Nickel Oy and Cawse Proprietary Limited (ex-OM Group nickel business subsidiaries) and LionOre Group and increase its ownership in OJSC "WGC-3" from 14.6% as at December 31, 2006 to 46.9% as at June 30, 2007. As at June 30, 2007, the total amount of cash spent on these acquisitions amounted to USD 3,215 million.

Due to the significant increase of revenue from metal sales in 2006, net cash generated by operations almost doubled and amounted to USD 5,647 million compared to USD 2,961 million in 2005. During 2006, a considerable growth of operating cash flows enabled the Norilsk Group to invest in operating assets and accumulate significant cash resources. Due to the significant growth of revenue from metal sales in 2005, net cash generated by operations increased by 19% and amounted to USD 2,961 million as compared to USD 2,486 million in 2004. During 2005, the considerable growth of operating cash flows enabled the Norilsk Nickel Group to invest in operating assets and maintaining a significant cash balance.

Net cash (used in)/generated from investing activities

Net cash outflow from investing activities in the six months ended June 30, 2007 amounted to USD 3,517 million.

The main components of the inflow include the sale of financial investments and proceeds from the sale of property, plant and equipment in the amount of USD 159 million and USD 68 million, respectively.

The cash outflow as a result of investing activities comprised the following key components:

- purchase of shares in subsidiaries and associates for USD 3,215 million; and
- acquisition of property, plant and equipment and intangible assets for USD 321 million.

Net cash inflow from investing activities in 2006 amounted to USD 378 million.

The main component of the cash inflow from investing activities was the sale of the 20% stake in Gold Fields Ltd. for USD 1,925 million.

The cash outflow from investing activities comprised the following key components:

- purchase of shares in subsidiaries and associates for USD 420 million; and
- acquisition of property, plant and equipment and intangible assets for USD 770 million.

In 2005, net cash outflows from investing activities were mainly used to finance the acquisition of property, plant and equipment, securities and other financial assets.

During 2005, the use of cash in investing activities decreased by USD 583 million to USD 1,427 million, this was mainly due to a significant acquisition of securities and other financial assets of USD 1,440 million, represented by the purchase of shares in Gold Fields Ltd. and energy companies such as OJSC ”Krasnoyarskenergo” and OJSC “Kolenergo” in 2004.

Net cash generated from/(used in) financing activities

In the six months ended June 30, 2007, net cash generated from financing activities amounted to USD 5,398 million. The cash inflow from the proceeds from loans and borrowings amounted to USD 7,350 million. The cash inflow for financing activities was partially offset by the repayment of cash for loans and borrowings in the amount of USD 1,901 million.

In 2006, net cash used in financing activities amounted to USD 4,909 million. The cash outflow comprised the following key components:

- cash distribution with regard to the spin-off of Polus Group of USD 2,366 million;
- repayment of loans and borrowings of USD 1,055 million; and
- distribution of dividends for USD 1,079 million and repurchase of the Company's shares for USD 999 million.

The cash outflow for financing activities was partially offset by cash proceeds from loans and borrowings of USD 573 million.

During 2005, the outflow of cash for financing activities significantly exceeded the inflow of cash and amounted to USD 1,873 million. During 2004 net cash inflow amounted to USD 42 million. The reason for the increase of cash outflow used in financing activity was mainly the repayment of loans and borrowings of USD 1,792 million, the buy-back of the Company's ordinary shares for USD 1,457 million and the payment of dividends of USD 201 million.

Net cash and cash equivalents

As at June 30, 2007, cash and cash equivalents amounted to USD 7,573 million as compared to USD 2,178 million as at December 31, 2006. The increase in balances of cash and cash equivalents is mainly due to the July settlement of accounts payable for the acquisition of 90.7% of LionOre shares in the amount of USD 5,233 million.

Net cash and cash equivalents increased in 2006 by USD 1,256 million to USD 2,178 million for the reasons set out above.

In 2005, net cash decreased by USD 424 million to USD 922 million for the reasons set out above.

MAJOR SHAREHOLDERS OF NORILSK

The following table shows the name, address and shareholding of each registered shareholder of Norilsk holding over 5% of Norilsk's shares as at October 26, 2007 (the EGM Record Date) based on the information received from the Company's registrar (unless otherwise stated herein).

Name and address of the registered shareholder[1]	Address	Total number of Norilsk Shares	Proportion of the total number of Norilsk Shares
		(million)	*(%)*
The Bank of New York International Nominees, as depositary under the Company's ADR Program[2]	101, Barclay Street, 22nd Floor-West, New York, N.Y. 10286, USA	48.8	25.6
Bonico Holdings Co. Limited[3]	Arch. Makariou III, 284 FORTUNA COURT, BLOCK B, 2nd Floor P.C. 3105, Limassol, Cyprus	27.5	14.4
Coverico Holdings Co. Limited[4]	Arch. Makariou III, 284 FORTUNA COURT, BLOCK B, 2nd Floor P.C. 3105, Limassol, Cyprus	16.2	8.5
CJSC KM Invest[5]	Bld.1, 32 Shepkina St., Moscow, Russian Federation	14.1	7.4
Bektanco Holdings Co. Limited[3]	Pavlou Liasidi 10, Agia Varvara, P.C. 2560, Nicosia, Cyprus	13.8	7.2
Rinsoco Trading Co. Limited[4]	Vyronos, 36 Nicosia, Cyprus	13.8	7.2
Total major shareholders		**134.2**	**70.3**

Notes:

1 The total number of shareholders registered in shareholders' register of the Company included 66,474 individuals, 1,753 legal entities and 15 nominee holders.

2 Excluding the Norilsk ADRs held by Rinsoco Trading Co. Limited and Bektanco Holdings Co. Limited.

3 The beneficial owner of this company is Mr. V.O. Potanin.

4 The beneficial owner of this company is Mr. M.D. Prokhorov.

5 The beneficial owners of this company are Mr. V.O. Potanin and Mr. M.D. Prokhorov. For the purposes of determining the beneficial ownership of interests of Mr. V.O. Potanin and Mr. M.D. Prokhorov, set forth below, each is deemed to beneficially own one half of the Norilsk Shares held by CJSC KM Invest.

Based on information received from the companies representing Mr. V.O. Potanin, as of October 26, 2007, Mr. V.O. Potanin was the beneficial owner of 48.3 million of Norilsk Shares (including those represented by Norilsk ADRs), constituting 25.3% of the outstanding Norilsk Shares.

Based on information received from the companies representing Mr. M.D. Prokhorov, as of October 26, 2007, Mr. M.D Prokhorov was the beneficial owner of 53.8 million of Norilsk Shares (including those represented by Norilsk ADRs), constituting 28.2% of the outstanding Norilsk Shares.

It is expected that these shareholders of Norilsk will be the principal shareholders of EnergoPolyus immediately following the Spin-off.

The Company has not independently verified information received from the beneficial owners' representatives.

TRANSACTIONS WITH RELATED PARTIES OF NORILSK

Related parties (as defined by IFRS) are considered to include shareholders, affiliates and entities under common ownership and control with the Norilsk Group. The Norilsk Group, in the ordinary course of their business, enter into various sales, purchases and services transactions with related parties.

The table below shows the monetary value and category of the material contracts that the Norilsk Group entered into with related parties during the periods indicated.

	Sale of goods	Purchase of goods	Purchase of services	Purchase of investments
Six months ended June 30, 2007				
Company	46	—	2	1
Subsidiaries of the Group	10	205	25	—
Total	**56**	**205**	**27**	**1**
Six months ended June 30, 2006				
Company	24	3	60	69
Subsidiaries of the Group	2	30	25	—
Total	**26**	**33**	**85**	**69**
Year ended December 31, 2006				
Company	54	12	71	70
Subsidiaries of the Group	51	154	69	—
Total	**105**	**166**	**140**	**70**

In May 2007, the Norilsk Group sold an investment in a subsidiary to a related party for a cash consideration of less than USD 1 million.

During the year ended December 31, 2006, the Group sold property, plant and equipment to related parties for a total cash consideration of approximately USD 19 million.

In November 2006 the Group sold its investment in OJSC "Krasnoyarskaya generatsiya" to related parties for a cash consideration of USD 156 million.

Outstanding balances with related parties

	Loans and borrowings	Investments and cash	Trade receivables	Trade payables
June 30, 2007				
Company	—	65	53	—
Subsidiaries of the Group	14	175	18	17
Total	**14**	**240**	**71**	**17**
June 30, 2006				
Company	—	461	6	26
Subsidiaries of the Group	5	160	4	58
Total	**5**	**621**	**10**	**84**
December 31, 2006				
Company	—	463	8	63
Subsidiaries of the Group	6	212	4	20
Total	**6**	**675**	**12**	**83**

All balances are unsecured and expected to be settled in cash. No guarantees have been given or received. Allowance for loan provided to a related party amounted to USD 70 million.

Compensation of key management personnel

Remuneration of key management personnel of the Group for the six months ended June 30, 2007 amounted to USD 15 million (June 30, 2006: USD 5 million; December 31, 2006: USD 13 million).

DESCRIPTION OF NORILSK CAPITAL STOCK

The charter capital of Norilsk consists of 190,627,747 issued ordinary registered shares, with a par value of 1 ruble per share (including 7,498,950 treasury shares held by Norilsk), all of which are outstanding. It is currently contemplated that Norilsk will sell the 7,498,950 treasury shares held by it during the fourth quarter of 2007. The timing of any such sale will depend on market conditions and other factors. If such sale were not to occur, such shares will need to be cancelled and Norilsk's charter capital decreased accordingly, as required by Russian law.

Rights of holders of Norilsk's common stock

Each fully paid ordinary registered share of Norilsk entitles its holder to (1) participate in shareholders' meetings; (2) the right to vote on all issues voted upon at shareholders' meetings; (3) receive information about the Company's activities and review the Company's documents in accordance with Norilsk's charter and Russian law; (4) receive dividends; (5) pre-emptive rights to acquire additional shares on a pro rata basis; (6) in the event of the liquidation of the Company, receive a pro rata share of the assets remaining after settlement with the Company's creditors; and (7) exercise other rights set forth in Norilsk's charter and Russian law.

Shareholders' meetings

The rights of shareholders are set forth in the Joint Stock Companies Law, and in Norilsk's charter. Shareholders have the exclusive right to decide certain issues expressly set forth in the Joint Stock Companies Law. These issues include, among others: (1) alteration of Company's charter and the size and composition of its authorized share capital; (2) election and early termination of the members of the Company's Board of Directors; (3) the Company's reorganization or liquidation; (4) approval of certain major transactions and interested party transactions; (5) approval of issuance of shares and bonds and other securities convertible into the Company's shares, where such approval is required by law or by the Company's charter; (6) making decisions on participation in holding companies, financial and industrial groups, associations and other alliances of commercial companies; (7) approval of year-end reports and RAS annual accounts, including the profit and loss report (profit and loss account); (8) approval of dividends; and (9) approval of main corporate documents of the Company.

Voting at a shareholders' meeting is on the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting. Decisions are generally passed by an affirmative vote of a majority of the voting shares present at a shareholders' meeting. The Joint Stock Companies Law and Norilsk's charter require a 75% affirmative vote of the voting shares present at a shareholders' meeting to approve, among other things, the following: (1) alteration of Company's charter; (2) the Company's reorganization or liquidation; (3) alteration of the size and composition of its authorized share capital; (4) the approval of major transactions involving assets with a value exceeding 50% of the balance sheet value of Norilsk's assets; and (5) approval of issuance of shares and bonds and other securities convertible into the Company's shares if the amount of such newly issued ordinary shares or convertible securities exceeds 25% of the previously issued ordinary shares.

The quorum requirement for the shareholders' meetings is generally met if more than 50% of the voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting is scheduled (pursuant to a decision by the Board of Directors) in which case the quorum requirement is met if shareholders owning at least 30% of the issued voting shares have registered at that meeting.

The annual shareholders' meeting must be convened by the Board of Directors between March 1 and June 30 of each year and the agenda must include the following items: (1) election of members of the Board of Directors; (2) election of members of the internal audit commission; (3) approval of an external auditor; and (4) approval of the annual report, balance sheet and profit and loss statement, as well as the distribution of income (including payment (declaration) of certain dividends) and losses of the Company. A shareholder owning in the aggregate no less than two percent of the Company's voting shares has the right, within 30 days of the end of a fiscal year, to propose items for the agenda of the annual shareholders' meeting and nominate candidates to the Board of Directors and the internal audit commission.

All Norilsk shareholders entitled to participate in a shareholders' meeting must be notified of a meeting no less than 20 days prior to the date of the meeting. However, if reorganization of the Company is an agenda item, shareholders must be notified at least 30 days prior to the date of the meeting, and if it is an extraordinary shareholders' meeting to elect the Board of Directors by cumulative vote, shareholders must be notified at least 70 days prior to the date of the meeting. The record date of the shareholders' meeting is set by the Board of Directors and may not be (1) earlier than the date of adoption of the resolution to hold a shareholders' meeting and (2) more than 50 days before the date of the meeting. In the case of an extraordinary shareholders' meeting to elect the Board of Directors, the record date must be within the 85 — day period prior to the meeting.

Extraordinary shareholders' meetings may be called by the Board of Directors on its own initiative or at the request of the internal audit commission, the external auditor or shareholders owning not less than 10% of voting shares of the Company.

The rights of holders of Norilsk ADRs to vote in respect of resolutions at a shareholders' meeting are described in Section 4.07 of the Norilsk Deposit Agreement dated June 15, 2001, as amended and restated, among Norilsk, the Bank of New York as Depositary, and all Owners and Beneficial Owners from time to time of American depositary receipts issued thereunder.

Dividends and dividend rights

Russian law governs the procedure for payment of dividends that a company may distribute to its shareholders. Dividends may be paid on a quarterly, semi-annual or annual basis. Under the Joint Stock Companies Law and Norilsk's charter, dividends may only be paid out of the net income of the Company, calculated according to RAS. The Company may declare a dividend distribution only if: (1) the charter capital has been paid in full; (2) the net assets value is not less than its charter capital and reserve fund or would not become less than the amount thereof as a result of adoption of such decision; (3) Norilsk has repurchased all shares that particular shareholders had the right to require Norilsk to repurchase; and (4) Norilsk is not, and will not become, insolvent (as defined under Russian law) as a result of the payment of dividends. The Board of Directors of Norilsk recommends the amount of dividends to the shareholders, who approve such dividends by a majority vote at the annual shareholders' meeting. The dividend approved at the shareholders' meeting may not exceed that recommended by the Board of Directors.

Pre-emptive rights

The Joint Stock Companies Law and Norilsk's charter grant the existing shareholders a pre-emptive right to purchase shares or securities convertible into shares that Norilsk may propose to sell in a public offering, proportionate to their existing stake. In a closed subscription of shares or securities convertible into shares, shareholders who voted against it or did not vote on such closed subscription are entitled to acquire an amount of such shares or convertible securities proportionate to their existing stake. This rule does not apply when the shares are placed in a closed subscription solely among the existing shareholders, provided that all such existing shareholders are entitled to acquire a whole number of new shares in proportion to their existing holdings. Norilsk must notify shareholders in writing of the proposed sale of securities. Such notice must also set forth the pre-emptive rights election period, which may not be less than 45 (or in certain cases 20) days from the date of such notice.

Anti-Takeover Protection and Buy-out Procedures

Under the Joint Stock Companies Law, a person intending to purchase more than 30% of the ordinary shares or the voting preferred shares (taking into account those already held by such person together with its affiliates) of an open joint-stock company has the right to make to all holders of the company's voting shares, and to holders of the company's other securities convertible into voting shares, a public offer to purchase such remaining shares or such other securities (i.e., a voluntary offer). Within 35 calendar days after any acquisition by which the acquirer's shareholdings exceed 30%, 50% or 75% of the voting ordinary or preferred shares (taking into account those already held by the acquirer together with its affiliates) of an open joint-stock company or after the date when a person or entity learns that if together with its affiliates holds the respective number of shares in an open joint-stock company, the acquirer must, except in certain limited circumstances (such as reorganization, including the Spin-off), make a public offer to purchase the remaining voting shares, and the company's other securities convertible into voting shares, from all other shareholders or holders of relevant securities (i.e., a mandatory offer). The price offered in a mandatory offer may not be less than the weighted average market price of the company's securities over the six month period before the filing of the mandatory offer with the FSFM, as described below, if the securities are publicly traded, or the price supplied by an independent appraiser if the securities have no or insufficient trading history. In addition, the public offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the date the mandatory offer was sent to the company. The acquirer's payment obligations arising from both voluntary and mandatory offers must be secured in each case by an irrevocable bank guarantee effective for at least six months after the relevant payment date. Until the date the mandatory offer was sent to the company, the acquirer and its affiliates will be able to register for quorum purposes and vote only 30% or, as applicable, 50% or 75% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings).

Voluntary and mandatory offers are made to the relevant holders of the company's securities through the company. From the date of a public offer until 20 calendar days after its expiry (which period may in certain cases exceed 100 calendar days) the company's shareholders' meeting will have the sole power to make decisions on share capital increase, issuance of securities convertible into shares, approval of major, interested party and certain other transactions, and on certain other significant matters.

At any time after the company receives a voluntary or a mandatory offer and until 25 calendar days prior to its expiry, any third party may make a competing offer (that satisfies the requirements for voluntary or mandatory offers, as applicable) to purchase the same or a greater number of securities and at a price that is equal to or greater than those offered in the voluntary or mandatory offer. In response to any such competing offer, any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the voluntary or mandatory offer so that such person may amend its offer by increasing the purchase price and/or shortening the settlement period and/or extending the acceptance period to the date of expiration of the competing offer.

If as a result of either a voluntary or a mandatory offer the acquirer purchases more than 95% of the voting shares of an open joint-stock company, it will have an obligation to (1) notify all the other shareholders (within 35 calendar days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares; and (2) purchase the respective shares upon request of each minority shareholder made within 6 months after the notice is sent to shareholders by the company, at the price determined in the manner described in the preceding paragraph but not less than the highest price of the previous acquisitions by the acquirer or its affiliates. The notice must be accompanied by an irrevocable bank guarantee securing the acquirer's payment obligations. Instead of giving such notice, the acquirer may exercise the right to deliver a buy-out demand, binding on the minority shareholders, requiring that they sell their shares at the same price (such demand may be made if in course of the voluntary or mandatory tender offer followed by such notice the acquirer purchased at least 10% of the company's shares).

If the company is publicly traded, notice of any voluntary or mandatory offers, notices or buy-out demands described above must be filed with the FSFM prior to such offer, notice or demand; otherwise, such offers, notices or buy-out demands must be filed with the FSFM not later than the date of the offer, notice of demand. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with applicable law.

Interested party transactions

Norilsk is required by Russian law and its charter to obtain the approval of disinterested directors or shareholders for certain transactions with "interested parties". In general terms, interested parties are defined by Russian law to include any of the shareholders that own (together with their affiliates) at least 20% of the Company's voting shares, and Norilsk's directors and certain executives identified in the law, if any such person or such person's relatives or affiliates are (1) a party to, or a beneficiary of, a transaction with the Company, whether directly or as a representative or an intermediary; (2) the owner of at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, the transaction with the Company, whether directly or as a representative or an intermediary; or (3) a member of the board of directors or an officer of a legal entity that is a party to, or a beneficiary of, a transaction with the Company, whether directly or as a representative or an intermediary.

Since Norilsk has more than 1,000 shareholders, the Joint Stock Companies Law requires that the Company's transactions with interested parties be approved: (1) by a majority vote of the independent (as such term is defined in the Joint Stock Companies law) directors who are not "interested" in the transaction; or (2) by majority vote of shareholders who are not "interested" in the transaction if (i) the value of the transaction (including any related transactions) exceeds 2% of Norilsk-'s assets, (ii) the transaction involves the issuance of ordinary shares or securities convertible into ordinary shares in an amount exceeding 2% of Norilsk's ordinary shares, or (iii) all members of the Board of Directors are not eligible to vote.

Major transactions

Norilsk is required by Russian law and its charter to obtain: (1) the unanimous approval of all members of the Board of Directors of transactions involving property worth more than 25% but less than 50% of the book value of the Company's assets calculated according to RAS, or (2) the approval of the shareholders (i) by three-fourths majority of the shareholders present at the shareholders' meeting for transactions involving property worth more than 50% of the book value of the Company's assets calculated according to RAS or (ii) by a simple majority of the shareholders present at the meeting for transactions involving property worth more than 25% but less than 50% of the book value of Norilsk's assets calculated according to RAS if such transactions were not approved unanimously by its Board of Directors. Pursuant to its charter, Norilsk is also required to obtain the approval of its Board of Directors for any expenditure in excess of USD 5 million if such expenditure was not set out in the Company budget as well as for any transaction constituting 2 or more per cent of the balance sheet value of the Company assets as at the last reporting date.

Board of Directors

Pursuant to Norilsk's charter, the Board of Directors consists of nine members, each of whom is elected until the next annual shareholders' meeting. Persons elected to the Board of Directors may be re-elected an unlimited number of times. The Chairman of the Board of Directors is elected by the Board of Directors from among its members by a majority vote of the total number of members of the Board of Directors of the Company. Pursuant to a decision adopted by shareholders at a shareholders' meeting, the powers of all members of the Board of Directors may be terminated early.

Norilsk's Board of Directors may decide any issue that does not require a shareholder vote. Norilsk's charter provides that actions taken by the Board of Directors require the affirmative vote of a majority of its members unless otherwise specified in the charter or applicable law. The meetings of the Board of Directors are quorate in case at least half of the elected members of the Board of Directors are present at the meetings. However, the following issues require that at least two-thirds of the directors be present at the meeting of the Board of Directors, including at least one independent director: (1) a proposal to submit to the shareholders' meeting a resolution on the reorganization or liquidation of the Company or an increase or decrease of the Company charter capital, (2) the identification of priority directions of the Company's operations and the concepts and strategies of Company development, the implementation of those strategies, the approval of the Company's plans and budgets, and the approval of changes to the Company plans and budgets, (3) recommendations on the amount of dividends payable per share and their payment procedure, as well as the approval of the Company's dividend policy, and (4) the Company's participation in other organizations and transactions involving the Company's equity stakes or shares which will or may lead to the disposal or encumbrance of such equity stakes or shares, as well as other decisions that may lead to the change in the size of the Company's equity stakes in other companies.

Liquidation and reorganization

Under Russian law and pursuant to Norilsk's charter, the liquidation of the Company, which results in its termination without the transfer of rights and obligations to other persons as legal successors, and reorganization of the Company may be effected by: (1) the affirmative vote of 75% of the votes present at a shareholders' meeting; (2) a court order; or (3) on other grounds provided by legislation, including, for example, in the event of the Company's bankruptcy. Creditors' claims may be filed within a period determined by a liquidation commission that will be appointed once the decision to liquidate has been made. Creditors' claims will be satisfied in the order of priority specified in the Civil Code. The remaining assets of the Company will be distributed among shareholders pursuant to the Civil Code. In the event of the Company's bankruptcy, the liquidation procedure must comply with the Federal Law "On Insolvency (Bankruptcy)" No. 127-FZ dated October 26, 2002.

Share registration, transfers and settlement

All of Norilsk's issued shares are registered shares. Russian law requires that each Russian joint stock company maintain a shareholders register. Ownership of registered shares is evidenced by entries made in the register. The register holder of Norilsk is CJSC National Registration Company (NRC). All transfers of Norilsk's shares must be registered in the Company' register, or, if the shares are held by a nominee, in the books of such nominee. When making entries in the register, the registrar may not require documents beyond what is required by current regulations. Any refusal by the registrar to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee, is void, unless based on legal grounds, and may be challenged in court. For more information, see the Company's website at http://www.nornik.ru/en.

DIVIDEND POLICY OF NORILSK

The dividend policy of the Norilsk Group, which was approved in 2002, targets an annual dividend payment of 20-25% of the Norilsk Group's profit for the period attributable to the shareholders of the parent company, calculated in accordance with IFRS. The dividend policy of the Norilsk Group is not expected to be affected by the Spin-off, given that the income derived by Norilsk from its investment in the Power Companies does not form a substantial part of the Norilsk Group's profits and the Spin-off is not expected to have a significant effect on the amount of the Norilsk Group's dividends paid historically.

EnergoPolyus' dividend policy will be developed and determined by EnergoPolyus' directors after the Spin-off is completed.

DIVIDEND POLICY OF WGC-3

WGC-3 has currently no approved dividend policy but is planning to approve such a policy in the future.

THE LEVEL 1 ADR PROGRAM

Non-U.S. issuers may set up ADR programs in the United States. In a Level 1 ADR Program, American depositary shares trade in the United States in the over-the-counter market. American depositary shares are usually issued by a depositary and the underlying shares are deposited with the depositary's foreign correspondent, the custodian. Holders of American depositary shares can exchange their American depositary shares for the underlying shares at any time, and additional shares, subject to limitations of applicable law, may be deposited against issuance of additional American depositary shares. An American depositary share may represent one or more shares of the issuer or less than one share. Russian law currently stipulates that no more than 35% of a company's outstanding share capital may be held in the form of depositary shares.

In order to establish a Level 1 ADR Program, a non-U.S. issuer must, subject to compliance with applicable local laws and regulations, register the American depositary shares under the Securities Act on a Form F-6 registration statement with the SEC. Form F-6 registration is subject to a number of conditions. First, holders of the American depositary shares must generally be entitled to withdraw the underlying securities at any time; this right of withdrawal may be subject to (1) temporary delays caused by closing the transfer books of the depositary or by the issuer of the underlying shares in connection with voting at a shareholders' meeting or the payment of dividends, (2) the payment of fees, taxes and similar charges and (3) compliance with any laws or governmental regulations relating to American depositary shares or to the withdrawal of deposited shares. Second, the shares to be deposited must either be registered under the Securities Act or acquired by the depositors in transactions exempt from registration under the Securities Act, such as secondary market transactions. Thirdly, the issuer of the underlying shares must (1) be a reporting company under the Exchange Act or (2) have obtained an exemption from such reporting pursuant to Rule 12g3-2(b). It is currently expected that EnergoPolyus will apply for a Rule 12g3-2(b) exemption after the Formation Date. See "Additional Information". It is further expected that EnergoPolyus will apply to the FSFM for approval of its proposed Level 1 ADR Program promptly following the Trading Date and listing of EnergoPolyus Shares on one or more of the Russian stock exchanges.

Upon obtaining a Rule 12g3-2(b) exemption and the approval of the FSFM for the Level 1 ADR Program, EnergoPolyus is currently expected to register the EnergoPolyus ADRs on a Form F-6 registration statement with the SEC. The Form F-6 will contain the deposit agreement entered into by and among the depositary, the issuer and the holders and beneficial owners of EnergoPolyus ADRs. It is currently expected that the deposit agreement to be entered into in connection with the Level 1 ADR Program will substantially be in the form of the Norilsk Deposit Agreement, which formed part of the Form F-6 registration statement submitted to the SEC on September 25, 2001, under Registration No. 333-13936. It is only upon the Form F-6 registration statement being declared effective by the SEC that the EnergoPolyus ADRs in the Level 1 ADR Program will become tradable. See "Market Information — Regulation of Russian securities markets".

Companies with Level 1 ADR Programs do not have to convert their financial accounts to U.S. GAAP or comply with U.S. Sarbanes-Oxley Act corporate governance requirements. American depositary shares in a Level 1 ADR Program are not eligible to be listed or traded on a U.S. national securities exchange or on the NASDAQ stock market.

CERTAIN TAX CONSEQUENCES

Notwithstanding the summary descriptions contained in this Information Statement, holders of Norilsk Shares and Norilsk ADRs should consult with their own tax advisors concerning the overall tax consequences of the Spin-off.

Russian tax consequences for Norilsk and EnergoPolyus

Under the Russian Tax Code, the transfer of assets, including shares comprising the Power Companies from Norilsk to EnergoPolyus within the Spin-off should not trigger income tax obligations for Norilsk, EnergoPolyus and the relevant entities, shares of which comprise the Power Companies, as these transactions are covered by the specific provision regulating income tax application established for corporate reorganizations under Russian tax legislation. The transfer of the shares comprising the Power Companies from Norilsk to EnergoPolyus within the Spin-off should not be subject to VAT and other Russian taxes under the Tax Code either.

Expenses incurred by Norilsk in respect of the redemption of its shares will establish the acquisition cost of so called "treasury shares" and will not impact the income tax base of Norilsk.

Upon the state registration EnergoPolyus shall be subject to generally applicable taxation regime, as well as to all the tax administrative procedures applied by tax authorities to Russian legal entities.

Russian tax consequences for shareholders of Norilsk

General

The following is a summary of certain Russian tax consequences for the "resident" and "non-resident holders" (as defined below) of Norilsk Shares and Norilsk ADRs relating to the Spin-off and to the exercise of redemption rights. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regional or municipal authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief under specific double tax treaties.

For the purposes of this summary, a "resident holder" means (1) an individual actually present in the Russian Federation for an aggregate period of 183 days or more (under prevailing treatment presently supported by the tax authorities, Russian days exclude days of arrival into Russia but include days of departure from Russia and the period is not interrupted for qualifying absences) in any period consisting of 12 consecutive months; or (2) a legal entity or organization, organized under Russian law (where relevant — also include permanent establishment in Russia). Individual's presence in Russia is not considered interrupted if an individual departs from Russia for short periods (less than six month) for the purpose of medical treatment or education.

For the purposes of this summary, a "non-resident holder" means an individual actually present in the Russian Federation for an aggregate period of less than 183 days in any period consisting of 12 consecutive months or a legal person or organization, in either case not organized under Russian law, that holds or disposes Norilsk Shares or Norilsk ADRs other than through a permanent establishment in Russia.

The residency rules may be affected by an applicable tax treaty. It is anticipated that the Russian tax residency rules applicable to legal entities may change in the future.

For the purposes of this summary, a "tax agent" means a legal entity organized under Russian law or a legal person or organization, in either case organized under a foreign law and paying out income attributable to its permanent establishment or, arguably, any other registered presence in the Russian Federation, which pays out dividend or capital gains income to non-resident holders.

The Russian tax rules applicable to financial instruments such as the Norilsk ADRs are uncertain and official interpretive guidance is limited. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with a more developed capital market and tax system. The interpretation and application of these tax provisions will in practice rest substantially with local tax inspectors.

For Russian tax purposes, it is unclear under the applicable federal legislation if a holder of a Norilsk ADR will be treated as the beneficial holder of the underlying Norilsk Shares because of the absence of any official interpretative guidance on the beneficial ownership concept in Russia by the tax authorities and the fact that the Depositary (and not the holders of the ADRs) is the legal holder of the shares under Russian law. In the years 2005-2007 the Russian Ministry of Finance has issued a number of private clarifications stating that holders of depositary receipts should be treated as beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that beneficial ownership rights and the tax residencies of the holders of the depositary receipts are duly confirmed. Moreover, the clarifications of the Ministry of Finance referred only to dividends and did not cover capital gains on ADRs, which may allow the tax authorities scope for various interpretations. Thus, in the absence of any official clarification from the Russian tax authorities on the application of relevant double tax treaties there is a risk that application of the corresponding double tax treaties towards ADR holders will be disallowed by the Russian tax authorities, including local tax inspectors.

This summary assumes that non-resident holders of Norilsk ADRs may be treated as non-resident holders of Norilsk Shares for Russian tax purposes. References below to Norilsk Shares should be understood to refer as appropriate to Norilsk Shares that are held directly, as well as those Norilsk Shares the ownership of which is represented by Norilsk ADRs.

Russian Tax Consequences of the Receipt of EnergoPolyus Shares by Norilsk shareholders

Resident and non-resident holders

Legal entities

Resident and non-resident holders that are legal entities should not recognize income for Russian profits tax purposes on the receipt of shares in EnergoPolyus within the framework of the Spin-off and exempt under the Tax Code specific provision relating to corporate reorganizations.

The total tax value of existing Norilsk shares plus the shares in EnergoPolyus received by the Norilsk shareholders as a result of the spin-off is deemed to be equal to the value of shares in Norilsk before the spin-off, calculated on the basis of the tax accounting of the shareholders'. Cost of acquisition (tax basis) of shares in EnergoPolyus for the shareholder will be determined based as the value of Norilsk Shares in the shareholder's tax accounting multiplied by the ratio of the net assets of EnergoPolyus to Norilsk net assets. The value of the net assets of Norilsk and EnergoPolyus will be determined according to the spin-off balance sheet as of the date of its approval by the shareholders. The value of net assets of an organization is determined based on the regulations of the Ministry of Finance as the total book value of assets less the book value of its liabilities of an organization.

Individuals

Receipt of shares in EnergoPolyus within the framework of the Spin-off should not be treated as income for both resident and non-resident individual holders and hence such receipt is exempt under the Tax Code specific provision relating to corporate reorganizations.

Tax Consequences Relating to the Exercise of Redemption Rights

As discussed above, Norilsk shareholders entitled to vote and who either vote against the Spin-off or do not vote on the transactions, may elect to have Norilsk redeem their Norilsk Shares if the Spin-off is approved. The sub-section below reflects the relevant Russian tax treatment for those holders of Norilsk Shares who exercise their redemption rights.

Norilsk believes that the redemption of Norilsk Shares by Norilsk should be treated as sale of shares in Russia and this summary outlines the tax consequences if the redemption of Norilsk Shares under the Spin-off is in fact treated in this way.

Resident holders

Individuals

Capital gains arising from the sale, exchange or other disposition of Norilsk Shares by individuals who are Russian resident holders are subject to personal income tax at a rate of 13% and must be declared on the holder's annual tax declaration unless tax was fully withheld by a qualifying tax agent involved in transactions with securities. See "— Non-Resident Holders — Individuals".

The tax base in respect of a sale of the securities by an individual is calculated as the sale proceeds less expenses related to the purchase of such securities (including the cost of such securities and expenses associated with the purchase, holding and sale of such securities), which should be confirmed by primary documents.

Legal entities and organizations

Capital gains arising from the disposition (including redemption) of the shares by a Russian resident holder that is a legal entity or organization will be taxed at the regular Russian income tax rate of 24%. Russian tax legislation contains the requirement that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profit from operations with securities that are not quoted on a stock exchange and from operating profit. As Norilsk Shares are quoted on a stock exchange, Russian resident holders that are legal entities may be able to apply losses arising in respect of the shares only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a broker and/or a dealer license and private pension funds.

Non-Resident Holders

Individuals

Where non-resident individual holders elect to have Norilsk redeem their Norilsk Shares, the proceeds from the sale of Norilsk Shares by such holders (subject to any available tax treaty relief) may be subject to a 30% Russian personal income tax on the gross amount of proceeds received minus documentary supported expenses (including the cost of acquisition) if the proceeds from the sale of the shares are received from a source within Russia.

Russian tax law gives no clear indication as to how the sale of shares should be treated in this regard; however, in general, the place of sale is considered as an indicator of source. Accordingly, the sale of shares in Norilsk outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. As there is no definition of what should be considered to be Russian sourced, the Russian tax authorities have a certain amount of flexibility in concluding whether a transaction is from a Russian or non-Russian source. In the absence of a clear definition of what constitutes income from sources within Russia in the case of the sale of securities, there is a risk that income from the disposal of Russian securities (shares) may be considered as received from a Russian source.

Under Russian law, only a professional trustee, dealer or broker (a Russian organization or a foreign company with a permanent establishment in Russia) should act as a tax agent with respect to transactions with securities. The tax agent is required to withhold the applicable tax and to report to the Russian tax authorities on the income received by the non-resident holder individual (with adjustment for acquisition costs, if applicable) and the tax withheld upon the redemption of Norilsk Shares not later than on 1 April of the year following the reporting year.

Where the sale, exchange or other disposition of Norilsk ADRs or Norilsk Shares is made in Russia but not through a tax agent, generally no tax withholding needs to be made and the non-resident holder individual will have an obligation to file a tax return with the Russian tax authorities.

Under certain tax treaties between Russia and other countries, including the treaties with the United States and the United Kingdom, holders of Norilsk Shares may be eligible for exemption from Russian taxation in respect of proceeds received from the redemption of shares. See "— Tax treaty relief — non-resident holders".

As discussed above, there is a risk that treaty relief will not be available for holders of Norilsk ADRs.

Holders of Norilsk Shares and Norilsk ADRs should consult with their own tax advisors concerning application of a relevant double tax treaty.

Legal entities and organizations

Under Russian tax legislation, non-resident holders of Norilsk Shares that are legal entities or organizations and that elect to have Norilsk redeem their Norilsk Shares will be exempt from Russian taxation on the proceeds received, provided that 50% or more of Norilsk's assets are not considered to be immovable property as defined in Russian civil legislation located in Russia. Norilsk believes that the share f immovable property is substantially less than 50% of Norilsk's assets and that this is likely to continue to be the case. However, since Norilsk has not sought third party confirmation of such position, the tax implications described below consider the option if more than 50% of Norilsk assets were considered to be immovable property.

If more than 50% of Norilsk's assets consisted of immovable property located in Russia at the time of the redemption (assuming that repurchase will occur outside foreign stock exchanges), the proceeds received from the redemption of Norilsk Shares by Norilsk (subject to any available treaty relief) will be subject to Russian corporate income tax and Norilsk will be required to withhold an amount equal to 24% of any holder's gain in the case where the holder is able to document the costs connected with acquisition of the Norilsk Shares or otherwise 20% of the gross proceeds from the exercise of redemption rights where the holder fails to provide documents to support the costs connected with acquisition. It should be noted that the determination of whether more than 50% of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant Russian legislation and regulations are not entirely clear, there can be no assurance that immovable property owned by the Company and located in Russia does not currently, or will not, constitute more than 50% of the Company's assets.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for non-resident holders that are legal entities qualifying for the relevant treaty benefits. Under the U.S.-Russia Tax Treaty, capital gains from the redemption of Norilsk Shares realized by U.S. holders that are legal entities should be exempt from taxation in Russia, unless 50% or more of the fixed assets of Norilsk were to consist of immovable property located in Russia.

Since relief from capital gains taxation in Russia provided by the U.S.-Russia Tax Treaty referred to above is no more beneficial for a U.S. holder (legal entity or organization) than the treatment provided by the current Russian domestic tax legislation, it is unlikely that the need will arise for non-resident holders that are legal entities to seek to obtain protection of the U.S.-Russia Tax Treaty in relation to capital gains resulting from redemption of Norilsk Shares.

Under the U.K.-Russia Tax Treaty, capital gains from the redemption of Norilsk Shares by U.K. resident holders that are legal entities should not be subject to tax in Russia, unless the value of such shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. As with the US treaty, the UK treaty also is not more beneficial for UK holders, than the treatment provided by the Russian tax law.

There is a risk that the tax agents which are obligated to withhold tax on capital gains may not have sufficient information regarding Norilsk's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the non-resident holders that are legal entities disposing their Norilsk Shares. If there is an applicable double tax treaty, non-resident holders of Norilsk Shares that are legal entities may apply for a refund of a portion of the withholding tax. See "— Tax treaty relief — non-resident holders."

As discussed above, there is a risk that treaty relief will not be available for holders of Norilsk ADRs.

Holders of Norilsk Shares and Norilsk ADRs should consult with their own tax advisors concerning application of a relevant double tax treaty.

Sale of EnergoPolyus Shares by the Depositary (both for non-resident individuals and legal entities)

In the event that the Level 1 ADR Program with respect to EnergoPolyus Shares is not established within 90 calendar days of the Trading Date, holders of record of the Norilsk ADRs may elect to receive cash in lieu of receiving shares in EnergoPolyus, and it is expected that the Depositary will, as soon as reasonably practicable, sell any such EnergoPolyus shares and deliver the corresponding cash proceeds to such holders.

Legal entities and organizations

Non-resident holders that are legal entities and that receive proceeds from the sale of shares in EnergoPolyus by the Depositary will be exempt from Russian taxation on proceeds received, provided that 50% or more of the EnergoPolyus's assets are not immovable property as defined in Russian civil legislation located in Russia.

Alternatively, if more than 50% of the EnergoPolyus's assets consist of immovable property located in Russia, gain/proceeds received from the sale (subject to any treaty relief) should be subject to Russian withholding tax. In case the purchaser of the shares is a Russian resident entity, the income tax should be withheld at the source of payment at the amount equal to 24% of any holder's gain in the case where the holder is able to document the costs connected with acquisition of the Norilsk Shares or otherwise 20% of the gross proceeds from the sale where the holder fails to provide documents to support the costs connected with acquisition

Currently Russian tax law does not provide for a mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget in case the sale is executed between two non-residents and where gains/proceeds from such a sale may be subject to the tax treatment as described above.

Individuals

Where non-resident holders that are individuals receive proceeds from the sale of shares in EnergoPolyus from a source within Russia, the gross amount of the proceeds minus any available deductions, including the cost of acquisition (the cost of acquisition of the shares of newly established companies as a result of a spin-off is determined in accordance with the specific provisions on reorganizations of companies provided for in the Tax Code), may be subject to a 30% Russian personal income tax if the proceeds from the sale the shares are received from a source within Russia.

In the absence of a clear definition of what constitutes income from sources within Russia in the case of the sale of securities, there is a risk that income from the disposal of Russian securities may be considered by the tax authorities as received from Russian source, whether the purchaser is a Russian resident entity or not. Under certain tax treaties between Russia and other countries, including the treaties with the United States and the United Kingdom, holders of EnergoPolyus Shares may be eligible for exemption from Russian taxation of proceeds received from the sale of shares. See "— Tax treaty relief — non-resident holders".

Tax treaty relief — non-resident holders

Russia has concluded tax treaties with a number of countries which may entitle foreign holders of Norilsk Shares or EnergoPolyus Shares to a reduced rate of taxation or exemption from Russian taxation on amounts that would otherwise be taxable in Russia. This sub-section discusses issues related to reduced rates of taxation on disposal of Norilsk Shares or EnergoPolyus Shares and to obtaining treaty benefits, if it is considered that more than 50% of the total assets underlying the respective shares relate to immovable property as defined by Russian civil law located in Russia.

Notwithstanding the foregoing, there is a risk that treaty relief may not be available to non-resident holders of ADRs because of the absence of any official interpretative guidance on the beneficial ownership concept in Russia by the Russian tax authorities and the fact that the Depositary (and not the holders of the ADRs) is the legal holder of the shares under Russian law.

Legal entities

The Russian Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organisation must obtain tax advance treaty clearance from Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. A non-resident legal entity or organisation seeking to obtain relief from Russian withholding tax under a tax treaty must provide a (duly legalized and/or apostilled with a notarized Russian translation attached to it) confirmation of its tax treaty residence that complies with the applicable double tax treaty and Russian Tax Law requirements in advance of receiving the relevant income.

In the absence of such confirmation, during a tax audit the Russian tax authorities may dispute the non-resident's eligibility for the double tax treaty relief and require the tax agent (i.e. the company paying dividends or the Russian purchaser of ordinary shares) to pay the fine (for the failure to withhold tax) and late payment of interest. The ability of such authorities to demand tax from the non resident recipients of income may be very limited.

In practice, the Russian tax authorities may require a wide variety of documentation confirming the right to benefits under a double tax treaty, while such documentation may not be explicitly required by the Russian Tax Code.

Individuals

In accordance with the Russian Tax Code, self assessment of a treaty relief is not allowed in Russia for individual taxpayers. Technically it means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes will generally be impossible. Since advance relief is unlikely to be available to individual holders, claiming a treaty relief should be done by filing a personal tax return/an application together with supporting documentation. An application and documents substantiating the treaty relief should be submitted to the tax authorities within one year following the year to which the treaty benefits relate.

If no tax is withheld at source and the individual holder is entitled to treaty relief, in view of no availability of treaty self-assessment the individual is still required to submit to the tax authorities personal income tax return/an application together with supporting documents providing that the individual is entitled to treaty relief. As mentioned above, documentation should be provided to the Russian tax authorities by the end of the year following the year to which the treaty benefits relate.

Tax refund

If a non-resident does not obtain double tax treaty relief at the time that income or gains are received and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within 3 years from the end of the tax period in which the tax was withheld.

The refund of the tax withheld should be granted within one month following the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, in practice, the procedures for processing such tax refund claims have not been clearly established and there is significant practical uncertainty regarding the availability and timing of such refunds.

Holders of Norilsk Shares and Norilsk ADRs should consult with their own tax advisors concerning application of a relevant double tax treaty.

United States tax consequences

General

The following is a summary of certain potential U.S. federal income tax consequences relating to the Spin-off and the exercise of redemption rights for U.S. holders (as defined below) of Norilsk Shares or Norilsk ADRs. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof and the income tax treaty between the United States of America and the Russian Federation (the "Tax Treaty"), all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This discussion does not purport to describe comprehensively all of the U.S. federal income tax consequences of the Spin-off that may be relevant to a U.S. holder. This summary applies only to U.S. holders of Norilsk Shares or Norilsk ADRs holding the Norilsk Shares or Norilsk ADRs as capital assets and does not apply to special classes of U.S. holders, such as individuals with a tax home outside the U.S., dealers in securities or currencies, holders with a measurement currency other than the U.S. dollar, tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders electing to account for their investment in Norilsk Shares or Norilsk ADRs on a mark-to-market basis, and persons holding Norilsk Shares or Norilsk ADRs in a hedging transaction or as part of a straddle or conversion transaction.

For purposes of this summary, a "U.S. holder" is a holder of Norilsk Shares or Norilsk ADRs (or EnergoPolyus Shares or EnergoPolyus ADRs, as applicable) that is (*i*) a citizen or resident of the United States of America, (*ii*) a corporation organized under the laws of the United States of America or any state thereof, or (*iii*) otherwise subject to U.S. federal income taxation on a net income basis with respect to the Norilsk Shares or Norilsk ADRs (or EnergoPolyus Shares or EnergoPolyus ADRs, as applicable).

U.S. holders are urged to consult their own tax advisers as to the particular tax considerations applicable to them relating to the Spin-off,the exercise of redemption rights, and any sale by the Depositary of EnergoPolyus Shares on their behalf, in each case under U.S. federal, state and local tax laws and non-U.S. tax laws.

This Information Statement was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax law. This Information Statement was written to support the promotion or marketing of the transactions or matters described herein. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

ADR holders

Holders of Norilsk ADRs and EnergoPolyus ADRs should be treated for U.S. federal income tax purposes as holding the underlying shares, the ownership of which is represented by the ADRs. Consequently, references below to shares and shareholders should be understood to include, as appropriate, the underlying Norilsk Shares and EnergoPolyus Shares and holders of Norilsk ADRs and holders of EnergoPolyus ADRs.

Tax consequences of the Spin-off

Norilsk believes that the Spin-off will not qualify as a tax-free distribution under section 355(a) of the Code. Subject to the discussion below under "— Passive Foreign Investment Companies", a U.S. holder generally will be required to include the fair market value of the EnergoPolyus Shares distributed in gross income as a dividend to the extent of the earnings and profits (as determined for U.S. federal income tax purposes) of Norilsk. To the extent such distribution exceeds such current and accumulated earnings and profits, it will be treated first as a non-taxable return of capital to the extent of the U.S. holder's adjusted tax basis in its Norilsk Shares and, to the extent the amount of such distribution exceeds such adjusted tax basis, will be treated as gain from the sale or exchange of such Norilsk Shares. Norilsk has not maintained and does not plan to maintain calculations of earnings and profits (as determined for U.S. federal income tax purposes). All such dividend income should be from sources outside the U.S.

Subject to certain limitations, dividend income received from Norilsk in respect of the Spin-off by U.S. holders that are individuals or treated as individuals for U.S. tax purposes should generally qualify for a reduced rate of taxation (with a maximum rate of 15 percent) provided that certain holding period and other requirements and conditions are met. One of these requirements is that Norilsk be a "qualified foreign corporation". A non-U.S. corporation (other than a passive foreign investment company with respect to a U.S. holder) generally will be considered to be a qualified foreign corporation if it is eligible for the benefits of a comprehensive income tax treaty with the U.S. that the Secretary of the Treasury determines is satisfactory for purposes of this provision and which includes an exchange of information program. The Tax Treaty meets these requirements. However, because the Treasury Department has not yet issued guidance concerning when a non-U.S. corporation is eligible for the benefits of an applicable income tax treaty, no assurance can be given that Norilsk will be treated as a qualified foreign corporation for such purpose. Accordingly, no assurance can be given that such reduced rate will apply to any dividend income received from Norilsk in respect of the Spin-off. U.S. holders should consult their own tax advisors regarding the availability of the reduced dividend rate in light of their particular circumstances.

Dividend income received from Norilsk in respect of the Spin-off by U.S. holders that are corporations or treated as corporations for U.S. tax purposes should not qualify for the dividend received deduction.

Each U.S. holder will have a tax basis in any EnergoPolyus Shares received equal to the fair market value of such shares on the Formation Date and a holding period for such shares that begins on the day after the Formation Date.

Tax consequences relating to the exercise of redemption rights

Norilsk shareholders entitled to vote at the EGM and who either vote against the Spin-off or do not vote on the Spin-off, may elect to have Norilsk redeem their Norilsk Shares if the Spin-off is approved. Subject to the discussion below under "— Passive Foreign Investment Companies", if a U.S. holder makes such an election and sells its shares to Norilsk, the holder will generally realize gain or loss equal to the difference between the amount received for the shares and such holder's tax basis in the shares, provided that the amount received meets at least one of the following requirements (the "Exchange Requirements"):

- it is not "essentially equivalent to a dividend" as determined for U.S. federal income tax purposes;
- it is "substantially disproportionate" with respect to such holder for U.S. federal income tax purposes; or
- it results in a "complete termination" of such holder's interest in Norilsk Shares.

In determining whether any of the Exchange Requirements apply, Norilsk Shares considered to be owned by the U.S. holder by reason of certain attribution rules must be taken into account.

If an Exchange Requirement applies, the gain or loss realized by a holder on the sale of its shares to Norilsk will be a capital gain or loss, and will be long-term capital gain or loss if the shares were held for more than one year. The net amount of long-term capital gain recognized by an individual holder (or a holder treated as an individual for U.S. tax purposes) generally is subject to taxation at a maximum rate of 15%. A U.S. holder's ability to offset capital losses against income is subject to limitations. Any such gain or loss should be from sources within the U.S.

If no Exchange Requirement applies, then the entire amount received (*i.e.*, without any offset for the U.S. holder's tax basis in the redeemed Norilsk Shares) will be treated as a distribution from Norilsk for U.S. federal income tax purposes. The tax consequences to the U.S. holder of such distribution generally will be as described above under "— Tax Consequences of the Spin-off".

Sale of EnergoPolyus Shares by the Depositary

As discussed above, in the event that a Level 1 ADR Program is not established within 90 days of the Trading Date, FSFM approval for, and SEC registration of, the Level 1 Program is not obtained or if the number of EnergoPolyus ADRs to be issued is less than the number of Norilsk ADRs outstanding, in certain circumstances, holders of record of the Norilsk ADRs may become entitled to receive cash in lieu of receiving EnergoPolyus Shares, and it is expected that the Depositary will sell any such EnergoPolyus Shares, and deliver the corresponding cash proceeds to such holders.

With respect to any such sale of EnergoPolyus Shares on behalf of a U.S. holder of Norilsk ADRs, such holder will realize gain or loss equal to the difference between the amount received for such shares and the holder's tax basis in such shares. Each U.S. holder will have a tax basis in any such EnergoPolyus Shares sold on its behalf equal to the fair market value of such shares on the Formation Date and a holding period for such shares that begins on the day after the Formation Date. Subject to the discussion below under "— Passive Foreign Investment Companies", such gain or loss will be capital gain or loss, and will be short-term capital gain or loss (generally taxable at ordinary income rates) if the sale occurs within one year of the day after the Formation Date and long-term capital gain or loss (generally taxable at a maximum rate of 15% for holders that are individuals or treated as individuals for U.S. tax purposes) if the sale occurs more than one year after the day after the Formation Date. A U.S. holder's ability to offset capital losses against income is subject to limitations. Any such gain or loss should be from sources within the U.S.

Passive foreign investment companies

Norilsk believes that it has not been a "passive foreign investment company" (a "PFIC") for any taxable year from and including 2001, the first year Norilsk ADRs were traded over the counter in the U.S., that it will not be a PFIC for 2007 and that it does not currently expect to become a PFIC. Norilsk also does not currently expect EnergoPolyus to be or to become a PFIC. However, because these determinations are made annually at the end of each taxable year and are dependent upon a number of factors, some of which are beyond Norilsk's or EnergoPolyus' control, including the value of Norilsk's or EnergoPolyus' assets and the amount and type of each company's income for PFIC purposes (including any gain realized for U.S. federal income tax purposes as a result of the spin-off by ROA UESR or dispositions by EnergoPolyus of other Portfolio Companies or certain Power Generation Companies other than WGC-3), there can be no assurance that either company will not become a PFIC or that the IRS will agree with Norilsk's conclusions regarding Norilsk's or EnergoPolyus' PFIC status. If Norilsk is or was a PFIC in any year, or Norilsk or EnergoPolyus were to become a PFIC in any year, U.S. holders could suffer adverse tax consequences as described below.

A non-U.S. corporation will be treated as a PFIC for U.S. federal income tax purposes if (*i*) 75% or more of its gross income consists of certain types of "passive" income or (*ii*) 50% or more of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. For this purpose, "passive" income generally includes dividends, interest, royalties, rents, gains from securities transactions and from the sale or exchange of property that gives rise to passive income, and gains from certain transactions in commodities. In determining whether a non-US corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account.

If Norilsk was a PFIC in any taxable year or is a PFIC in 2007, or Norilsk or EnergoPolyus were to be a PFIC in any taxable year (including 2008, the year in which the Spin-off is expected to occur), a

U.S. holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of U.S federal income tax that a U.S. holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. In such applicable event, a U.S. holder may be subject to tax at ordinary income tax rates on (*i*) any gain recognized on the sale, exchange or other disposition of Norilsk Shares or EnergoPolyus Shares and (*ii*) any "excess distribution" paid on Norilsk Shares or EnergoPolyus Shares (generally, a distribution in excess of 125% of the average annual distributions paid by the respective company in the three preceding taxable years). In addition, a U.S. holder may be subject to a substantial interest charge on such gain or excess distribution. Were Norilsk a PFIC for any taxable year in a U.S. holder's holding period, (*a*) the Spin-off may be an excess distribution to such U.S. holder, (*b*) any gain on any redemption of Norilsk Shares of such U.S. holder would be subject to the PFIC rules and (*c*) if such U.S. holder is an individual or treated as an individual for U.S. tax purposes, then such U.S. holder would generally be ineligible for the reduced tax rate on dividends from "qualified foreign corporations" discussed above under "— Tax Consequences of the Spin-off".

U.S. holders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Spin-off if Norilsk or EnergoPolyus is treated as a PFIC, including the consequences of making a mark-to-market election or a qualifying electing fund election.

Non-U.S. currency

A U.S. holder that receives non-U.S. currency from a redemption of its Norilsk Shares or a sale of EnergoPolyus Shares by the Depositary on its behalf generally will realize an amount equal to the U.S. dollar value of such non-U.S. currency on the settlement date of such redemption or sale if (i) the U.S. Holder is a cash basis or electing accrual basis taxpayer and the Norilsk Shares redeemed or EnergoPolyus Shares sold are treated as being "traded on an established securities market" or (ii) such settlement date is also the date of such sale. If the non-U.S. currency so received is converted into U.S. dollars on the settlement date, the U.S. Holder should not recognize foreign currency gain or loss on such conversion. If the non-U.S. currency so received is not converted into U.S. dollars on the settlement date, the U.S. Holder will have a basis in such non-U.S. currency equal to its U.S. dollar value on the settlement date. Any gain or loss on a subsequent conversion or other disposition of the non-U.S. currency generally will be treated as ordinary income or loss to the U.S. Holder and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes.

Foreign tax credits

U.S. holders may be subject to Russian tax with respect to the exercise of redemption rights or the sale of EnergoPolyus Shares by the Depositary in connection with the Spin-off. See "— Russian tax consequences for shareholders of Norilsk" above. Subject to a number of exceptions and conditions, U.S. holders may be able to credit certain of these taxes against their U.S. tax liability on income from sources outside the U.S. In this regard, amounts that are withheld in excess of the rates or exemptions to which the holder is entitled under the Tax Treaty will not be creditable against a holder's U.S. tax liability. As discussed above under "— Tax consequences relating to the exercise of redemption rights" and "— Sale of EnergoPolyus Shares by the Depositary", any gain from the redemption of Norilsk Shares or the sale of EnergoPolyus Shares by the Depositary will be from sources within the U.S. and therefore a U.S. holder will not be able to credit any Russian taxes with respect to such redemption or sale against U.S. income tax liability with respect to any gain on such redemption or sale.

U.S. holders should consult their tax advisors regarding the creditability of taxes withheld in or otherwise paid to Russia with respect to cash or shares received as a result of the Spin-off or the exercise of redemption rights.

Backup withholding tax and information reporting requirements

Under certain circumstances, U.S. backup withholding tax and/or information reporting may apply to U.S. holders with respect to payments made on or proceeds from the sale, exchange or other disposition of Norilsk Shares or EnergoPolyus Shares, unless an applicable exemption is satisfied. U.S. holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Any amounts withheld under the backup withholding tax rules will be allowed as a credit against a U.S. holder's U.S. federal income tax liability, if any, or will be refunded, if the U.S. holder furnishes required information to the IRS.

United Kingdom tax consequences

The following is a general summary of certain United Kingdom ("U.K.") tax considerations relating to (i) the Spin-off, (ii) a redemption of shares in Norilsk and (iii) a sale of shares in EnergoPolyus by the Depositary. This summary is based on current U.K. law, written proposals to change U.K. tax law and the published practice of H.M. Revenue and Customs, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This summary is for general information only and does not address all of the U.K. tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under U.K. law; in particular, this summary does not apply to the following:

- investors who are not the absolute beneficial owners of Norilsk Shares and Norilsk and EnergoPolyus ADRs;
- investors who do not hold Norilsk and EnergoPolyus Shares or ADRs (as defined below) as capital assets;
- special classes of investor such as dealers and tax-exempt investors;
- investors that are insurance companies, collective investment schemes or persons connected with Norilsk, EnergoPolyus or any subsidiaries thereof; or
- investors that control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, a 10% or greater interest in Norilsk, EnergoPolyus or any subsidiaries thereof.

Further, this summary assumes that (i) there will be no register in the U.K. in respect of the Shares or ADRs; (ii) the Shares and ADRs will not be held by a depositary incorporated in the U.K.; and (iii) the Shares will not be paired with shares issued by a company incorporated in the U.K..

In this summary defined terms have the same meaning as in the rest of this Information Statement except that the following terms shall have the following particular meanings for the purposes of this U.K. taxation summary:

- "ADRs" means each and any of the American depositary receipts in Norilsk or EnergoPolyus, as the context requires;
- "HMRC" means Her Majesty's Revenue and Customs;
- "Shares" means each and any of the shares in Norilsk or EnergoPolyus, as the context requires;
- "TCGA 1992" means the Taxation of Chargeable Gains Act 1992; and
- "UK Holders" means persons who are resident (and in the case of individuals, ordinarily resident and domiciled) in the U.K. for tax purposes.

UK holders are urged to consult their own tax advisors before voting on the Spin-off with respect to their own particular circumstances and the particular tax considerations applicable to them relating to the acquisition, ownership and disposition of the Norisk Shares and ADRs (as appropriate).

Tax consequences of the Spin-off

The issue by EnergoPolyus of its shares to UK Holders following the transfer by Norilsk to EnergoPolyus of its shareholdings in the Power Generation Companies may be treated as a distribution for U.K. tax purposes. The receipt of shares by UK Holders will be taxed differently according to whether such receipt is treated as income or capital for U.K. tax purposes, which will depend on an analysis of the effect of the receipt of the shares under Russian corporate law on a UK Holder's existing holding of Norilsk Shares or Norilsk ADRs. If the correct analysis is that the distribution of shares in EnergoPolyus is a capital distribution, that distribution should be subject to the corporation tax rules on chargeable gains for corporate UK Holders and the rules on capital gains tax for individual UK Holders.

Capital Treatment — Disposal

The receipt of shares in EnergoPolyus may be treated as a capital distribution in respect of a UK Holder's Norilsk Shares or Norilsk ADRs (as appropriate). This would constitute a deemed part disposal of the Norilsk Shares or Norilsk ADRs for a consideration equal to the market value of the shares in EnergoPolyus on the date of their distribution. A UK Holder's base cost in the original Norilsk Shares or

Norilsk ADRs would need to be apportioned between the shares in EnergoPolyus and the Norilsk Shares or Norilsk ADRs in accordance with Section 42 TCGA 1992 by reference to the respective market values of the Norilsk Shares or Norilsk ADRs, and the shares in EnergoPolyus, on the date of the distribution. If such an apportionment creates a gain on the disposal, tax may be payable on that gain. The factors that will determine whether or not UK Holders must pay tax are described below in "— United Kingdom tax consequences — Redemption of Shares in Norilsk — Capital Gains".

Reliefs and Exemptions

UK Holders of Norilsk Shares may be able to obtain the benefit of Section 136 TCGA 1992, which allows certain reconstructions of share capital to take place without the holder of the relevant shares disposing of them (the "Reconstruction Rules") provided certain conditions have been met. The Reconstruction Rules may apply to UK Holders of Norilsk Shares who receive an entitlement to receive shares in EnergoPolyus equal to that which they hold in Norilsk. They may also apply to a disposal by UK Holders who hold Norilsk Shares in depositary form provided the Depositary is a nominee for the UK Holder or a bare trustee of those Shares. UK Holders are advised to take professional advice on whether the Reconstruction Rules apply to the issue of EnergoPolyus Shares. UK Holders should note that Norilsk does not intend to apply to HMRC for clearance under Section 138 TCGA 1992 in relation to the proposed reorganisation. UK Holders should also note that if such clearance were obtained, it would not constitute evidence that HMRC are satisfied that the Reconstruction Rules apply to the Spin-off and Norilsk can give no assurance that these rules do so apply.

If the Reconstruction Rules do not apply to the deemed part disposal, individual UK Holders may be able to use capital losses incurred in the tax year in which the issue of EnergoPolyus Shares takes place, or earlier, to set against any gain arising from the receipt of shares in EnergoPolyus. They may also be able to set their annual capital gains tax exemption in that year (which is £9,200 for the tax year 2007-2008) against any such gain.

Income Treatment

UK Holders should note that HMRC may not agree with the analysis that the issue of shares in EnergoPolyus is a capital transaction and may seek to treat the distribution as a receipt of income by UK Holders. In that case, the receipt of an income distribution of shares in EnergoPolyus would constitute taxable income in the hands of UK Holders. The amount of the distribution for these purposes would be the market value of the shares in EnergoPolyus as at the date of the issue of those Shares. There would be no tax credit given for such a dividend.

For corporate UK Holders, the distribution would constitute Schedule D, Case (V) income and corporation tax would be charged thereon.

Redemption of Shares in Norilsk

Capital Gains

Norilsk shareholders entitled to vote and who either vote against the Spin-off or do not vote on the transactions, may elect to have Norilsk redeem their Norilsk Shares. Such a redemption may give rise to taxable income for UK Holders or may constitute a capital disposal. If the redemption is a capital asset, the disposal by a UK Holder may, depending on the investor's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss. For individual UK Holders, the principal factors that will determine the extent to which any gain realised on a disposal of Shares will be subject to U.K. capital gains tax, which from April 6, 2008 (if published proposals are enacted), will be taxed at the rate of 18%, are the extent to which the individual UK Holder realises any other capital gains in the tax year in which the disposal is made, the extent to which the individual UK Holder has incurred capital losses in that or any earlier tax year and the level of the annual capital gains tax exemption in that tax year (which is £9,200 for the 2007-2008 tax year). From April 6, 2008, any gain made on a disposal of Shares will not be reduced by taper relief (if the published proposals are enacted) which will be abolished for disposals made on or after that date.

Disposals of ADRs

Capital Gains

Norilsk regards the disposal of an ADR as a disposal of the underlying Shares. This view is based on the assumption that the Depositary acts as a mere nominee for the UK Holders or as a bare trustee of the

Shares and therefore, for capital gains purposes, the UK Holder would be treated as holding the Shares directly with the nominee or bare trustee being ignored.

Norilsk can give no assurance that HMRC will agree with Norilsk's view of how the disposal of the ADRs should be regarded for tax purposes. HMRC may treat the disposal of an ADR as a disposal of two separate assets which constitute (i) the beneficial interest in the underlying Shares and (ii) the depositary receipt itself. If HMRC do take such a view, Norilsk believes that the ADRs will be regarded as having no value. There would therefore only be a gain or loss on the disposal of the Shares and not the ADRs.

Sale of EnergoPolyus Shares by the Depositary

If the Level 1 ADR Program is not established, or if UK Holders fail to provide Russian securities account details to the relevant Depositary as described in "Summary — Level 1 ADR Program", UK Holders of Norilsk ADRs will become entitled to receive cash in lieu of receiving EnergoPolyus Shares. In that case, the UK Holders of Norilsk ADRs will dispose of their Norilsk ADRs for capital gains tax purposes and tax may be payable thereon depending on each UK Holder's individual circumstances. For a summary of the factors that determine whether or not tax will be payable, please see "— United Kingdom tax consequences — Redemption of Shares in Norilsk — Capital Gains".

Stamp duty and Stamp Duty Reserve Tax

No U.K. stamp duty will be payable on the issue of Shares or ADRs and no U.K. stamp duty should be payable on the transfer of Shares or ADRs provided that any instrument of transfer is not executed in any part of the U.K. and does not relate to any property situate or to any matter or thing done or to be done, in any part of the U.K.. No U.K. stamp duty reserve tax should be payable on the issue or transfer of Shares or ADRs.

Other U.K. tax considerations

Norilsk draws the attention of UK Holders to the potential application of Russian taxation laws in addition to U.K. taxation laws as described in the Russian tax section entitled "— Certain Russian Tax Consequences for Norilsk and EnergoPolyus — Tax Consequences Relating to the Exercise of Redemption Rights — Non-Resident Holders". Subject to certain important exceptions and conditions, credit for any Russian tax paid by UK Holders in connection with the Spin-off or redemption of Shares may be allowed as a credit against any U.K. tax computed by reference to the same profits, income or gains by reference to which Russian tax is computed. One such condition is that all reasonable steps must be taken in order to minimise the amount of Russian tax payable (including claiming relief under any available double taxation treaty, as described in the Russian tax section and entitled "— Russian Tax Consequences for shareholders of Norilsk — Tax Treaty Relief — Non-Resident Holders").

UK Holders should consult their tax advisers regarding the creditability of taxes withheld or otherwise imposed by the Russian tax authorities in connection with the Spin-off or exercise of redemption rights.

MARKET INFORMATION

EnergoPolyus

Norilsk expects that EnergoPolyus will apply to have its ordinary shares admitted to listing on RTS and MICEX. Listing, and admission to trading, on the RTS and MICEX will be subject to the approval of those stock exchanges and there can be no assurance that the shares of EnergoPolyus will qualify for listing, and admission to trading, on those stock exchanges. It is currently anticipated that the Level 1 ADR Program will be established and the EnergoPolyus ADRs will be tradable over-the-counter in Western Europe and the United States and may in the future be traded on one or more Western European stock exchanges. See "The Spin-off". Prices at which the shares of EnergoPolyus and the EnergoPolyus ADRs, if any, may trade cannot be predicted. There can be no assurance as to the establishment or continuity of any trading market for the shares of EnergoPolyus and the EnergoPolyus ADRs, if any. See "Risk Factors — Risks Relating to the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs and the Trading Market — There may only be a limited trading market for the EnergoPolyus Shares and, if the Level 1 ADR Program is created, the EnergoPolyus ADRs". The Company will consider measures to facilitate the liquidity of the EnergoPolyus Shares, although no assurance can be given that any such measures, if implemented, will result in such liquidity.

Certain U.S. securities law requirements

The EnergoPolyus Shares received in the Spin-off will be freely transferable following the Trading Date, subject to the restrictions on the EnergoPolyus Shares in connection with the establishment of the Level 1 ADR Program, except for shares of EnergoPolyus received by any person who may be deemed an "affiliate" of EnergoPolyus within the meaning of Rule 144 under the Securities Act. Persons who may be deemed to be affiliates of EnergoPolyus after the Spin-off generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by, or are under common control with, EnergoPolyus and may include the directors and principal executive officers of EnergoPolyus as well as any principal shareholder of EnergoPolyus. Persons who are affiliates of EnergoPolyus will be permitted to sell their shares of EnergoPolyus received pursuant to the Spin-off only pursuant to an effective registration statement under the Securities Act or pursuant to an exemption from registration under the Securities Act, such as the exemption afforded by Rule 144, or outside the United States in an offshore transaction meeting the requirements of Regulation S. For a description of the U.S. securities law requirements applicable to the Level 1 ADRs, see "The Level 1 ADR Program".

Except for the EnergoPolyus Shares and the EnergoPolyus ADRs issued in connection with the Spin-off, no securities of EnergoPolyus will be outstanding as at or immediately following the Spin-off. The EnergoPolyus Shares will not be registered with the SEC. The EnergoPolyus ADRs are expected to be registered on Form F-6 with the SEC.

Norilsk

The Norilsk Shares have been listed and are traded on RTS and MICEX as well as in the form of American depositary receipts traded over-the-counter on the IOB of the London Stock Exchange, on the OTC market in the U.S. (NASDAQ) and on the Freiverkehr Berlin-Bremen Stock Exchange.

As of November 2, 2007, 190,627,747 ordinary shares in Norilsk were outstanding (including 7,498,950 shares held directly by Norilsk as treasury shares)[1], including 76,250,748 represented by Norilsk ADRs.

The table below presents the highest and lowest prices for Norilsk Shares at RTS and MICEX for the periods indicated. Share prices are quoted in U.S. dollars on the RTS exchange and in rubles on the MICEX exchange.

1 It is currently contemplated that Norilsk will sell the 7,498,950 treasury shares held by it during the fourth quarter of 2007. The timing of any such sale will depend on market conditions and other factors. If such sale were not to occur, such shares will need to be cancelled and Norilsk's charter capital decreased accordingly, as required by Russian law.

For each year from January 1, 2003 through December 31, 2006 and for the six months ended June 30, 2007

	RTS		MICEX	
Period	High	Low	High	Low
	(U.S. dollars)		(rubles)	
Six months ended June 30, 2007	210.40	135.50	5,456.44	3,718.30
2006	157.00	75.8	4,131.79	2,152.65
2005	90.10	51.10	2,593.25	1,433.94
2004	81.10	44.00	2,314.49	1,234.10
2003	66.00	20.25	1,919.29	654.05

Source: RTS/BLOOMBERG

For each quarter from January 1, 2005 through June 30, 2007

	RTS		MICEX	
Year	High	Low	High	Low
	(U.S. dollars)		(rubles)	
2007				
First Quarter	189.00	135.50	4,939.37	3,718.30
Second Quarter	210.40	173.97	5,456.44	4,491.59
Third Quarter	259.50	198.00	6,467.00	4,366.67
2006				
First Quarter	96.00	75.80	2,674.04	2,152.65
Second Quarter	152.50	93.00	4,131.79	2,504.44
Third Quarter	143.80	112.00	3,848.27	2,969.24
Fourth Quarter	157.00	122.00	4,097.49	3,252.87
2005				
First Quarter	65.00	51.10	1,815.96	1,433.94
Second Quarter	63.60	53.55	1,757.01	1,502.01
Third Quarter	79.35	60.40	2,266.52	1,742.72
Fourth Quarter	90.10	67.50	2,593.25	1,939.62

Source: RTS/BLOOMBERG

The table below shows the listings of the Power Companies as well as the ticker symbol, date of listing and high and low prices in U.S. dollars in the RTS since listing.

Company	Date of Listing		Share Price (for the year ended December 31, 2006)	
			RTS (U.S. dollars)	
	MICEX	RTS	High	Low
Power Generation Companies (MICEX/RTS Ticker Symbol)				
WGC-3 (OGKC/OGKC)	15.06.06	09.02.06	0.123	0.055
OGK-5 (OGKE/OGKE)	14.09.05	16.09.05		
TGK-1 (TGKA/TGKA)	26.03.07	09.01.07	n/a	n/a
TGK-5 (TGKE/TGKE)	25.07.06	20.07.06	0.00115	0.00067
TGK-14 (TGKN/TGKN)	25.01.07	18.01.07	n/a	n/a
Portfolio Companies				
RAO UESR (ordinary) (EESR/EESR)	16.07.03	01.09.95	1.08	0.445
RAO UESR (preferred) (EESRP/EESRP)	16.07.03	02.09.96	0.40	0.943
Kola Power Supply Company (ordinary) (—/KOSB)	—	25.08.06	0.15	0.0001
Kola Power Supply Company (preferred) (—/KOSBP)		25.08.06	0.10	0.0001
Kolenergo (ordinary) (KOLE/KOLE)	12.04.04	18.12.96	0.58	0.18
Kolenergo (preferred) (—/KOLEP)	—	18.12.96	0.50	0.20
Krasnoyarskenergo (ordinary) (KRNG/KRNG)	06.12.04	02.10.95	0.90	0.45
Krasnoyarskenergo (preferred) (KRNGP/KRNGP)	06.12.04	03.02.97	0.69	0.45
Tyvaenergo-Holding (—/TENH)			n/a	n/a
Kola Transmission Network Company (ordinary) (—/KOMS)		27.11.06	0.20	0.02
Kola Transmission Network Company (preferred) (—/KOMSP)		27.11.06	0.20	0.02
Krasnoyarsk Transmission Network Company			n/a	n/a

Source: RTS

Listing on the RTS and MICEX stock exchanges

The RTS and MICEX stock exchanges are located in Moscow. The RTS stock exchange was created in mid-1995 in order to merge uncoordinated regional markets into a single organized Russian securities market. The RTS stock exchange was initially structured as a non-commercial partnership and is now structured as an open joint stock company.

The MICEX stock exchange was created in January 1992 as a closed joint stock company, but trading in shares began only in March 1997. In accordance with the laws of the Russian Federation, only entities that are engaged in broker and/or dealer activities as professional securities market participants may become members of the MICEX exchange.

Generally, trading on RTS and MICEX takes place through automated systems, which, depending on the type of the securities traded and the exchange, are open between approximately 10:30am and 6:45pm (Moscow time) on every business day. Trading in securities listed on RTS and MICEX may also be carried out over-the-counter and outside of official lists (off-list). The exchanges have a system of automatic suspension of trades in the shares of a specific issuer as a means of controlling excessive share volatility.

Exchange transactions are generally settled based on the principle of "delivery against payment" through specialized organizations, although on the RTS it is also possible to settle based on the principle of "free settlement". Transactions are settled on the same day. Deferred payment is not allowed even pursuant to mutual agreement of the parties. A majority of securities traded on MICEX, including Norilsk shares, are on deposit with Non-Commercial Partnership National Depositary Center (NDC), which has received the "reliable foreign depositary" status from the SEC. Securities traded on RTS, including Norilsk shares, are on deposit with CJSC Depositary Clearing Company (DCC). According to the requirements of the NDC and the DCC, settlements are conducted through the clearing systems of RTS and MICEX, respectively.

Regulation of Russian securities markets

- The Russian securities market is regulated by the Government of the Russian Federation. The primary relevant legislation consists of the Federal Law on the Securities Market No. 39-FZ, dated April 22, 1996, as amended (the "Securities Market Law"), the Joint Stock Companies Law, the Federal Law on Protection of Rights and Legitimate Interests of Investors in the Securities Market No. 46-FZ, dated March 5, 1999, as amended (the "Law on Protection of Investors Rights") and regulations of the FCSM and the FSFM.
- The Securities Market Law defines various types of securities, sets forth key rules regarding the issuance of, placement of, and trading in, securities and imposes certain disclosure obligations on issuers. The Securities Market Law also provides basic rules governing activities of the professional market participants, such as brokers, dealers, clearing organizations and exchanges. Generally, the Securities Market Law provides a framework for more specific regulations by the FCSM and its successor (the FSFM).
- The Joint Stock Companies Law addresses such issues as the legal status, foundation, reorganization and liquidation of joint stock companies, as well as the rights and obligations of shareholders and protection of shareholder rights. The Joint Stock Companies Law provides guidelines for corporate approvals and other corporate procedures necessary for issuance of securities by joint stock companies. The Joint Stock Companies Law outlines corporate steps that must be taken to carry out a corporate reorganization of a joint stock company, including its reorganization through a spin-off. In particular, the Joint Stock Companies Law requires that terms of conversion of shares of the reorganized company into shares of a spun-off company or terms of distribution of such shares to the shareholders be approved at the general shareholders meeting of the company which is being reorganized. Subsequently, the issuance of the shares of the spun-off company must be approved by corporate action and its shares must be registered with the FSFM. Registration with the FSFM and trading in the shares of a spun-off company generally begins, on average, 30 days after the relevant documents are filed.
- The FCSM was established in 1996 to contribute to the formation and development of the securities market in Russia. The FCSM ceased operations and was replaced by the FSFM. The FSFM has broad authority and may issue mandatory instructions, suspend and revoke licenses of the securities market professional participants and seek invalidation of transactions in court. One of the most important regulations issued by the FSFM is the Standards of Issuance of Securities and Registration of the Securities Prospectuses approved by the FSFM Order No. 07-4/pz-n dated January 25, 2007, which sets forth rules and procedures for the issuance of shares, bonds and issuers' options. It also regulates the registration of offering and placement documents and prospectuses.
- All new offerings of securities must be registered with the FSFM in a two-step process. First, issuers of securities file an issuance decision and other issuance documents with respect to the securities in question. On average, 30 to 60 days elapse between the submission of the issuance decision and other issuance documents and completion of the registration with the FSFM. Initial placement of securities may take place only after registration with the FSFM. Second, the issuers must file with the FSFM a report detailing the results of the issuance of securities. Once this step is completed and the report is registered (approximately 14 days after the filing of the report), securities may begin trading, including on a stock exchange (provided that the share prospectus has been registered). This two-step process does not apply in the case of a spin-off, where both the issuance of shares by a newly spun-off company and the report on the results of the issuance are registered with the FSFM at the same time.
- The FSFM Regulation On Procedure for Issue of Permits for Admission of Securities of Russian Issuers to Placement and Circulation Outside the Russian Federation No. 06-5/pz-n, dated January 12, 2006 (as subsequently amended), requires a prior approval by the FSFM for any placement of securities by a Russian issuer outside the Russian Federation or circulation of such securities outside the Russian Federation based on an agreement with the issuer, including, for example, the issuance under an American depositary receipt program of depositary receipts or other similar instruments for which the securities of a Russian issuer are an underlying asset. The approval is granted if the issuer meets certain conditions, including that (1) the underlying securities are registered with the FSFM and are listed on a licensed stock exchange, (2) the number of shares of a certain class that are proposed to be placed or circulated abroad does not exceed 35 per cent of all the shares of such class and (3) the agreement pursuant to which foreign securities (such as depositary receipts) are placed provides that the underlying Russian shares can only be voted in accordance with the instructions of foreign security holders.

- On February 7, 2003, the FCSM adopted Regulation No. 03-6/ps, amending Regulation No. 17/ps, dated May 31, 2002, which addressed concerns about corporate governance and the protection of investor rights. This Regulation imposes procedures for conducting general shareholders' meetings that apply to both closed and open joint stock companies. In particular, Clause 2.12 of the Regulation provides for "split voting" by nominee holders, who may represent the interests of the holders of ADRs at shareholders' meetings, requiring them to vote separate portions of blocks of shares individually and specifically on the basis of instructions received from the beneficial owners.
- The general listing requirements of securities are set forth in FSFM Regulation No. 06-68/pz-n, dated June 22, 2006 (as subsequently amended). The Regulation mandates that, in order to be listed, the companies must prepare their financial reports in compliance with U.S. GAAP or IFRS (in the case of application for a first or second level tier "A" listing) and comply with the corporate governance requirements or undertake to comply with such requirements within one year following listing. Additionally, the Regulation requires that in order to be listed, a company must have been in existence for a period of at least one year; however, if a company was formed in the course of a reorganization (including through a spin-off), the period of existence of the reorganized company is taken into account. Furthermore, the spun-off company may obtain a listing of the same level as the reorganized company, provided that certain conditions are met, such as (1) the reorganized company's shares are listed on a stock exchange and (2) the spun-off company is listed within three months after its Formation Date.

Violations of securities regulations may result in civil, administrative or, with regard to individuals, criminal liability. The most common sanction is an administrative fine. Violators may also be required to pay compensatory damages, including lost profits. Criminal liability for knowingly using false information in the registration documents, the offering of unregistered securities, failure to disclose required information, or securities forgery may result in criminal fines or imprisonment.

GLOSSARY OF TERMS

"Adjusted EBITDA"	EBITDA adjusted to exclude the effect of the reversal of impairment of property, plant and equipment.
"ADR"	American depositary receipt.
"Advisor"	Citigroup Global Markets Limited.
"AO-Energos"	The regional vertically integrated energy companies that transmit, distribute and sell both electricity and heat in their respective regions.
"Availability Factor"	The ratio of (i) the time that an electricity generation facility is either operating or on standby for a specified period to (ii) the total time in that period.
"CBR"	Central Bank of the Russian Federation.
"Company"	Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel.
"Custodian"	CJSC ING Bank (Eurasia).
"Depositary"	The Bank of New York, the depositary bank under Norilsk's ADR Facility.
"EBITDA"	Earnings before interest, taxes, depreciation and amortization (a non-IFRS measure).
"EGM"	The extraordinary general meeting of the shareholders of Norilsk to be held on the EGM Date to consider, among other things, the Spin-off proposal.
"EGM Date"	December 14, 2007.
"EGM Record Date"	October 26, 2007.
"EnergoPolyus"	Open Joint Stock Company EnergoPolyus, a new company that will be established as a result of the Spin-off.
"EnergoPolyus ADRs"	If and when issued, EnergoPolyus' American Depositary Receipts, each of which represents one EnergoPolyus Share.
"EnergoPolyus Group"	EnergoPolyus, together with its subsidiaries.
"EnergoPolyus Share"	If and when issued and registered, an ordinary share of EnergoPolyus with a par value of RUB 1.00.
"Exchange Act"	United States Securities Exchange Act of 1934, as amended.
"FAMFP"	Federal Agency for the Management of Federal Property.
"FAS"	Federal Antimonopoly Service.
"FCSM"	The Federal Commission for the Securities Market, the predecessor of the FSFM.

"FOREM"	Federal Wholesale Electricity (Power) Market.
"Formation Date"..............	Currently expected to occur in or around March 2008.
"FSFM".......................	Federal Services on Financial Markets.
"FSK"	Open Joint Stock Company Federal Grid Company of Unified Energy System, created on June 25, 2002 by RAO UESR as its wholly-owned subsidiary for the purpose of managing the unified national grid. FSK's tasks include ensuring non-discriminatory access by market participants to the electric power transmission. FSK will enter into mandatory transmission contracts with all wholesale and retail energy suppliers that have met certain regulatory requirements and have entered into dispatch services agreements with the System Operator.
"FTS"	Federal Service on Tariffs, which is responsible for regulating the activities of the natural monopolies, including in the energy sector, as well as for regulating electricity and thermal energy tariffs.
"Gazprom"....................	Russian Open Joint-Stock Company Gazprom.
"Gcal"........................	Gigacalorie, equal to one thousand million calories.
"Gcal/h"	Gigacalories per hour.
"Goe/kW/h"	Gram oil equivalent per kW/h, a measure used to calculate the efficiency of a generation unit in terms of how much fuel it requires to produce one kilowatt-hour of electricity.
"GRES"	Thermal power plant.
"GW"	Gigawatt, equal to one thousand million watts.
"HMRC"	Her Majesty's Revenue and Customs.
"HPP"........................	Hydro power plant.
"IES".........................	Integrated Energy Systems, of which there are seven that make up the Unified Energy System of Russia, comprising the IES of North-West, Central, Urals, Volga, South, Siberia and Far East.
"IFRS"	International Financial Reporting Standards.
"Joint Stock Companies Law" ...	The Federal Law on Joint Stock Companies No. 208-FZ, dated December 26, 1995, as amended.
"kms"	Kilometers.
"kV"	Kilovolts.
"kW".........................	Kilowatts, equal to one thousand watts.
"kW/h"	Kilowatt-hour, equal to a thousand watt-hours.
"Licensing Law"	Federal Law on Licensing of Certain Types of Activities No. 128-FZ, dated August 8, 2001, as amended.
"Load factor"..................	The ratio of (i) the actual electricity output of an electricity generation facility for a specified period to (ii) the electricity output

that would be achieved by fully utilizing the installed capacity of that generation unit for the whole of that period.

"MICEX"	Closed Joint Stock Company Moscow Interbank Currency Exchange.
"Minpromenergo"	The Ministry of Industry and Energy of the Russian Federation.
"MRSKs"	Inter-regional distribution grid companies.
"MVA"	Megavoltamper.
"MW"	Megawatts, equal to one million watts.
"MW/h"	Megawatt-hour, equal to a million watt-hours.
"n/a"	not applicable.
"New Retail Market Rules"	A set of rules issued pursuant to Resolution No. 530, which determine not only how wholesale and retail market participants should interact with each other during a transition period of electricity industry restructuring, but also new pricing mechanisms.
"New Wholesale Electricity Market"	A new market introduced pursuant to the New Wholesale Market Rules, which replaced the former regulated sector of the wholesale market in September 2006 with a system of Regulated Contracts as an interim step in the transition from a regulated environment to a fully liberalized wholesale electricity market.
"New Wholesale Market Rules"	A set of rules, issued pursuant to Resolution No. 529, which provided for the creation of the New Wholesale Electricity Market. Pursuant to the New Wholesale Market Rules, electricity supply companies in the wholesale market are allowed to sell power at market rates, with their distribution fees determined by market mechanisms.
"Norilsk"	Open Joint Stock Company Mining and Megallurgical Company Norilsk Nickel.
"Norilsk Group"	Norilsk, together with its subsidiaries.
"Norilsk Share"	An ordinary share of Norilsk with a par value of RUB 1.00.
"Norilsk ADRs"	Norilsk's American Depositary Receipts, each of which represents one Norilsk Share.
"NPP"	Nuclear power plant.
"WGC-3"	WGC-3, together with its subsidiaries.
"OGKs"	Wholesale Generating Companies.
"Ounce"	troy ounce.
"PFIC"	Passive foreign investment company.
"Portfolio Companies"	The companies in which the Company invests or expects to invest, being companies in the Russian power sector in line with its investment objective, strategy and restrictions. See "The Spin-off — Overview of the Spin-off".

"Power Companies"	The companies in which the Company invest or expect to invest, being companies in the Russian power sector in line with its investment objective, strategy and restrictions (see "Summary — EnergoPolyus").
"Power Generation Companies"	The companies in which the companies invest or expect to invest, being companies in the Russian power sector in line with its investment objective, strategy and restrictions (see "Summary — EnergoPolyus").
"PwC"	ZAO PricewaterhouseCoopers Audit.
"RAB"	Regulated Asset Base.
"RAO Factsheet"	The "RAO UES of Russia: Companies of the Target Industry Structure, 2006" document that forms part of the RAO UES 2006 Annual Report.
"RAO UESR Group"	RAO UESR, together with its subsidiaries.
"RAO UESR"	Russian Open Joint Stock Company Unified Energy System of Russia.
"RAS"	Russian accounting standards.
"RECs"	Regional Energy Committees.
"Redemption Election Period"	The period within 45 days of the approval of the Spin-off at the EGM.
"Regulated Contract"	A contract that comes under the regulated segment of the wholesale market as a result of the New Wholesale Market Rules.
"Resolution No. 109"	Resolution No. 109 "On Price Setting with respect to Electric and Thermal Energy in the Russian Federation", dated February 26, 2004.
"Resolution No. 205"	Resolution of the Government of the Russian Federation "On the Introduction of Amendments to Several Acts of the Government of the Russian Federation Regarding the Determination of the Volumes of Electricity Sales of Free (Unregulated) Prices" No. 205, dated April 7, 2007.
"Resolution No. 526"	Resolution of the Government of the Russian Federation "On the Restructuring of the Electricity Industry in the Russian Federation" No. 526, dated July 11, 2001, as amended.
"Resolution No. 529"	Resolution of the Government of the Russian Federation "On improvement of the functioning of the wholesale electric energy market" No. 529 of August 31, 2006.
"Resolution No. 530"	Resolution of the Government of the Russian Federation "On approval of rules of the retail energy market for the transitional period" No. 530 of August 31, 2006.
"RSKs"	Distribution grid companies.
"RTS"	Russian Trading System Stock Exchange.

"Rubles" and "RUB"	The lawful currency for the time being of the Russian Federation.
"Rule 144"	Rule 144 under the U.S. Securities Act of 1933, as amended.
"SEC"	Securities and Exchange Commission.
"Securities Act"	U.S. Securities Act of 1933, as amended.
"Securities Market Law"	The Federal Law on the Securities Market No. 39-FZ, dated April 22, 1996, as amended.
"Spin-off"	The proposed reorganization of Norilsk as described in this Information Statement.
"Spin-off Record Date"	March 19, 2008.
"SUEK"	Open Joint-Stock Company Siberian Coal Energy Company.
"System Operator"	Open Joint Stock Company System Operator — Central Dispatching Administration, created on July 17, 2002 pursuant to the Ordinance No. 526 issued by the Russian government on July 11, 2001, for the purpose of providing operational dispatch control services, including centralised control of technological operation modes of technical equipment of electric power plants, electric power grids and electric power receiving equipment of load-controlled electric power consumers performed in order to secure a reliable electric power supply and electric power quality meeting technical regulations and other mandatory requirements.
"Tax Code"	Russian Federation Tax Code.
"TGKs"	Territorial Generating Companies.
"Trade System Administrator"	Non-profit Partnership Trade System Administrator of the Wholesale Electricity Market of Unified Energy System.
"TWh"	One thousand Gigawatt-hours.
"UGTS"	Unified Gas Transportation System.
"Unified Energy System of Russia"	The Russian power sector.
"US" or "U.S."	United States of America.
"U.S. dollars" and "USD"	The lawful currency for the time being of the United States.
"U.S. GAAP"	United States generally accepted accounting principles.
"USRLE"	Russian Unified State Register of Legal Entities.
"VAT"	Value-added tax.
"WGC-3"	WGC-3, together with its subsidiaries.

EXHIBIT I — AUDITED CONSOLIDATED FINANCIAL STATEMENTS — THE NORILSK GROUP

Below are the audited combined and consolidated annual financial statements of the Norilsk Group for the years ended December 31, 2006 and 2005 prepared in accordance with IFRS.

Mining and Metallurgical Company Norilsk Nickel

Consolidated financial statements
for the year ended 31 December 2006

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MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group at 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2006 were approved on 4 June 2007 by:

D. S. Morozov	**I. A. Komarov**
General Director	Deputy General Director

Moscow
4 June 2007

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel":

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of accompanying 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 the consolidated 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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

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

Opinion

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

Deloitte & Touche

Moscow
4 June 2007

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
US Dollars million

	Notes	2006	2005
Metal sales	6	**11,550**	**7,169**
Cost of metal sales	7	(3,158)	(2,994)
Gross profit on metal sales		**8,392**	**4,175**
Selling, general and administrative expenses	13	(1,090)	(841)
Other net operating expenses	14	(278)	(156)
Operating profit		**7,024**	**3,178**
Finance costs	15	(21)	(121)
Net (loss)/income from investments	16	(226)	59
Profit before income tax		**6,777**	**3,116**
Income tax	17	(1,805)	(838)
Profit for the year from continuing operations		**4,972**	**2,278**
Profit for the year from discontinued operation	42	993	74
Profit for the year		**5,965**	**2,352**
Attributable to:			
Shareholders of the parent company		5,989	2,355
Minority interest		(24)	(3)
		5,965	**2,352**
EARNINGS PER SHARE			
Weighted average number of ordinary shares in issue during the year	27	188,767,177	201,242,833
Basic and diluted earnings per share from continuing and discontinued operations attributable to shareholders of the parent company (US Dollars)		31.7	11.7
Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent company (US Dollars)		26.5	11.3

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006
US Dollars million

	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	18	8,134	7,145
Intangible assets	19	73	44
Investments in associates	20	208	95
Investments in securities and other financial assets	21	2,615	690
Other non-current assets	22	44	94
Non-current assets of disposal group	42	-	1,109
		11,074	**9,177**
Current assets			
Inventories	23	1,471	1,301
Trade and other receivables	24	745	440
Other current assets	25	707	567
Investments in securities and other financial assets	21	104	134
Cash and cash equivalents	26	2,178	922
Current assets of disposal group	42	-	2,189
		5,205	**5,553**
TOTAL ASSETS		**16,279**	**14,730**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	27	8	9
Share premium		611	695
Treasury shares	27	(999)	(1,457)
Investments revaluation reserve		997	690
Hedging reserve		(15)	-
Translation reserve		1,580	748
Retained earnings		10,635	10,378
Equity attributable to shareholders of the parent company		**12,817**	**11,063**
Minority interest		319	334
		13,136	**11,397**
Non-current liabilities			
Long-term borrowings	28	632	635
Employee benefit obligations	29	57	56
Environmental obligations	30	322	269
Deferred tax liabilities	31	881	543
Non-current liabilities of disposal group	42	-	236
		1,892	**1,739**
Current liabilities			
Short-term borrowings	32	158	357
Current portion of employee benefit obligations	29	259	212
Trade and other payables	33	421	300
Taxes payable	34	393	187
Derivative financial liabilities		15	-
Dividends payable		5	301
Current liabilities of disposal group	42	-	237
		1,251	**1,594**
TOTAL EQUITY AND LIABILITIES		**16,279**	**14,730**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
US Dollars million

	2006	2005
Cash flows from operating activities		
Profit for the year	**5,965**	**2,352**
Adjustments for[1]:		
Income tax	1,817	889
Amortisation and depreciation	586	585
Interest expense	88	110
Impairment of property, plant and equipment	87	21
Loss on disposal of property, plant and equipment	21	33
Change in allowance for promissory notes and loans advanced	83	4
Impairment of investments in associates	36	-
Interest income	(79)	(43)
Foreign exchange (gain)/loss	(32)	21
Gain on disposal of investments	(733)	-
Gain on disposal of associates	(117)	-
Other	(13)	4
Operating profit before working capital changes	**7,709**	**3,976**
(Increase)/decrease in inventories	(73)	37
Increase in trade and other receivables	(218)	(38)
Increase in value added tax recoverable and other current assets	(62)	(11)
Increase in trade and other payables	82	37
Increase/(decrease) in employee benefit obligations	15	(21)
Decrease in taxes payable	(17)	(39)
Cash flows from operations	**7,436**	**3,941**
Interest paid	(63)	(84)
Income tax paid	(1,726)	(896)
Net cash generated from operating activities	**5,647**	**2,961**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(269)	(175)
Purchase of property, plant and equipment	(743)	(773)
Purchase of intangible assets	(27)	(15)
Proceeds from sale of property, plant and equipment	46	39
Acquisition of associates	(151)	-
Proceeds from disposal of associates	156	-
Purchase of securities and other financial assets	(865)	(637)
Proceeds from sale of securities and other financial assets	2,231	134
Net cash generated from/(used in) investing activities	**378**	**(1,427)**

[1]Adjustments are presented for continuing and discontinued operations on a combined basis

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)
US Dollars million

	2006	2005
Cash flows from financing activities		
Proceeds from short-term borrowings	573	1,877
Repayments of short-term borrowings	(1,055)	(1,792)
Proceeds from long-term borrowings	-	112
Repayments of long-term borrowings	(11)	(412)
Proceeds from increase in share capital of a special purpose entity	28	-
Buy back of issued shares	(999)	(1,457)
Cash distributed to shareholders on disposal of Polyus Group	(2,366)	-
Dividends paid	(1,079)	(201)
Net cash used in financing activities	**(4,909)**	**(1,873)**
Net increase/(decrease) in cash and cash equivalents	**1,116**	**(339)**
Cash and cash equivalents at beginning of the year	**922**	**1,325**
Effect of translation to presentation currency	140	(36)
Cash and cash equivalents of disposal group	-	(28)
Cash and cash equivalents at end of the year	**2,178**	**922**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
US Dollars million

		Equity attributable to shareholders of the parent company									
	Notes	Share capital	Share premium	Treasury shares	Investments revaluation reserve	Hedging reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
Balance at 31 December 2004		**9**	**683**	**-**	**(54)**	**-**	**1,124**	**8,515**	**10,277**	**366**	**10,643**
Profit for the year		-	-	-	-	-	-	2,355	**2,355**	(3)	**2,352**
Dividends	35	-	-	-	-	-	-	(492)	**(492)**	-	**(492)**
Buy back of issued shares		-	-	(1,457)	-	-	-	-	**(1,457)**	-	**(1,457)**
Issuance of ordinary shares from treasury shares		-	12	-	-	-	-	-	**12**	(12)	**-**
Increase in fair value of available-for-sale investments		-	-	-	744	-	-	-	**744**	-	**744**
Net decrease in minority interest due to increase of Group's share in subsidiaries		-	-	-	-	-	-	-	**-**	(15)	**(15)**
Translation of foreign operations		-	-	-	-	-	12	-	**12**	-	**12**
Effect of translation to presentation currency		-	-	-	-	-	(388)	-	**(388)**	(2)	**(390)**
Balance at 31 December 2005		**9**	**695**	**(1,457)**	**690**	**-**	**748**	**10,378**	**11,063**	**334**	**11,397**
Profit for the year		-	-	-	-	-	-	5,989	**5,989**	(24)	**5,965**
Dividends	35	-	-	-	-	-	-	(772)	**(772)**	-	**(772)**
Buy back of issued shares		-	-	(999)	-	-	-	-	**(999)**	-	**(999)**
Cancellation of treasury shares		(1)	(86)	1,457	-	-	(15)	(1,355)	**-**	-	**-**
Issuance of ordinary shares from treasury shares		-	2	-	-	-	-	-	**2**	(2)	**-**
Increase in fair value of available-for-sale investments		-	-	-	920	-	-	-	**920**	-	**920**
Realised gain on disposal of available-for-sale investments		-	-	-	(613)	-	(7)	7	**(613)**	-	**(613)**
Contribution to share capital of a special purpose entity		-	-	-	-	-	-	(17)	**(17)**	17	**-**
Net assets distributed to shareholders on disposal of Polyus Group	42	-	-	-	-	-	(103)	(3,595)	**(3,698)**	(31)	**(3,729)**
Loss on cash flow hedge		-	-	-	-	(15)	-	-	**(15)**	(7)	**(22)**
Translation of foreign operations		-	-	-	-	-	(55)	-	**(55)**	-	**(55)**
Effect of translation to presentation currency		-	-	-	-	-	1,012	-	**1,012**	32	**1,044**
Balance at 31 December 2006		**8**	**611**	**(999)**	**997**	**(15)**	**1,580**	**10,635**	**12,817**	**319**	**13,136**

1. GENERAL

Organisation

Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" (the "Company" or "MMC Norilsk Nickel") was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the "Group" or "Norilsk Group") are exploration, extraction, production and sale of base and precious metals. Further details regarding the nature of the business and structure of the Group are presented in note 44.

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation and in Columbus, Montana, USA. The registered office of the Company is located at 22, Voznesensky pereulok, Moscow, Russian Federation.

Shareholding structure of the Group is as follows:

	31 December 2006		31 December 2005	
Shareholders	**Number of shares**	**% held**	**Number of shares**	**% held**
CJSC "ING Bank (Eurasia)" (nominee)	80,209,132	44.21%	82,521,332	43.73%
OJSC AKB "Rosbank" (nominee)	46,386,181	25.57%	12,871,010	6.82%
CJSC "Depository Clearing Company"	12,547,555	6.92%	6,263,470	2.93%
Non-profit Partnership "National Depository Centre"	10,713,585	5.91%	7,407,439	3.46%
Dimosenco Holdings Co. Limited	6,920,313	3.81%	24,123,671	12.78%
Pharanco Holdings Co. Limited	6,920,313	3.81%	24,123,671	12.78%
Other, less than 5%	17,720,834	9.77%	31,396,328	17.50%
Total	**181,417,913**	**100.00%**	**188,706,921**	**100.00%**

The principal beneficial shareholders of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. Accounting principles in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

- fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations";
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories"; and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Adoption of new and revised IFRS

In the current year, the Group has adopted all of the new and revised standards and interpretations that are relevant to its operations. The adoption of these new and revised standards and interpretations has not resulted in significant changes to the Group's accounting policies.

New accounting pronouncements

The following new or revised standards and interpretations issued by IASB and IFRIC have been issued at the date of authorisation of the Group's consolidated financial statements for the year ended 31 December 2006 that are mandatory for adoption in the accounting periods beginning on or after 1 January 2007:

- Amendment to IAS 1 "Capital Disclosures"
- Amendment to IAS 23 "Required Capitalisation of Borrowing Costs"
- IFRS 7 "Financial Instruments: Disclosures"
- IFRS 8 "Operating Segments"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements"

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. No material effect on the Group's accounting policies is anticipated, however, adoption of IFRS 7 "Financial Instrument: Disclosures" will require more comprehensive disclosure of the Group's financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent company, except to the extent that the minority has binding obligations and is able to make an additional investment to cover the losses.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted for based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

Special purpose entities

Special purpose entities ("SPE") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or is exposed to risks associated with activities of the SPE.

SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

Accounting for acquisitions

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, liabilities, contingent liabilities and attributable ore reserves at the date of acquisition is recognised as goodwill. Goodwill in respect of mining subsidiaries, which represents mineral resources, is amortised on a systematic basis to recognise the depletion of the resources over the life of mine.

Goodwill in respect of non-mining subsidiaries is disclosed as an intangible asset and goodwill relating to associates is included within the carrying value of the investment in associates.

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement during the period in which the circumstances are identified and is not subsequently reversed.

On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the income statement immediately.

Functional and presentation currency

The individual financial statements of each group entity are presented in its functional currency.

It was determined that Russian Rouble ("RUR") is the functional currency of the Company and all foreign subsidiaries of the Group, except for Stillwater Mining Company. Stillwater Mining Company has a significant degree of autonomy and uses the functional currency of the economy in which it operates, US Dollar ("USD" or "US Dollar").

The presentation currency of the consolidated financial statements is the United States of America Dollar. Using USD as a presentation currency is common practice for global mining companies. In addition, USD is a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognised as a separate component in equity.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Exchange rates were as follows (RUR to 1 US Dollar):

	2006	2005
31 December	26.3311	28.7825
Average for the year	27.1852	28.2864

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the income statement.

Property, plant and equipment

Mining assets

Mining assets are recorded at cost less accumulated amortisation and accumulated impairment losses. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and mining and exploration licenses and the present value of future decommissioning costs. Amortisation of mining assets is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

Mineral rights, mineral resources and ore reserves

Mineral rights, mineral resources and ore reserves are recorded as assets when acquired as part of a business combination and are then amortised on a straight-line basis over the life of mine, which is based on estimated proven and probable ore reserves. Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits.

Mine development costs

Mine development costs are recorded as capital construction-in-progress and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs include expenditures incurred in:

- acquiring mineral rights and mining and exploration licenses;
- developing new mining operations;
- defining further mineralisation in existing ore bodies; and
- expanding the capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings, and the present value of future decommissioning costs.

Mine development costs are amortised on a straight-line basis over the lives of mines varying from 7 to 40 years.

Mine infrastructure

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine, varying from 5 to 40 years.

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of these assets at the following annual rates:

- buildings and equipment 2% to 10%;
- motor vehicles 9% to 25%;
- office equipment 10% to 20%.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs; and the capital repayment, which reduces the related lease obligation to the lessor.

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are put into production.

Intangible assets, excluding goodwill

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets mainly include software, patents and licenses. Amortisation is charged on a straight-line basis over the economic useful lives of these assets at the following annual rates:

- software 33% to 50%;
- patents and licenses 5% to 50%.

Impairment of tangible and intangible assets, excluding goodwill

An impairment review of tangible and intangible assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

Research and exploration expenditure

Research and exploration expenditure, including geophysical, topographical, geological and similar types of expenditure, is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalised and amortised over the life of mine, when a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

Inventories

Refined metals

Joint products, i.e. nickel, copper, palladium, platinum and gold, are measured at the lower of net cost of production on the average basis, or net realisable value. The net cost of production per unit of a joint product is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand, allocated in the ratio of the contribution of these joint products to total relative sales value, by the saleable mine output of a joint product.

Production costs include on-mine and concentrating costs, smelting costs, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets.

By-products, i.e. cobalt, ruthenium, rhodium, iridium, silver and other minor metals, are measured at net realisable value, through a mark-to-market valuation.

Work-in-process

Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less allowance for obsolete and slow-moving items.

Financial instruments

Financial instruments recognised on the Group's balance sheet include investments, trade and other receivables, borrowings, trade and other payables and derivative financial instruments. Financial instruments are initially measured at cost, including transaction costs, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is dealt with below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument.

On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement.

On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability.

Investments

Investments, other than investments in subsidiaries and associates, are initially measured at fair value on a trade date basis, including directly attributable transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit and loss; and
- available-for-sale.

The classification depends on the nature and purpose of the investments and is determined at the time of initial recognition.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest rate method less any allowance for impairment.

Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Investments at fair value through profit and loss include investments held for trading and investments that are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit and loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss is recognised in the income statement for the period. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in equity through the statement of changes in equity, until such investments are derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts, calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition, are recognised in the income statement when there is the objective evidence the asset is impaired.

Borrowings

Loans and borrowings are initially measured at fair value, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge the risk of changes in metal prices. The Group designates these instruments as cash flow hedges and assesses the effectiveness of these hedging activities at the reporting dates.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. The effective portion of changes in the fair value of the derivative financial instruments that are designated as cash flow hedges is recognised directly in equity. The ineffective portion of cash flow hedges is recognised in the income statement.

When a hedging instrument is expired or sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity is transferred to the income statement.

Hedging derivatives are classified as non-current assets or liabilities if the remaining maturity of the hedged item is more than one year and as current assets or liabilities if the maturity of the hedged item is less than one year.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

Defined contribution plans

The Group contributes to the following defined contribution plans:

- Pension fund of the Russian Federation;
- Stillwater Mining Company savings plan.

The only obligation of the Group with respect to these defined contribution plans is to make the specified contributions in the period in which they arise. These contributions are expensed as incurred.

Defined benefit plans

The Group operates a number of unfunded defined benefit plans for its employees. At management's discretion and within established annual budgets, the Group admits employees, who have met certain criteria, into one of the following retirement benefit plans:

- *Six pensions plan,* whereby a retired employee receives a monthly allowance equal to 600% of the Russian Federation state pension for the immediate two years subsequent to retirement; or
- *Lifelong professional pension plan,* whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life; or
- *Joint corporate pension plan,* whereby a retired employee receives a monthly allowance equal to 1/150th of total Starting and Counter capital for the rest of his/her life. Starting capital is determined on an individual basis taking into account seniority, salary level, etc. The Counter capital consists of a contribution funded by the Group of 3% of salaries paid to an employee during the period of participation in the plan.

In addition, the Group operates the *Mother's rights program*, whereby a discharged mother with a child between the ages of three and seven receives a monthly benefit equal to her average salary, but limited to 150% of minimum basic salary.

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with an actuarial valuation being carried out on a regular basis. Actuarial gains and losses that exceed 10% of the present value of the Group's defined benefit obligation are amortised over the expected average remaining lives of the participating employees. Past service cost is recognised immediately in the income statement to the extent that the benefits are already vested, and otherwise amortised on the straight-line basis over the average period until the benefit becomes vested.

The Group's obligation in respect of these defined benefit plans relating to post employment benefits is recognised in the balance sheet and represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

The principal assumptions used in calculating these benefits relate to:

- discount rates used in determining the present value of post employment benefits;
- projected salary and pension increases;
- pre-retirement increases to capital accounts; and
- life expectancy of members (or period of the benefit as defined).

Income tax

Income tax on the profit or loss for the period comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred taxation is also dealt with in equity.

Government grants

Government grants related to assets are deducted from the cost of these assets in arriving at their carrying value.

Revenue recognition

Revenue consists of the sale of joint product metals, and is recognised when the risks and rewards of ownership are transferred to the buyer. Metal sales revenue represents the net invoiced value of all joint products shipped to customers, net of value-added tax. Revenues from sale of by-products are netted off against production costs.

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception, and are expected to be settled by physical delivery, are recognised in the consolidated financial statements as and when they are delivered.

Segmental information

The Group predominantly operates in a single business segment, being exploration, extraction, production and sale of base and precious metals. Reportable segments are based on the geographic location of the Group's operations, which are the Russian Federation, United States of America and Europe.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to be required to settle the present obligation, its carrying amount is the present value of those cash flows.

Interest on borrowings

Interest on borrowings relating to major qualifying capital projects under construction is capitalised during the construction period in which they are incurred. Once a qualifying capital project has been fully commissioned, the associated interest is expensed in the income statement as and when incurred.

Interest relating to operating activities is expensed in the income statement as and when incurred.

Operating lease payments

Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms. Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases.

Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary.

Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Increases in provision are charged to the income statement as a cost of production. The unwinding of restoration costs are expensed over the life of mine.

Ongoing rehabilitation costs are expensed when incurred.

Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale or other type of disposal at the balance sheet date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

Comparative information related to discontinued operations is amended in the income statement for a prior period.

Assets and liabilities of a disposal group are presented in the balance sheet separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the balance sheet for a prior period.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving raw materials and spare parts;
- environmental obligations;
- employee benefit obligations;
- tax matters; and
- contingencies.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect estimation of life of mine include the following:

- changes of proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

The Group creates an allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Employee benefits

The expected costs of providing pensions and post-retirement benefits under defined benefit arrangements and related employee current service cost during the period are charged to the income statement.

Assumptions in respect of the expected costs are set after consultation with actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the results of the Group's operations.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

US Dollars million

4. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2005, has been reclassified.

The effect of the reclassifications is summarised below:

	After reclassifications	Before reclassifications	Difference
CONSOLIDATED INCOME STATEMENT			
Other net operating expenses	(156)	(58)	(98)
Other non-operating expenses	-	(124)	124
Finance costs	(121)	(95)	(26)
			-

Management has performed additional analysis of the nature of expenses incurred and made a decision to present expenses related to maintenance of social sphere facilities and donations within operating expenses.

In addition, all exchange differences related to financing activities were reclassified to finance costs.

	After reclassifications	Before reclassifications	Difference
CONSOLIDATED BALANCE SHEET			
Non-current assets			
Intangible assets	44	-	44
Other non-current assets	94	138	(44)
			-

In previous reporting periods intangible assets were not presented separately in the consolidated balance sheet, but included in other non-current assets. Starting 2006, it was decided to present the balance of intangible assets separately, and disclose movements in a separate note.

US Dollars million

	After reclassifications	Before reclassifications	Difference
Capital and reserves			
Share premium	695	-	695
Treasury shares	(1,457)	-	(1,457)
Investments revaluation reserve	690	676	14
Translation reserve	748	-	748
			-

Management has made a decision to change presentation of exchange differences arising on translation of consolidated financial statements from functional to presentation currency in order to better comply with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates". All exchange differences resulting from such translation have been now presented as a separate component in the statement of changes in equity.

Starting 2006, treasury shares are presented as a separate component of equity.

Other reclassifications of comparative information, individually or in aggregate, were not material to the consolidated financial statements of the Group.

US Dollars million

5. SEGMENTAL INFORMATION

Financial information relating to the Group's consolidated segments is as follows:

2006	Corporate and other	Taimyr peninsula	Kola peninsula	Subtotal Russian Federation	North America	Europe	Total
Metal sales	**-**	**10,046**	**980**	**11,026**	**524**	**-**	**11,550**
Third party transactions	-	1,270	148	**1,418**	524	9,608	**11,550**
Intra-segment transactions	-	8,776	832	**9,608**	-	(9,608)	**-**
Operating (loss)/profit	(412)	6,137	564	**6,289**	3	732	**7,024**
Interest income	43	4	3	**50**	11	13	**74**
Finance costs	11	22	5	**38**	11	(28)	**21**
Income/(loss) from associates	5	-	-	**5**	-	(38)	**(33)**
(Loss)/profit before income tax	(643)	6,119	562	**6,038**	2	737	**6,777**
Significant non-cash items							
Amortisation and depreciation	18	470	77	**565**	8	17	**590**
Other non-cash expenses	96	139	9	**244**	(4)	2	**242**
Capital expenditures	**77**	**572**	**79**	**728**	**28**	**40**	**796**
Carrying value of assets/liabilities							
Property, plant and equipment	327	6,531	722	**7,580**	474	80	**8,134**
Investments in associates	85	1	10	**96**	-	112	**208**
Net operating assets	1,119	1,129	233	**2,481**	177	1,296	**3,954**
Total assets	4,245	8,528	1,079	**13,852**	754	1,673	**16,279**
Total liabilities	414	1,814	166	**2,394**	241	508	**3,143**

US Dollars million

2005	**Corporate and other**	**Taimyr peninsula**	**Kola peninsula**	**Severo-Eniseysk and Bodaibo[1]**	**Subtotal Russian Federation**	**North America**	**Europe**	**Total**
Metal sales	**-**	**6,063**	**642**	**-**	**6,705**	**434**	**30**	**7,169**
Third party transactions	-	988	130	-	**1,118**	434	5,617	**7,169**
Intra-segment transactions	-	5,075	512	-	**5,587**	-	(5,587)	**-**
Operating (loss)/profit	(268)	2,979	284	-	**2,995**	(32)	215	**3,178**
Interest income	27	1	5	-	**33**	5	5	**43**
Finance costs	26	18	3	-	**47**	12	62	**121**
Income from associates	2	-	-	-	**2**	-	-	**2**
(Loss)/profit before taxation	(249)	2,961	284	-	**2,996**	(29)	149	**3,116**
Significant non-cash items								
Amortisation and depreciation	14	431	70	-	**515**	5	16	**536**
Other non-cash expenses	(2)	117	(21)	-	**94**	-	1	**95**
Capital expenditures	**58**	**488**	**67**	**-**	**613**	**18**	**1**	**632**
Carrying value of assets/liabilities								
Property, plant and equipment	182	5,787	661	-	**6,630**	475	40	**7,145**
Investments in associates	95	-	-	-	**95**	-	-	**95**
Net operating assets	(151)	1,078	151	1,952	**3,030**	184	745	**3,959**
Total assets	1,525	7,417	890	3,298	**13,130**	739	861	**14,730**
Total liabilities	727	1,216	156	473	**2,572**	236	525	**3,333**

[1] The operations attributable to this segment are presented as discontinued in the Group's consolidated income statement. Assets and liabilities related to discontinued operation are presented in the consolidated balance sheet as at 31 December 2005 as assets and liabilities of disposal group (refer to note 42).

US Dollars million

6. METAL SALES

	Total	Nickel	Copper	Palladium	Platinum	Gold
2006						
By origin						
Russian Federation						
Taimyr Peninsula	**10,046**	5,398	2,699	1,018	841	90
Kola Peninsula	**980**	814	139	15	9	3
United States of America	**524**	16	3	232	266	7
	11,550	**6,228**	**2,841**	**1,265**	**1,116**	**100**
By destination						
Europe	**6,846**	3,939	2,016	341	506	44
Asia	**1,903**	1,497	-	309	97	-
North America	**1,820**	690	84	613	412	21
Russian Federation	**981**	102	741	2	101	35
	11,550	**6,228**	**2,841**	**1,265**	**1,116**	**100**
2005						
By origin						
Russian Federation						
Taimyr Peninsula	**6,063**	3,143	1,527	654	672	67
Kola Peninsula	**642**	506	117	5	11	3
United States of America	**434**	-	-	253	181	-
Europe	**30**	25	-	2	-	3
	7,169	**3,674**	**1,644**	**914**	**864**	**73**
By destination						
Europe	**4,529**	2,555	1,228	282	414	50
Asia	**925**	657	-	176	91	1
North America	**1,066**	327	-	456	283	-
Russian Federation	**649**	135	416	-	76	22
	7,169	**3,674**	**1,644**	**914**	**864**	**73**

7. COST OF METAL SALES

	2006	2005
Cash operating costs		
On-mine and concentrating costs (refer to note 8)	1,454	1,243
Smelting costs (refer to note 9)	915	683
Treatment and refining costs (refer to note 10)	453	411
Other costs (refer to note 11)	388	406
Sales of by-products	(672)	(333)
Total cash operating costs	**2,538**	**2,410**
Amortisation and depreciation of operating assets (refer to note 12)	568	498
Decrease in metal inventories	52	86
Total	**3,158**	**2,994**

US Dollars million

	2006	2005

8. ON-MINE AND CONCENTRATING COSTS

	2006	2005
Labour	648	519
Consumables and spares	464	434
Repairs and maintenance of equipment	109	98
Insurance	51	52
Tailing pile maintenance and relocation	35	27
Transportation	35	16
Utilities	31	36
Rent expenses	17	14
Sundry on-mine and concentrating costs	64	47
Total (refer to note 7)	**1,454**	**1,243**

9. SMELTING COSTS

	2006	2005
Platinum group scrap metals purchased	268	82
Labour	245	201
Consumables and spares	223	193
Insurance	70	48
Repairs and maintenance	45	24
Utilities	28	34
Transportation	13	7
Rent expenses	7	5
Non-ferrous scrap metal purchased	5	87
Sundry smelting costs	11	2
Total (refer to note 7)	**915**	**683**

10. TREATMENT AND REFINING COSTS

	2006	2005
Labour	167	142
Consumables and spares	146	138
Platinum group metals toll refining cost	77	76
Insurance	18	16
Repairs and maintenance	17	12
Utilities	14	18
Transportation	5	3
Rent expenses	3	2
Sundry treatment and refining costs	6	4
Total (refer to note 7)	**453**	**411**

US Dollars million

11. OTHER COSTS

	2006	2005
Transportation	143	117
Tax on mining and pollution levies	127	119
Exploration expenses	49	39
Cost of refined metals purchased from third parties	28	91
Other	41	40
Total (refer to note 7)	**388**	**406**

12. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	2006	2005
Mining and concentrating	338	305
Smelting	165	136
Treatment and refining	51	44
Other	14	13
Total (refer to note 7)	**568**	**498**

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Export customs duties	484	301
Salaries	240	194
Taxes other than mining and income taxes and pollution levies	82	68
Advertising	70	58
Transportation expenses	30	36
Consulting and other professional services	29	27
Legal and audit services	21	29
External research and development	20	14
Depreciation	19	17
Commission paid	12	10
Repairs and maintenance	12	9
Insurance	10	12
Other	61	66
Total	**1,090**	**841**

US Dollars million

14. OTHER NET OPERATING EXPENSES

	2006	2005
Impairment of property, plant and equipment (refer to note 18)	87	10
Maintenance of social sphere facilities	78	69
Donations	68	49
Foreign exchange loss/(gain), net	33	(1)
Loss on disposal of property, plant and equipment	21	28
Change in provision for tax penalties	19	15
Change in allowance for value added tax recoverable	9	15
Change in allowance for doubtful debts	5	(10)
Operating profit of non-mining entities	(28)	(16)
Other	(14)	(3)
Total	**278**	**156**

15. FINANCE COSTS

	2006	2005
Interest expense on borrowings	60	75
Unwinding of discount on decommissioning obligations (refer to note 30)	19	12
Interest expense on pension obligations (refer to note 29)	7	8
Foreign exchange (gain)/loss on revaluation of borrowings, net	(65)	26
Total	**21**	**121**

16. NET (LOSS)/INCOME FROM INVESTMENTS

	2006	2005
Income on disposal of shares of OJSC “Krasnoyarskaya generatsiya”	117	-
Interest income on bank deposits and loans advanced	74	43
Dividend income on available-for-sale investments	6	9
Income from associates (refer to note 20)	3	2
Loss on disposal of shares of Gold Fields Limited	(317)	-
Change in allowance for promissory notes and loans advanced	(83)	(4)
Impairment of investments in associates (refer to note 20)	(36)	-
Other	10	9
Total	**(226)**	**59**

Change in allowance for promissory notes and loans advanced mostly represents provision against loan provided by the Group to a related party in the amount of USD 70 million (refer to note 37).

US Dollars million

17. INCOME TAX

	2006	2005
Current tax expense	1,893	911
Deferred tax benefit	(88)	(73)
Total	**1,805**	**838**

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation of 24%, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:

	2006	2005
Profit before income tax from continuing operations	**6,777**	**3,116**
Profit before income tax from a discontinued operation	1,005	125
Profit before income tax from continuing and discontinued operations	**7,782**	**3,241**
Theoretical income tax at 24%	1,868	778
Impact of specific tax rates	(291)	(21)
Tax effect of permanent differences	171	118
Permanent difference on impairment of investments	29	1
Taxable losses of subsidiaries not carried forward	2	6
Change in valuation allowance	38	7
Income tax at effective rate of 23% (2005: 27%)	**1,817**	**889**
Less: Income tax attributable to a discontinued operation (refer to note 42)	(12)	(51)
Income tax expense attributable to continuing operations	**1,805**	**838**

The corporate income tax rates in other countries where the Group has a significant taxable presence vary from 0% to 39%.

US Dollars million

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Construction-in-progress	Total
Cost					
Balance at 31 December 2004	**5,258**	**2,717**	**152**	**1,312**	**9,439**
Additions	-	-	-	780	**780**
Acquired on acquisition of subsidiaries (refer to note 36)	397	39	1	8	**445**
Disposed of on disposal of subsidiaries	(5)	(9)	-	(1)	**(15)**
Transfers from capital construction-in-progress	167	375	19	(561)	**-**
Decommissioning asset raised (refer to note 30)	135	9	-	-	**144**
Disposals	(26)	(69)	(9)	(20)	**(124)**
Reclassified to non-current assets of disposal group	(799)	(296)	(9)	(145)	**(1,249)**
Effect of translation to presentation currency	(172)	(96)	(4)	(59)	**(331)**
Balance at 31 December 2005	**4,955**	**2,670**	**150**	**1,314**	**9,089**
Additions	-	-	-	769	**769**
Acquired on acquisition of subsidiaries (refer to note 36)	200	107	-	8	**315**
Transfers from capital construction-in-progress	247	326	7	(580)	**-**
Decommissioning asset raised (refer to note 30)	9	-	-	-	**9**
Disposals	(29)	(81)	(2)	(2)	**(114)**
Effect of translation to presentation currency	428	256	14	126	**824**
Balance at 31 December 2006	**5,810**	**3,278**	**169**	**1,635**	**10,892**

US Dollars million

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Construction-in-progress	Total
Accumulated depreciation and impairment					
Balance at 31 December 2004	**(786)**	**(685)**	**(18)**	**(98)**	**(1,587)**
Charge for the year	(316)	(260)	(11)	-	**(587)**
Eliminated on disposals	7	36	2	-	**45**
Impairment	(6)	-	-	(15)	**(21)**
Eliminated on reclassification to non-current assets of disposal group	73	64	1	6	**144**
Effect of translation to presentation currency	30	28	-	4	**62**
Balance at 31 December 2005	**(998)**	**(817)**	**(26)**	**(103)**	**(1,944)**
Charge for the year	(306)	(262)	(11)	-	**(579)**
Eliminated on disposals	8	38	2	-	**48**
Impairment (refer to note 14)	(92)	(8)	-	13	**(87)**
Effect of translation to presentation currency	(101)	(84)	(2)	(9)	**(196)**
Balance at 31 December 2006	**(1,489)**	**(1,133)**	**(37)**	**(99)**	**(2,758)**
Carrying value					
31 December 2005	**3,957**	**1,853**	**124**	**1,211**	**7,145**
31 December 2006	**4,321**	**2,145**	**132**	**1,536**	**8,134**

Included in property, plant and equipment at 31 December 2006 are non-mining assets with a carrying value of USD 1,237 million (31 December 2005: USD 651 million).

US Dollars million

19. INTANGIBLE ASSETS

	Goodwill	Software and other	Total
Cost			
Balance at 31 December 2004	**-**	**28**	**28**
Acquired on acquisition of subsidiaries (refer to note 36)	14	-	**14**
Additions	-	15	**15**
Disposals	-	(2)	**(2)**
Effect of translation to presentation currency	-	(2)	**(2)**
Balance at 31 December 2005	**14**	**39**	**53**
Acquired on acquisition of subsidiaries (refer to note 36)	10	-	**10**
Additions	-	27	**27**
Disposals	-	(1)	**(1)**
Effect of translation to presentation currency	1	4	**5**
Balance at 31 December 2006	**25**	**69**	**94**
Accumulated amortisation and impairment			
Balance at 31 December 2004	**-**	**(4)**	**(4)**
Charge for the year	-	(7)	**(7)**
Eliminated on disposals	-	2	**2**
Effect of translation to presentation currency	-	-	**-**
Balance at 31 December 2005	**-**	**(9)**	**(9)**
Charge for the year	-	(11)	**(11)**
Eliminated on disposals	-	-	**-**
Effect of translation to presentation currency	-	(1)	**(1)**
Balance at 31 December 2006	**-**	**(21)**	**(21)**
Carrying value			
31 December 2005	**14**	**30**	**44**
31 December 2006	**25**	**48**	**73**

US Dollars million

20. INVESTMENTS IN ASSOCIATES

	2006	2005
Balance at beginning of the year	**95**	**162**
Acquired during the year	151	-
Disposed of during the year	(39)	-
Change in classification due to increase in shareholding	-	(9)
Share of post-acquisition profits (refer to note 16)	3	2
Impairment of investments in associates (refer to note 16)	(36)	-
Reclassified from/(to) investments held for sale	56	(56)
Reclassified to investments available-for-sale	(35)	-
Effect of translation to presentation currency	13	(4)
Balance at end of the year	**208**	**95**

Details of the Group's associates are as follows:

Name of associate	Carrying value of investment	Total assets	Total liabilities	Sales	(Loss)/ profit
2006					
Smart Hydrogen Inc.	112	224	-	-	(76)
OJSC "Krasnoyarskenergo"	30	143	(31)	225	6
OJSC "Norilskgazprom"	30	140	(36)	122	16
OJSC "Kolenergo"	15	85	(27)	100	-
Other	21	226	(106)	972	(20)
	208	**818**	**(200)**	**1,419**	**(74)**
2005					
OJSC "Krasnoyarskaya generatsiya"	37	465	(74)	86	(4)
OJSC "Norilskgazprom"	28	145	(54)	97	14
OJSC "Krasnoyarskenergo"	23	278	(38)	475	4
Other	7	124	(36)	130	-
	95	**1,012**	**(202)**	**788**	**14**

Smart Hydrogen Inc. is a joint venture formed in April 2006 by the Group and Interros Holding Company, a party related by means of common ownership and control. The Group owns 50% of Smart Hydrogen Inc. Through this entity in June 2006 the principal investors acquired a 35% stake in Plug Power Inc., a US designer of environmentally clean and reliable energy products.

At 31 December 2006 management reviewed the carrying value of the Group's investment in Smart Hydrogen Inc. and determined that the recoverable amount of the investment is less than its carrying amount. Accordingly, the carrying amount was reduced to the recoverable amount and an impairment loss of USD 36 million was recognised in the income statement (refer to note 16).

In October 2005 and March 2006 the Group became a shareholder in OJSC "Krasnoyarskaya generatsiya" and OJSC "Krasnoyarskiye magistralniye seti", accordingly, as a part of reorganisation of OJSC "Krasnoyarskenergo". In November 2006 the Group sold its share in OJSC "Krasnoyarskaya generatsiya" for a cash consideration of USD 156 million (refer to note 37).

US Dollars million

On 9 December 2005 the Board of Directors of the Company approved a decision to sell its investment in OJSC "Kolenergo". At 31 December 2005 this investment was classified as held for sale and included in current investments in securities (refer to note 21). However, in September 2006 management has changed its plan to sell this investment. Accordingly, the Group ceased to classify investment in OJSC "Kolenergo" as held for sale, and adjusted its carrying value as if this asset had not been classified as held for sale. As a result of reclassification of this investment from investments held for sale to investments in associates, income from associate for the year ended 31 December 2006 was recognised in profit from continuing operations.

In November 2006 the Group's investments in OJSC "Kolskaya generiruyuschaya compania" and OJSC "Apatitskaya TEC" were exchanged for 208,928 million shares of OJSC "Territorial Generation Company № 1" (OJSC "TGK-1") as a part of the reorganisation of RAO "UES of Russia". Investment in OJSC "TGK-1" was classified as investment in securities available-for-sale (refer to note 21).

OJSC "Krasnoyarskenergo" and OJSC "Kolenergo" are public entities that are listed on the Russian Stock Exchange. At 31 December 2006 market value of the Group's investment in OJSC "Krasnoyarskenergo" amounted to USD 164 million (31 December 2005: USD 66 million), and market value of the Group's investment in OJSC "Kolenergo" amounted to USD 51 million.

21. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2006	2005
Non-current		
Securities available-for-sale	2,331	615
Long-term deposits	268	5
Long-term accounts receivable	9	25
Long-term loans advanced and other	7	45
Total non-current	**2,615**	**690**
Current		
Short-term loans advanced	45	5
Securities available-for-sale	35	71
Securities held for trading	22	-
Investments held for sale (refer to note 20)	-	56
Other	2	2
Total current	**104**	**134**

US Dollars million

	Shareholding	2006	2005
Non-current securities available-for-sale consisted of shares of the following companies:			
RAO "UES of Russia"	3.5%	1,580	611
OJSC "OGK-3"	14.6%	572	-
OJSC "Polyus Gold"	1.0%	95	-
OJSC "TGK-1"	7.2%	79	-
OJSC "Samara Bearing Plant"	5.6%	5	4
Total		**2,331**	**615**

At 31 December 2006 short-term loans advanced included a loan to OJSC "Norilskgazprom" in the amount of USD 21 million, at interest rate of 6.4%, repayable in 2007. At 31 December 2005 this loan in the amount of USD 37 million was recognised within long-term loans advanced.

Current securities available-for-sale mostly comprised U.S. federal agency notes, commercial papers and bonds.

Interest rates on long-term deposits held in banks vary from 6.1% to 7.4%.

22. OTHER NON-CURRENT ASSETS

	2006	2005
Value added tax recoverable	82	137
Non-current metal inventories	-	9
	82	**146**
Less: Allowance for value added tax recoverable	(38)	(52)
Total	**44**	**94**

23. INVENTORIES

	2006	2005
Refined metals		
Joint products at net production cost	361	389
By-products at net realisable value	135	78
Work-in-process at net production cost	273	254
Total metal inventories	**769**	**721**
Stores and materials at cost	732	639
Less: Allowance for obsolete and slow-moving items	(30)	(59)
Net stores and materials	**702**	**580**
Total inventories	**1,471**	**1,301**

US Dollars million

	2006	2005

24. TRADE AND OTHER RECEIVABLES

	2006	2005
Trade receivables	611	339
Advances to suppliers	54	46
Other receivables	157	116
	822	**501**
Less: Allowance for doubtful debts	(77)	(61)
Total	**745**	**440**

25. OTHER CURRENT ASSETS

	2006	2005
Value added tax recoverable	510	453
Prepaid insurance	97	27
Customs duties	55	29
Prepaid income tax	27	22
Other taxes	10	25
Other prepaid expenses	8	11
Total	**707**	**567**

26. CASH AND CASH EQUIVALENTS

		2006	2005
Current accounts	- RUR	185	137
	- foreign currencies	263	47
Bank deposits	- RUR	15	-
	- foreign currencies	1,618	639
Restricted cash		5	18
Other cash and cash equivalents		92	81
Total		**2,178**	**922**

US Dollars million

	2006	2005

27. SHARE CAPITAL

Authorised, issued and fully paid capital

	2006	2005
31 December 2006: 190,627,747 ordinary shares at par value of RUR 1 each	8	-
31 December 2005: 213,905,884 ordinary shares at par value of RUR 1 each	-	9
Total	**8**	**9**

Treasury shares

	2006	2005
31 December 2006: 9,209,834 ordinary shares	(999)	-
31 December 2005: 25,198,963 ordinary shares	-	(1,457)
Total	**(999)**	**(1,457)**

On 27 March 2006 23,278,137 treasury shares were cancelled by the Company.

On 28 December 2006 7,498,950 ordinary shares were bought back from shareholders at RUR 3,510 per share for a total consideration of USD 999 million.

As part of restructuring of the Group that took place in 2001-2002, shareholders of OJSC “RAO “Norilsk Nickel”, a subsidiary of the Group, were entitled during certain periods to swap their shares for shares in OJSC “MMC Norilsk Nickel”. During the year ended 31 December 2006 209,942 shares had been swapped.

	2006	2005
Number of ordinary shares in issue at end of the year	181,417,913	188,706,921
Weighted average number of ordinary shares in issue during the year	188,767,177	201,242,833

US Dollars million

	2006	2005
28. LONG-TERM BORROWINGS		
7.125% Guaranteed notes due 2009, net of direct expenses on issuance	499	499
On 30 September 2004 Norilsk Nickel Luxemburg S.A., a wholly owned special purpose subsidiary of the Group, issued USD 500 million 7.125% notes. The notes were issued at par value with an interest payable semi-annually in arrears on 30 March and 30 September, and mature on 30 September 2009. The notes are unconditionally and irrevocably guaranteed by OJSC "MMC Norilsk Nickel".		
Syndicated loan arranged by Toronto Dominion	96	109
A USD 250 million credit facility arranged by Stillwater Mining Company, a subsidiary of the Group, at LIBOR + 3.25% per annum. Repayments commenced in 2004, with the final instalment due on 30 July 2010. Substantially all the property and assets of Stillwater Mining Company are pledged as security for this credit facility. The loan agreement requires that 50% of the company's annual excess cash flow, any proceeds from asset sales and the issuance of debt or equity securities, subject to specified exceptions, be offered to repay this loan.		
Exempt Facility Reversal Bonds Series 2000 issued through the State of Montana Investment Board	29	29
USD-denominated bonds with an effective interest rate of 8.57% issued on 6 July 2002 and maturing on 1 July 2020.		
Other long-term borrowings	11	6
	635	**643**
Less: Current portion repayable within one year and shown under current liabilities (refer to note 32)	(3)	(8)
Total	**632**	**635**

Long-term borrowings are repayable as follows:

	2006	2005
Due in the second year	4	2
Due in the third year	502	2
Due in the fourth year	93	500
Due in the fifth year	-	98
Due thereafter	33	33
	632	**635**

US Dollars million

29. EMPLOYEE BENEFIT OBLIGATIONS

	2006	2005
Non-current		
Lifelong professional pension plan	42	37
Joint corporate pension plan	21	24
Mother's rights program	1	2
Six pensions plan	1	1
	65	**64**
Less: Current portion of employee benefit obligations	(8)	(8)
Total non-current	**57**	**56**
Current		
Accrual for annual leave	143	120
Wages and salaries	92	72
Current portion of employee benefit obligations	8	8
Other	16	12
Total current	**259**	**212**

Defined benefit plans

	2006	2005
Present value of funded defined benefit obligation	121	104
Fair value of plan assets	(11)	-
Fair value of obligation	110	104
Unrecognised actuarial losses	(45)	(40)
	65	**64**

Amounts recognised in the income statement were as follows:

	2006	2005
Interest expense (refer to note 15)	7	8
Additional cost arising from new plan members	4	6
Net actuarial losses recognised during the year	3	2
Current service costs	2	1
Total	**16**	**17**

US Dollars million

Movements in the present value of the defined benefit obligations were as follows:

	Lifelong professional pension plan	**Joint corporate pension plan**	**Mother's rights program**	**Six pensions plan**
Balance at 31 December 2004	**41**	**22**	**4**	**3**
Cash payments	(5)	(1)	(4)	(2)
Charge for the year	8	6	2	1
Actuarial losses/(gains)	23	9	-	(1)
Effect of translation to presentation currency	(1)	(1)	-	-
Balance at 31 December 2005	**66**	**35**	**2**	**1**
Cash payments	(7)	(1)	(1)	(1)
Charge for the year	9	6	-	1
Actuarial losses/(gains)	9	(5)	-	-
Effect of translation to presentation currency	4	3	-	-
Balance at 31 December 2006	**81**	**38**	**1**	**1**

Starting from 2006 all of the Group's pension plans are managed by a non-state Pension Fund "Norilsk Nickel", a related party. Contributions from the Group to this Fund during the year ended 31 December 2006 amounted to USD 11 million (2005: nil).

The major categories of plan assets and the expected rate of return at the balance sheet dates for each category were as follows:

	Expected return		**Fair value of plan assets**	
	2006	**2005**	**2006**	**2005**
Equity securities	46.7%	n/a	3	-
Bonds	7.9%	n/a	6	-
Promissory notes	6.4%	n/a	1	-
Other	4.9%	n/a	1	-
Weighted average expected return	**10.4%**	**n/a**	**11**	**-**

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held less expenses on managing the assets. Management of the Group assesses the expected returns based on historical return trends for these assets.

Key assumptions used in estimation of defined benefit obligations were the following:

	2006	**2005**
Discount rate	7.0%	7.0%
Weighted average expected return on plan assets	10.4%	n/a
Pre-retirement increases to capital accounts	4.5%	4.5%
Future salary increases	6.7%	6.7%
Future pension increases	5.2%	5.2%
Average life expectancy of members from the date of retirement	17 years	17 years

US Dollars million

	2006	2005
Defined contribution plans		
Amounts recognised in the income statement in respect of defined contribution plans:		
Pension fund of the Russian Federation	181	156
Stillwater Mining Company savings plan	5	5
Total	**186**	**161**

30. ENVIRONMENTAL OBLIGATIONS

	2006	2005
Balance at beginning of the year	**269**	**155**
New obligations raised (refer to note 18)	4	105
Change in estimate (refer to note 18)	5	39
Acquired on acquisition of subsidiaries	-	21
Unwinding of discount on decommissioning obligations (refer to note 15)	19	12
Charge to production cost	1	3
Reclassified to non-current liabilities of disposal group	-	(61)
Effect of translation to presentation currency	24	(5)
Balance at end of the year	**322**	**269**

Key assumptions used in estimation of environmental obligations were as follows:

	2006	2005
Discount rates	6.6%-7.7%	7.0%-7.7%
Future expected increase of expenses	25.0%	25.0%
Expected closure date of mines	2007-2063	2006-2070

Present value of expected cost to be incurred for settlement of environmental obligations was as follows:

	2006	2005
Due from second to fifth year	41	49
Due from sixth to tenth year	10	34
Due from eleventh to fifteenth year	64	25
Due from sixteenth to twentieth year	83	65
Due thereafter	124	96
	322	**269**

US Dollars million

31. DEFERRED TAX LIABILITIES

	2006	2005
Balance at beginning of the year	**543**	**740**
Recognised in the income statement	(88)	(82)
Change in deferred tax liability arising on revaluation of available-for-sale investments	304	-
Change in deferred tax liability due to acquisition of subsidiaries (refer note 36)	57	89
Reclassified to non-current liabilities of disposal group	-	(169)
Effect of translation to presentation currency	65	(35)
Balance at end of the year	**881**	**543**

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	2006	2005
Property, plant and equipment	662	593
Accrued operating expenses	(41)	(43)
Valuation of receivables	(2)	(7)
Unrealised profit on intra-group transactions	(86)	(43)
Inventory valuation	59	36
Valuation of investments	307	(10)
Loss carried forward on disposal of investments	(80)	-
Valuation allowance for deferred tax asset	100	55
Other	(38)	(38)
Total	**881**	**543**

The unutilised tax losses of the North American operations as at 31 December 2006, which are available for offset against future taxable income earned in the United States of America, amounted to USD 297 million (31 December 2005: USD 285 million), have not been recognised as a deferred tax asset.

At 31 December 2006 the Group does not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 2,531 million (31 December 2005: USD 2,422 million), because it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

US Dollars million

32. SHORT-TERM BORROWINGS

	2006	2005
RUR-denominated short-term borrowings	9	54
USD-denominated short-term borrowings at floating rates	-	295
USD denominated short-term borrowings at fixed rates	146	-
Current portion of long-term borrowings (refer to note 28)	3	8
Total	**158**	**357**

The interest rates on these borrowings vary as follows:

	2006	2005
RUR-denominated short-term borrowings	0.0%	5.5%
USD-denominated short-term borrowings at floating rates	-	LIBOR+0.7%
USD-denominated short-term borrowings at fixed rates	5.8% to 6.0%	-

33. TRADE AND OTHER PAYABLES

	2006	2005
Trade payables	191	170
Insurance	107	10
Advances from customers	50	56
Interest	9	11
Other creditors	64	53
Total	**421**	**300**

34. TAXES PAYABLE

	2006	2005
Income tax	244	38
Provision for tax penalties	52	31
Value added tax	29	60
Property tax	25	21
Tax on mining	16	9
Unified social tax	12	10
Personal income tax	10	9
Other	5	9
Total	**393**	**187**

US Dollars million

	2006	2005
35. DIVIDENDS		
On 24 November 2006 the Company declared an interim dividend of RUR 56 (USD 2.11) per share in respect of the year ended 31 December 2006. The dividend was paid to shareholders on 29 December 2006. This amount is net of USD 4 million paid to the Group subsidiaries.	399	-
On 29 June 2006 the Company declared a final dividend in respect of the year ended 31 December 2005 of RUR 53 (USD 1.98) per share. The dividend was paid to shareholders on 15 August 2006. This amount is net of USD 4 million paid to the Group subsidiaries.	373	-
On 30 December 2005 the Company declared an interim dividend of RUR 43 (USD 1.49) per share in respect of the year ended 31 December 2005. The dividend was paid to shareholders on 28 February 2006. This amount is net of USD 3 million paid to the Group subsidiaries.	-	298
On 30 June 2005 the Company declared a final dividend in respect of the year ended 31 December 2004 of RUR 28 (USD 0.98) per share. The dividend was paid to shareholders on 31 August 2005. This amount is net of USD 3 million paid to the Group subsidiaries.	-	194
Total	**772**	**492**

36. ACQUISITION OF SUBSIDIARIES

	2006	2005
Net assets acquired		
Property, plant and equipment (refer to note 18)	315	445
Other assets	19	40
Loans and borrowings	(7)	(37)
Trade and other payables	(6)	(53)
Deferred tax liabilities (refer to note 31)	(57)	(89)
Net assets at date of acquisition	**264**	**306**
Decrease in minority interest due to increase of investments in subsidiaries by the Group	2	18
Less: Minority interest	-	(1)
Groups' share of net assets acquired	**266**	**323**
Add: Goodwill on acquisition (refer to note 19)	10	14
Less: Pre-acquisition amount invested in subsidiary	-	(9)
Total consideration	**276**	**328**
Satisfied by issuance from treasury shares	(2)	(12)
Satisfied by cash	(274)	(176)
Deferred cash consideration	-	(140)
Net cash outflow arising on acquisition:		
Cash consideration	(274)	(176)
Cash and cash equivalents acquired	5	1
Net cash outflow on acquisition of subsidiaries	**(269)**	**(175)**

US Dollars million

	2006	2005
Holdings in the following companies were acquired:		
Russian gold mining companies		
OJSC "Aldanzoloto GRK"	-	99.2%
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya"	-	50.0%
OJSC "Yakutskaya Gornaya Kompaniya"	-	100.0%
OJSC "Pervenets"	-	74.0%
OJSC "Lenzoloto"	-	11.2%
OJSC "Matrosov Mine"	-	31.3%
Other acquisitions		
OJSC "Taimyrenergo"	100.0%	-
LLC "Astron"	71.0%	-
LLC "Astron-S"	71.0%	-
LLC "Nortrans"	100.0%	-
LLC "Zapolyarniy Torgoviy Alians"	100.0%	-
LLC "Terminal"	-	100.0%
LLC "Gornaya Leasingovaya Kompaniya"	-	80.1%

37. RELATED PARTIES

Related parties are considered to include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties.

Transactions with related parties

	Sale of goods	Purchase of goods	Purchase of services	Purchase of investments
Year ended 31 December 2006				
Company	54	12	71	70
Subsidiaries of the Group	51	154	69	-
Total	**105**	**166**	**140**	**70**
Year ended 31 December 2005				
Company	52	54	63	47
Subsidiaries of the Group	12	62	37	-
Total	**64**	**116**	**100**	**47**

During the year ended 31 December 2006 the Group sold property, plant and equipment to related parties for a total cash consideration of USD 19 million.

In November 2006 the Group sold its investment in shares of OJSC "Krasnoyarskaya generatsiya" to related parties for a cash consideration of USD 156 million (refer to note 20).

US Dollars million

Outstanding balances with related parties

	Loans and borrowings	Investments and cash	Trade receivables	Trade payables
31 December 2006				
Company	-	463	8	63
Subsidiaries of the Group	6	212	4	20
Total	**6**	**675**	**12**	**83**
31 December 2005				
Company	-	242	2	20
Subsidiaries of the Group	31	214	6	14
Total	**31**	**456**	**8**	**34**

All balances were unsecured and expected to be settled in cash. No guarantees have been given or received. Allowance for loan provided to a related party amounted to USD 70 million (refer to note 16).

Compensation of key management personnel

Remuneration of key management personnel of the Group for the year ended 31 December 2006 amounted to USD 13 million (31 December 2005: USD 14 million).

38. COMMITMENTS

Capital commitments

The Management Board has approved the following capital expenditure budget for the year ending 31 December 2007:

Maintenance of property, plant and equipment	797
Expansion of property, plant and equipment	508
Total	**1,305**

2007 budgeted capital expenditure allocated between:

Contracted	570
Not contracted	735
Total	**1,305**

Contracted obligations in respect of capital commitments for the period after 2007 amount to approximately USD 264 million.

US Dollars million

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2051. Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2006 are as follows:

Due in one year	22
Due in the second year	10
Due thereafter	24
Total	**56**

Intergovernmental agreement with Kingdom of Norway

In 2001 the governments of the Russian Federation and Kingdom of Norway signed an intergovernmental agreement in respect of provision of technical assistance in the reconstruction of metallurgical facilities of Pechenganickel Combine, a branch of OJSC "Kolskaya Mining and Metallurgical Company".

Total investment in the reconstruction of metallurgical facilities was agreed to be USD 103 million, financed as follows:

Grants from Kingdom of Norway	31
Loan from Nordic Investment Bank	30
Contribution by the Group	42
Total	**103**

At 31 December 2006 total investment in reconstruction of metallurgical facilities of Pechenganickel Combine amounted to USD 15 million.

Social commitments

The Group contributes to mandatory and voluntary social programs and maintains social assets in the locations where it has its main operating facilities. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. These contributions are recorded in the period in which they are incurred.

The Group's commitments will be funded from its own cash resources.

39. CONTINGENCIES

Litigation

Unresolved tax litigation at 31 December 2006 amounted to approximately USD 95 million (31 December 2005: USD 142 million). Management believes that the risk of an unfavourable outcome to the litigation is possible.

In addition, the Group had a number of claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regards to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposures at 31 December 2006 to be approximately USD 204 million (31 December 2005: USD 117 million).

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment and the disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with all current existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements and the terms of license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterized by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

40. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, interest rate, operational, credit and liquidity risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Risk management structure

The Group's treasury function is responsible for the management of currency, liquidity, interest rate and credit risk. Within the treasury function, there is an independent risk management unit, responsible for monitoring the treasury's adherence to the Group's risk management policies.

Commodity price risk is managed by the Sales Block of the Group. An independent risk management unit exists within that function to control exposures and ensure they are in line with policies set by management of the Sales Block and senior management of the Group.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's joint products, i.e. nickel, copper, palladium, platinum and gold.

The Group is exposed to commodity price risk as a substantial part of its revenues is derived from long-term contracts with physical off-takers for known volumes of metals, but at prices that will be determined by reference to market prices at the delivery date.

For a certain portion of its revenues the Group manages its exposure to commodity price risk by entering into fixed price sales contracts and cap and floor arrangements for the sale of refined metal to physical off-takers.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits are adversely impacted by appreciation of RUR against USD. In assessing this risk management takes into consideration changes in metal prices. In 2006 favourable changes in metal prices mitigated the adverse effect of appreciation of RUR against USD.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management believes that this risk is not significant as the majority of the Group's borrowings are at fixed rates.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. The Group has in place an insurance program that is aimed at reducing the following risks related to production activities:

- risk of business interruption;
- risk of damage to core production equipment used in the metallurgical process and other permanent infrastructure as a result of fire or natural disaster, as well as risk of breakages and accidents with key production equipment; and
- risk of loss or damage to domestic and export deliveries of semi-finished and finished goods and imported stores and materials.

In accordance with the statutory requirements the Group insures third party liability under claims resulting from accidents at the Group's production facilities.

Credit risk

Credit risk is the risk that customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of customers.

The Group is not economically dependent on a limited number of customers for the sale of its products because of the existence of liquid commodity markets for all of its products. Metal sales to the Group's customers are presented below:

	2006				2005			
	Number of customers	**%**	**Turnover, USD million**	**%**	**Number of customers**	**%**	**Turnover, USD million**	**%**
Largest customer	1	-	825	7	1	-	594	8
Next 9 largest customers	9	2	3,429	30	9	3	2,323	33
Total	**10**	**2**	**4,254**	**37**	**10**	**3**	**2,917**	**41**
Next 10 largest customers	10	3	1,940	17	10	3	1,067	15
Total	**20**	**5**	**6,194**	**54**	**20**	**6**	**3,984**	**56**
Remaining customers	349	95	5,356	46	314	94	3,185	44
Total	**369**	**100**	**11,550**	**100**	**334**	**100**	**7,169**	**100**

Credit is only extended to customers after completion of strict credit approval procedures, thereafter customers are monitored by reference to their financial position.

The Group has a concentration of cash and bank deposits with a related party commercial bank that at 31 December 2006 represented 22% (31 December 2005: 46%) of total cash and bank deposits balances.

The Group believes that there is no other significant concentration of credit risk.

US Dollars million

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

At 31 December 2006 the Group had in place financing facilities for management of its day to day liquidity requirements with the following banks:

	2006	2005
Committed credit lines		
Societe Generale; Calyon; ING Bank N.V., London Branch; Mizuho Corporate Bank, Ltd.; Sumitomo Mitsui Banking Corporation Europe Limited; The Bank of Tokyo-Mitsubishi, Ltd.; West LB AG; CJSC KB "Citibank"	400	400
OJSC "Sberbank"	-	486
Barclays Capital; BNP Paribas (Suisse) S.A.	-	295
Total committed credit lines	**400**	**1,181**
Uncommitted credit lines		
CJSC "Gazprombank"	120	120
CJSC "ING Bank (Eurasia)"	100	100
OJSC "Vneshtorgbank"	100	100
CJSC "West LB Vostok"	76	50
CJSC "BNP Pariba"	50	50
CJSC "Natexis Bank"	50	50
CJSC "Drezdner bank"	50	50
CJSC "Calyon Rusbank"	50	50
OJSC "Bank Uralsib"	50	30
CJSC "Societe Generale Vostok"	40	35
LLC "Deutsche bank"	37	30
OJSC "Eurofinance Mosnarbank"	35	-
CJSC KB "Citibank"	25	25
CJSC "Commerzbank (Eurasia)"	20	20
OJSC KB "MBRD"	20	20
Other	-	14
Total uncommitted credit lines	**823**	**744**
Bank overdraft facilities		
BNP Paribas Suisse (Switzerland)	150	75
ING (Switzerland)	100	100
Rosbank (Russia)	95	-
Credit Suisse (Switzerland)	75	75
Natexis (France)	75	-
Banque Cantonale Vaudoise (Switzerland)	50	50
UBS (Switzerland)	40	-
Total bank overdraft facilities	**585**	**300**
Total borrowing facilities	**1,808**	**2,225**
Less: Outstanding letters of credit	(194)	(61)
Less: Loans received related to the above facilities	(145)	(312)
Net facilities available	**1,469**	**1,852**

US Dollars million

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

At 31 December 2006 the estimated fair values of financial instruments, consisting of investments in securities, trade and other receivables, loans advanced and promissory notes, other current assets, derivative financial liabilities and trade and other payables approximates their carrying value due to the short-term nature of these instruments. At 31 December 2006 USD 500 million of corporate bonds due in 2009 had a fair value of 106% or USD 530 million. The fair value of other fixed-rate debt and floating-rate debt approximates its carrying value.

42. DISCONTINUED OPERATION

On 30 September 2005 at an Extraordinary General Meeting of shareholders, the majority of shareholders of OJSC "MMC Norilsk Nickel" voted in favour of the spin-off of CJSC "Gold Mining Company Polus" and its subsidiaries (the "Polyus Group") into a new company OJSC "Polyus Gold" by way of a single transaction which was completed on 17 March 2006.

The results of operations and net cash flows of Polyus Group were as follows:

	Period from 1 January 2006 to 17 March 2006	**Year ended 31 December 2005**
Metal sales	132	473
Cost of metal sales	(71)	(269)
Selling, general and administrative expenses	(15)	(60)
Other net operating expenses	(23)	(29)
Finance costs	(2)	(3)
Net income from investments	984	13
Profit before income tax	**1,005**	**125**
Income tax	(12)	(51)
Profit for the period	**993**	**74**
Net cash (used in)/generated from operating activities	(56)	52
Net cash generated from/(used in) investing activities	1,963	(296)
Net cash generated from/(used in) financing activities	50	(30)

US Dollars million

The major classes of assets and liabilities of Polyus Group were as follows:

	17 March 2006	31 December 2005
Property, plant and equipment and other non-current assets	1,164	1,109
Cash and cash equivalents	2,366	28
Investments in securities and other current assets	772	2,161
Non-current liabilities	(240)	(236)
Trade and other payables	(294)	(237)
Net assets	**3,768**	**2,825**
Less: Shares of OJSC "Polyus Gold" received by the Group	(39)	n/a
Less: Minority interest	(31)	n/a
Net assets distributed to shareholders	**3,698**	**n/a**

43. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Proposed spin-off of energy assets

On 15 May 2007 the Board of Directors of OJSC "MMC Norilsk Nickel" made a decision to spin-off the Group's non-core energy assets into a separate company. The ordinary shares of the newly established company will be distributed among shareholders of OJSC "MMC Norilsk Nickel". The subject of spin-off is the Group's energy assets excluding assets involved in energy supplies for Transpolar branch of OJSC "MMC Norilsk Nickel". The list of such assets will be finalised in August – September 2007. The spin-off is a subject to final approval by an Extraordinary General Meeting of shareholders in December 2007 and, if approved, is expected to be completed in the first half of 2008.

Acquisition of Energy assets

Acquisition of shares in TGK-14

On 30 January 2007 the Group acquired 215,412 million of ordinary shares, or 27.8% of the issued share capital of OJSC "Territorial Generation Company 14" ("TGK-14") for a cash consideration of USD 44 million.

Acquisition of shares in OGK-3

On 26 March 2007 in addition to 14.6% of share capital of OJSC "Third Generation Company of the Wholesale Electricity Market" ("OGK-3") (refer to note 21) the Group acquired additional 17,836 million of ordinary shares for a cash consideration of USD 3,121 million. After the completion of the transaction the Group owns 46.6% of OGK-3 share capital.

Acquisition of nickel business of OM Group, Inc.

On 1 March 2007 the Group acquired 100% of share capital of OMG Harjavarta Nickel Oy, 100% of share capital of OMG Cawse Proprietary Limited, 20% of share capital of MPI Nickel Proprietary Limited, 4% of ordinary shares of Talvivaaran Kaivososakeyhtiö and the debt interest convertible up to a maximum of 7% of ordinary shares of Talvivaaran Kaivososakeyhtiö for a cash consideration of USD 505 million, including certain adjustments for working capital and net cash position as determined by the agreement.

At the closing of the transaction the Group entered into five year supply agreement with OM Group, Inc. to supply up to 2,500 metric tons (mt) per year of cobalt metal, up to 2,500 mt per year of cobalt contained in cobalt hydroxide concentrate and up to 1,500 mt per year of cobalt contained in cobalt sulphate solution, along with various nickel and copper based raw materials produced at Harjavarta Nickel Oy.

Acquisition of LLC "GRK "Bystrinskoye"

In February 2007 the Group finalised the acquisition of 100% of share capital of LLC "GRK "Bystrinskoye". In the consolidated financial statements for the year ended 31 December 2006, LLC "GRK "Bystrinskoye" was accounted for as a special purpose entity.

Offers for acquisitions of assets

OGK-3

On 2 May 2007 the Group submitted an offer to shareholders of OGK-3 to acquire additional 25,347 million of ordinary shares at 4.54 RUR per share. Total consideration is estimated to be approximately USD 4.5 billion (at exchange rate on 2 May 2007). The offer remains open to 18 July 2007.

LionOre Mining International Limited

On 23 May 2007 the Group submitted an offer to shareholders of LionOre Mining International Limited ("LionOre") to acquire 100% of share capital at 27.5 Canadian dollar (USD 25.4 at exchange rate on 23 May 2007) for one LionOre ordinary share. Assuming all ordinary shares are acquired, the transaction is valued at approximately 6.8 billion Canadian dollar (USD 6.2 billion at exchange rate on 23 May 2007). The acquisition will be financed through existing cash resources and credit facilities. The offer remains open to 18 June 2007, unless extended or withdrawn.

US Dollars million

44. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

		Effective % held	
	Nature of business	**2006**	**2005**
Subsidiaries by country of incorporation			
Russian Federation			
OJSC "RAO "Norilsk Nickel"	Distribution	98.9	98.9
OJSC "Taimyrgaz"	Gas extraction	98.4	98.4
OJSC "Yenisey River Shipping Company"	River shipping operations	43.9	43.9
OJSC "Arkhangelsk Sea Commercial Port"	Sea shipping operations	53.1	53.1
CJSC "NORMETIMPEX"	Distribution	100.0	100.0
OJSC "Kolskaya Mining and Metallurgical Company"	Mining	100.0	100.0
CJSC "Alykel"	Airport	100.0	100.0
LLC "Institut Gypronickel"	Science	100.0	100.0
OJSC "Norilsky Kombinat"	Lessor of equipment	98.8	98.8
OJSC "Kombinat "Severonickel"	Lessor of equipment	98.9	98.9
OJSC "Gornometallurgichesky Kombinat "Pechenganickel"	Lessor of equipment	98.9	98.9
LLC "UK "Zapolyarnaya stolitsa"	Utilities	100.0	100.0
CJSC "Kraus-M"	Property holding	100.0	100.0
LLC "Norilsk Telecom"	Telecommunications	100.0	100.0
CJSC "Taimyrskaya Toplivnaya Kompaniya"[1]	Supplier of fuel	100.0	100.0
OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya"[1]	Electricity utilities	51.0	51.0
LLC "Terminal"	Sea shipping operations	100.0	100.0
LLC "Norilsknickelremont"[1]	Repairs	100.0	-
LLC "Zapoliarnaya stroitelnaya companiya"[1]	Construction	100.0	-
LLC "Norilskyi obespechivaushyi complex"[1]	Supplier of inventory	98.8	-
LLC "GRK "Bystrinskoye"[2]	Mining	-	-
CJSC "Gold Mining Company Polus"[3]	Mining	-	100.0
OJSC "Matrosov Mine"[3]	Mining	-	88.4
OJSC "Lenzoloto"[3]	Mining	-	68.2
CJSC "Tonoda"[3]	Mining	-	100.0
LLC "LZRK"[3]	Management company	-	100.0
OJSC "Pervenets"[3]	Mining	-	100.0
CJSC "Vitimenergo"[3]	Electricity utilities	-	100.0
OJSC "Aldanzoloto GRK"[3]	Mining	-	99.2
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya"[3]	Mining	-	50.0
OJSC "Yakutskaya Gornaya Kompaniya"[3]	Mining	-	100.0
OJSC "Taimyrenergo"[4]	Lessor of equipment	98.8	-

[1] Established as part of reorganisation of OJSC "MMC Norilsk Nickel".
[2] Special purpose entity of the Group.
[3] Disposed of on disposal of Polyus Group.
[4] Acquired in 2006 (refer to note 36).

US Dollars million

	Nature of business	Effective % held 2006	2005
China			
Norilsk Nickel (Asia) Limited	Distribution	100.0	100.0
Great Britain			
Norimet Limited	Investment holding	100.0	100.0
Norilsk Nickel Europe Limited	Distribution	100.0	100.0
Luxembourg			
Norilsk Nickel Finance Luxembourg S.A.	Financing	100.0	100.0
Switzerland			
Norilsk Nickel Holding S.A.	Investment holding	100.0	100.0
Metal Trade Overseas S.A.	Distribution	100.0	100.0
United States of America			
Stillwater Mining Company	Mining	54.5	54.9
Norilsk Nickel USA	Distribution	100.0	100.0
Cyprus			
Norilsk Nickel (Cyprus) Limited[1]	Investment holding	100.0	-
Associates by country of incorporation			
Russian Federation			
OJSC “Norilskgazprom”	Gas extraction	29.4	29.4
OJSC “Krasnoyarskenergo”	Electricity utilities	25.7	25.7
OJSC “Kolenergo”	Electricity utilities	24.9	24.9
OJSC “Krasnoyarskaya generatsiya”	Electricity utilities	-	25.5
British Virgin Islands			
Smart Hydrogen Inc.[1]	Holding company	50.0	-

[1] Established in 2006.

Mining and Metallurgical Company Norilsk Nickel

Consolidated annual financial statements for the year ended 31 December 2005

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EXCHANGE RATES – RUSSIAN ROUBLE

	2005	2004
Year-end rates		
1 US dollar	28.7825	27.7487
1 Euro	34.1850	37.8104
Average rates for the year		
1 US dollar	28.2864	28.8150
1 Euro	35.3865	35.8185

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report of the independent auditors set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated annual financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated annual financial statements that present fairly the consolidated financial position of the Group at 31 December 2005, the consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated annual financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated annual financial statements; and
- preparing the consolidated annual financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated annual financial statements for the year ended 31 December 2005 were approved on 30 May 2006 by:

M. D. Prokhorov	**I. A. Komarov**
General Director	Deputy General Director

Moscow
30 May 2006

Deloitte.

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REPORT OF THE INDEPENDENT AUDITORS

To the management of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel"

We have audited the consolidated annual financial statements for the year ended 31 December 2005 of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), set out on pages 3-55. The consolidated annual financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated annual financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated annual financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated annual financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2005, and the consolidated results of its operations, its cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

Deloitte & Touche CIS
Moscow
7 June 2006

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005
US Dollars million

	Notes	2005	2004
Metal sales	6	**7,169**	**6,591**
Cost of metal sales	7	(2,994)	(2,938)
Gross profit on metal sales		**4,175**	**3,653**
Selling, general and administrative expenses	13	(841)	(821)
Other net operating expenses	14	(58)	(166)
Operating profit		**3,276**	**2,666**
Finance costs	15	(95)	(67)
Net income from investments	16	59	5
Other non-operating expenses	17	(124)	(97)
Profit before taxation		**3,116**	**2,507**
Taxation	18	(838)	(642)
Profit for the year from continuing operations		**2,278**	**1,865**
Profit/(loss) for the year from discontinued operation	4	74	(8)
Profit for the year		**2,352**	**1,857**
Attributable to:			
Shareholders of the parent company		2,355	1,878
Minority interest		(3)	(21)
		2,352	**1,857**

EARNINGS PER SHARE

	Notes	2005	2004
Weighted average number of ordinary shares in issue during the year	28	201,242,833	210,642,516
Basic and diluted earnings per share from continuing and discontinued operations (US cents)		1,170	892
Basic and diluted earnings per share from continuing operations (US cents)		1,133	893

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005
US Dollars million

	Notes	2005	2004
ASSETS			
Non-current assets		**9,177**	**9,665**
Property, plant and equipment	19	5,961	6,644
Capital construction-in-progress	20	1,184	1,208
Investments in associates	21	95	162
Investments in securities and other financial assets	22	690	1,407
Other non-current assets	23	138	244
Non-current assets of disposal group	4	1,109	-
Current assets		**5,553**	**3,967**
Inventories	24	1,301	1,442
Trade and other receivables	25	440	455
Other current assets	26	567	694
Investments in securities and other financial assets	22	134	30
Cash and cash equivalents	27	922	1,346
Current assets of disposal group	4	2,189	-
Total assets		**14,730**	**13,632**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and reserves		**11,397**	**10,643**
Share capital	28	9	10
Share premium	29	-	782
Investments revaluation reserve		676	(56)
Accumulated profits		10,378	9,541
Equity attributable to shareholders of the parent company		**11,063**	**10,277**
Minority interest		**334**	**366**
Non-current liabilities		**1,739**	**1,602**
Long-term borrowings	30	635	657
Deferred tax liabilities	31	543	740
Employee benefit obligations	32	56	50
Environmental obligations	33	269	155
Non-current liabilities of disposal group	4	236	-
Current liabilities		**1,594**	**1,387**
Current portion of long-term borrowings	30	8	323
Current portion of employee benefit obligations	32	212	265
Short-term borrowings	34	349	229
Trade and other payables	35	300	299
Taxes payable	36	187	261
Dividends payable		301	10
Current liabilities of disposal group	4	237	-
Total shareholders' equity and liabilities		**14,730**	**13,632**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005
US Dollars million

	Notes	2005	2004
Operating activities			
Cash flows from operations	37	3,974	3,498
Interest paid		(84)	(58)
Taxation paid		(896)	(936)
Net cash inflow from operating activities		**2,994**	**2,504**
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	38	(175)	(289)
Proceeds from disposal of subsidiaries, net of cash disposed of	39	1	25
Purchase of property, plant and equipment		(773)	(618)
Proceeds from sale of property, plant and equipment		38	57
Purchase of securities and other financial assets		(680)	(1,440)
Proceeds from sale of securities and other financial assets		134	237
Net cash outflow from investing activities		**(1,455)**	**(2,028)**
Financing activities			
Proceeds from short-term borrowings		1,877	1,998
Repayments of short-term borrowings		(1,792)	(2,034)
Proceeds from long-term borrowings		112	872
Repayments of long-term borrowings		(417)	(197)
Re-acquisition of shares		(1,457)	-
Dividends paid		(201)	(618)
Net cash (outflow)/inflow from financing activities		**(1,878)**	**21**
Effect of translation to presentation currency for the year		(36)	47
Net (decrease)/increase in cash and cash equivalents		**(375)**	**544**
Net cash and cash equivalents at beginning of the year		**1,325**	**781**
Cash and cash equivalents of disposal group	4	(28)	-
Net cash and cash equivalents at end of the year	27	**922**	**1,325**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005
US Dollars million

	Notes	Share capital	Share premium	Investments revaluation reserve	Accumulated profits	Equity attributable to the shareholders of the parent company	Minority interest	Total
Balance at 31 December 2003 as previously reported		**9**	**737**	**-**	**7,457**	**8,203**	**344**	**8,547**
Effect of change in accounting policy	1	-	-	(50)	50	**-**	-	**-**
Balance at 31 December 2003 as restated		**9**	**737**	**(50)**	**7,507**	**8,203**	**344**	**8,547**
Profit for the year		-	-	-	1,878	**1,878**	(21)	**1,857**
Dividends	40	-	-	-	(308)	**(308)**	-	**(308)**
Decrease in fair value of available-for-sale investments		-	-	(46)	-	**(46)**	-	**(46)**
Release on disposal of available-for-sale investments		-	-	42	(42)	**-**	-	**-**
Minority interest in subsidiaries acquired	38	-	-	-	-	**-**	48	**48**
Net decrease in minority interest due to increase of Group's share in subsidiaries		-	-	-	-	**-**	(16)	**(16)**
Translation of foreign operations		-	-	-	(18)	**(18)**	-	**(18)**
Effect of translation to presentation currency		1	45	(2)	524	**568**	11	**579**
Balance at 31 December 2004		**10**	**782**	**(56)**	**9,541**	**10,277**	**366**	**10,643**
Profit for the year		-	-	-	2,355	**2,355**	(3)	**2,352**
Dividends	40	-	-	-	(492)	**(492)**	-	**(492)**
Re-acquisition of issued shares	29	(1)	(799)	-	(657)	**(1,457)**	-	**(1,457)**
Re-issuance of ordinary shares from treasury shares	29	-	12	-	-	**12**	-	**12**
Increase in fair value of available-for-sale investments		-	-	744	-	**744**	-	**744**
Net decrease in minority interest due to increase of Group's share in subsidiaries		-	-	-	-	**-**	(27)	**(27)**
Translation of foreign operations		-	-	-	12	**12**	-	**12**
Effect of translation to presentation currency		-	5	(12)	(381)	**(388)**	(2)	**(390)**
Balance at 31 December 2005		**9**	**-**	**676**	**10,378**	**11,063**	**334**	**11,397**

1. GENERAL

Organisation

Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" (the "Company" or "MMC Norilsk Nickel") was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the "Group" or "Norilsk Group") are the extraction and refining of base and precious metals and their sale in the commodities market. Further details regarding the nature of the business and structure of the Group are presented in note 47.

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation and in Columbus, Montana, USA. The registered office of the Company is located at 22, Voznesensky pereulok, Moscow, Russian Federation.

Shareholding structure of the Group as at 31 December 2005 and 2004 was as follows:

	2005		2004	
Shareholders	**Number of shares**	**% held**	**Number of shares**	**% held**
ZAO "ING Bank Evrazia" (nominal)	82,521,332	43.73%	53,463,389	25.38%
Dimosenco Holdings Co. Limited	24,123,671	12.78%	26,738,236	12.69%
Pharanco Holdings Co. Limited	24,123,671	12.78%	26,738,236	12.69%
AKB "Rosbank" (nominal)	12,871,010	6.82%	12,972,684	6.16%
Bektanco Holdings Co. Limited	5,616,003	2.98%	26,738,236	12.69%
Rinsoco Trading Co. Limited	5,616,003	2.98%	26,738,236	12.69%
Other	33,835,231	17.93%	37,253,499	17.70%
Total	**188,706,921**	**100.00%**	**210,642,516**	**100.00%**

The ultimate controlling shareholders of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov.

Basis of presentation

The consolidated annual financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). International Financial Reporting Standards include standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. Accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated annual financial statements are presented in accordance with IFRS.

The consolidated annual financial statements of the Group are prepared on the historical cost basis, except for:

- fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations", which is more fully described in note 2 (a);
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories", which is more fully described in note 2 (h); and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which is more fully described in note 2 (i).

Adoption of new and revised International Financial Reporting Standards

The following new or revised standards and interpretations issued by IASB and IFRIC became effective for the Group's consolidated annual financial statements for the year ended 31 December 2005:

- IAS 1 (revised) "Presentation of Financial Statements"
- IAS 2 (revised) "Inventories"
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors"
- IAS 10 (revised) "Events after the Balance Sheet Date"
- IAS 16 (revised) "Property, Plant and Equipment"
- IAS 17 (revised) "Leases"
- IAS 21 (revised) "Effect of Changes in Foreign Exchange Rates"
- IAS 24 (revised) "Related Party Disclosures"
- IAS 27 (revised) "Consolidated and Separate Financial Statements"
- IAS 28 (revised) "Investments in Associates"
- IAS 31 (revised) "Interests in Joint Ventures"
- IAS 32 (revised) "Financial Instruments: Disclosure and presentation"
- IAS 33 (revised) "Earnings per Share"
- IAS 36 (revised) "Impairment of Assets"
- IAS 38 (revised) "Intangible Assets"
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement"
- IAS 40 (revised) "Investment Property"
- IFRS 2 "Share-based Payments"
- IFRS 3 "Business Combinations"
- IFRS 4 "Insurance Contracts"
- IFRS 5 "Non-current Assets Held for Sale"
- IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities"
- IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments"

The Group has adopted all of the above new and revised standards and interpretations that are relevant to its operations. Except for the changes described below and certain additional disclosures provided by the Group, the adoption of the new or revised standards and interpretations has not resulted in significant changes to the Group's accounting policies.

Effect of adoption of IAS 27 (revised) "Consolidated and Separate Financial Statements"

This standard requires minority interests in equity of subsidiaries to be presented on the balance sheet within equity, but separate from shareholders' equity; and profit for the year allocated between minority interest and shareholders of the parent company. Accordingly, the Group's consolidated annual financial statements for the year ended 31 December 2004 have been restated to reflect the new presentation of minority interests. Before the adoption of IAS 27 (revised) minority interests were deducted in arriving at the Group's profit for the year.

Effect of adoption of IAS 39 (revised) "Financial Instruments: Recognition and Measurement"

IAS 39 (revised) eliminated the option to recognise in income statement gains and losses from re-measurement to fair value of available-for-sale investments. Such gains and losses are now recognised in equity until the related asset is sold or otherwise disposed of. In accordance with the requirements of the standard, the opening balance of equity attributable to shareholders of the parent company as of 1 January 2004 and all the other comparative amounts were adjusted as if this standard had always been in use.

As a result of this change in accounting policy profit for the year ended 31 December 2005 has been decreased by USD 744 million, profit for the year ended 31 December 2004 has been increased by USD 46 million and the opening balance of equity attributable to shareholders of the parent company as of 1 January 2004 has been increased by USD 50 million.

New accounting pronouncements

At the date of authorisation of the Group's consolidated annual financial statements for the year ended 31 December 2005, certain new standards and interpretations have been issued that are mandatory for adoption in the accounting periods beginning on or after 1 January 2006:

- IAS 1 Amendment "Capital Disclosures"
- IAS 19 Amendment "Employee Benefits"
- IAS 21 Amendment "The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation"
- IAS 39 and IFRS 4 Amendment "Financial Guarantee Contracts"
- IAS 39 Amendments "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" and "The Fair Value Option"
- IFRS 6 "Exploration for and Evaluation of Mineral Resources"
- IFRS 7 "Financial Instruments: Disclosures"
- IFRIC 4 "Determining whether an Arrangement contains a Lease"
- IFRIC 5 "Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- IFRIC 6 "Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"

The impact of adoption of these standards and interpretations in future periods is currently being assessed by management, however no material effect on the Group's accounting policies is anticipated.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant Group's accounting policies are set out below:

(a) Basis of consolidation

Subsidiaries

The consolidated annual financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent company.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to a nil value. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

Unrealised gains and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

Accounting for acquisitions

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, liabilities, contingent liabilities and attributable ore reserves at the date of acquisition is recognised as goodwill. Goodwill which represents mineral resources is amortised on a systematic basis to recognise the depletion of the resources over the life of mine.

Goodwill in respect of non-mining subsidiaries is disclosed as a goodwill and goodwill relating to associates is included within the carrying value of the investment in associates.

Goodwill is reviewed for impairment at least annually and if an impairment has occurred, it is recognised in the income statement during the period in which the circumstances are identified and is not subsequently reversed.

On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the income statement immediately.

(b) Functional and presentation currency

The functional currency of the Company, which reflects the economic substance of its operations, is the Russian Rouble ("RUR").

The presentation currency of the consolidated financial statements is the United States of America Dollar ("USD" or "US Dollar"). Using USD as a presentation currency is common practice for global mining companies. In addition, USD is a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation from RUR (functional currency of the Company) into USD (presentation currency) is made as follows:

- all assets and liabilities, both monetary and non-monetary, and all items included in shareholders' equity, other than profit for the reporting period, are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are included in shareholders' equity.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of these consolidated annual financial statements does not imply that Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

(c) Foreign currencies

The individual financial statements of each Group's entity are presented in its functional currency.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the income statement.

It was determined that RUR is the functional currency of all foreign subsidiaries of the Group, except for Stillwater Mining Company. Stillwater Mining Company has a significant degree of autonomy and uses the functional currency of the economy in which it operates, US Dollar.

For the purpose of consolidated financial statements, the assets and liabilities of Stillwater Mining Company are translated at the exchange rates prevailing on the balance sheet dates. Income statement items are translated at the average exchange rates for the period. Exchange differences arising on translation are included in accumulated profits in the statement of changes in shareholders' equity.

(d) Property, plant and equipment

Mining assets

Mining assets are recorded at cost less accumulated amortisation. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and mining and exploration licenses and the present value of future decommissioning costs. Amortisation of mining assets is charged from the date at which a new mine reaches commercial production quantities and is included in the cost of production.

Mineral rights, mineral resources and ore reserves

Mineral rights, mineral resources and ore reserves are recorded as assets when acquired as part of a business combination and are then amortised on a straight-line basis over the life of mine, which is based on estimated proven and probable ore reserves. Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits.

Mine development costs

Mine development costs are recorded as capital construction-in-progress and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs include expenditures incurred in:

- acquiring mineral rights and mining and exploration licenses;
- developing new mining operations;
- defining further mineralisation in existing ore bodies; and
- expanding the capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings, and the present value of future decommissioning costs.

Mine development costs are amortised on a straight-line basis over the lives of mines varying from 7 to 30 years.

Mine infrastructure

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine, varying from 5 to 30 years.

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of these assets at the following annual rates:

• buildings and equipment	2% to 10%;
• motor vehicles	9% to 25%;
• office equipment	10% to 20%.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Capitalised leased assets are depreciated over the lesser of their estimated useful lives, or the term of the lease.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs; and the capital repayment, which reduces the related lease obligation to the lessor.

(e) Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are put into production.

(f) Impairment of tangible and intangible assets, excluding goodwill

An impairment review of tangible and intangible assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value in use. If the recoverable amount of an asset (or cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognized in prior periods.

A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

(g) Research and exploration expenditure

Research and exploration (including geophysical, topographical, geological and similar types of expenditure) is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalised and amortised over the life of mine, when a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

(h) Inventories

Refined metals

Joint products, i.e. nickel, copper, palladium, platinum and gold, are measured at the lower of net cost of production on the weighted average basis, or net realisable value. The net cost of production per unit of a joint product is determined by dividing total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand, allocated in the ratio of the contribution of these joint products to total relative sales value, by the saleable mine output of a joint product.

Production costs include on-mine and concentrating costs, smelting costs, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets.

By-products, i.e. cobalt, ruthenium, rhodium, iridium, silver and other minor metals, are measured at net realisable value, through a mark-to-market valuation.

Work-in-process

Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less a provision for obsolete items.

(i) Financial instruments

Financial instruments recognised on the Group's balance sheet include investments, loans receivable, trade and other receivables, cash and cash equivalents, borrowings, trade and other payables and derivative financial instruments. Financial instruments are initially measured at cost, including transaction costs, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is dealt with below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement.

On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

Investments

Investments, other than investments in subsidiaries and associates, are initially measured at fair value on a trade date basis, including directly attributable transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit and loss; and
- available-for-sale.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest rate method less any allowance for impairment. Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Investments at fair value through profit and loss include investments held for trading and investments designated upon initial recognition as at fair value through profit and loss.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit and loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss are recognised in the income statement for the period. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in equity through the statement of changes in shareholders' equity, until such investments are derecognised, at which time cumulative gain or loss previously recognised in equity shall be recognised in the income statement.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts, calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition, are recognised in the income statement when there is the objective evidence the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Borrowings

Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

(j) Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

Defined contribution plans

The Group contributes to the following defined contribution plans:

- Pension fund of the Russian Federation;
- Stillwater Mining Company savings plan.

The only obligation of the Group with respect to these defined contribution plans is to make the specified contributions in the period i which they arise. These contributions are expensed as incurred.

Defined benefit plans

The Group operates a number of unfunded defined benefit plans for its employees. At management's discretion and within established annual budgets, the Group admits employees, who have met certain criteria, into one of the following retirement benefit plans:

- *Six pensions plan,* whereby a retired employee receives a monthly allowance equal to 600% of the Russian Federation state pension for the immediate two years subsequent to retirement; or
- *Lifelong professional pension plan,* whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life; or
- *Joint corporate pension plan,* whereby a retired employee receives a monthly allowance equal to 1/150th of total Starting and Counter capital for the rest of his/her life. Starting capital is determined on an individual basis taking into account seniority, salary level, etc. The Counter capital consists of a contribution to be funded by the Group of 3% of salaries paid to an employee during the period of participation in the plan.

In addition, the Group operates the *Mother's rights program*, whereby a discharged mother with a child between the ages of three and seven receives a monthly benefit equal to her average salary, but limited to 150% of minimum basic salary.

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with an actuarial valuation being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the present value of the Group's defined benefit obligation are amortised over the expected average remaining lives of the participating employees. Past service cost is recognized immediately in the income statement to the extent that the benefits are already vested, and otherwise amortised on the straight-line basis over the average period until the benefit becomes vested.

The Group's obligation in respect of these defined benefit plans relating to post employment benefits is recognised in the balance sheet and represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

The principal assumptions used in valuing these benefits relate to:

- discount rates used in determining the present value of post employment benefits;
- projected salary and pension increases;
- pre-retirement increases to capital accounts; and
- life expectancy of members (or period of the benefit as defined).

(k) Taxation

Income tax on the profit or loss for the period comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred taxation is also dealt with in equity.

(l) Treasury shares

Treasury shares at par value are recorded as a deduction from share capital. Premiums or discounts on acquisition of treasury shares are included in share premium or other categories of equity attributable to the shareholders of the parent company.

(m) Government grants

Government grants related to assets are deducted from the cost of these assets in arriving at their carrying value. Such grants are effectively recognised as income over the life of the depreciated asset through a reduced depreciation charge.

(n) Revenue recognition

Revenue consists of the sale of joint product metals, and is recognised when the risks and rewards of ownership are transferred to the buyer. Metal sales revenue represents the net invoiced value for all joint product metals supplied to customers, excluding sales and value-added taxes. Revenues from the sale of by-products are netted-off against production costs.

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception, and are expected to be settled by physical delivery, are recognised in the financial statements as and when they are delivered.

(o) Segmental information

The Group predominantly operates in a single business segment, being mining, refining and marketing of base and precious metals. Reportable segments are based on the geographic location of the Group's operations, which are the Russian Federation, United States of America and Europe.

(p) Provisions

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

(q) Interest on borrowings

Interest on borrowings relating to major qualifying capital projects under construction is capitalised during the construction period in which they are incurred. Once a qualifying capital project has been fully commissioned, the associated interest is expensed in the income statement as and when incurred.

Interest relating to operating activities is expensed in the income statement as and when incurred.

(r) Operating lease payments

Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms. Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases.

(s) Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

(t) Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligation is included in the income statement. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary.

Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Increases in provision are charged to the income statement as a cost of production. The unwinding of restoration costs are expensed over the life of mine.

Ongoing rehabilitation costs are expensed when incurred.

(u) Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale or other type of disposal at the balance sheet date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The Group amends prior period disclosures in the income statement related to discontinued operations.

Assets and liabilities of a disposal group are presented in the balance sheet separately from other assets and liabilities. The Group does not amend disclosure of amounts presented in the balance sheets of the prior periods.

(v) Reclassifications

Certain comparative information, presented in the consolidated annual financial statements for the year ended 31 December 2004, has been reclassified in order to achieve comparability with the presentation used in the consolidated annual financial statements for the year ended 31 December 2005.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

Preparation of the financial statements in accordance with IFRS requires the Group’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of assets; assets impairment; environmental obligations; employee benefit obligations and tax matters.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised over the respective life of mine using the straight-line method based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect estimation of life of mine include the following:

- changes of proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight line basis over their useful economic lives. Management periodically reviews the appropriateness of assets useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Environmental obligations

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group estimates environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for assets decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Employee benefits

The expected costs of providing pensions and post-retirement benefits under defined benefit arrangements relating to employee service during the period are charged to the income statement.

Assumptions in respect of the expected costs are set after consultation with qualified actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the results of the Group's operations.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

US Dollars million

4. DISCONTINUED OPERATION

On 30 September 2005 at an Extraordinary General Meeting of shareholders, the majority of shareholders of MMC Norilsk Nickel voted in favour of the spin-off of CJSC "Gold Mining Company Polus" and its subsidiaries (the "Polus Group") into a new company by way of a single transaction. Spin-off transaction was completed in March 2006 (refer to note 46).

The results of operations of Polus Group are analysed as follows:

	2005	2004
Metal sales	473	442
Cost of metal sales	(269)	(241)
Selling, general and administrative expenses	(60)	(45)
Other net operating (expenses)/income	(23)	13
Impairment of goodwill on acquisition	-	(115)
Finance costs	(3)	(5)
Net income from investments	13	2
Other non-operating expenses	(6)	(5)
Profit before taxation	**125**	**46**
Taxation	(51)	(54)
Profit/(loss) for the year	**74**	**(8)**

The carrying amounts of the assets and liabilities of Polus Group as at 31 December 2005 were as follows:

Non-current assets	**1,109**
Property, plant and equipment and capital construction-in-progress	1,105
Investments in securities and other financial assets	4
Current assets	**2,189**
Inventories	124
Trade and other receivables	25
Investments in securities and other financial assets	1,916
Other current assets	124
Non-current liabilities	**236**
Deferred tax liabilities	168
Environmental obligations	61
Other non-current liabilities	7
Current liabilities	**237**
Trade and other payables	174
Taxes payable	24
Other current liabilities	39

During 2005 Polus Group contributed USD 52 million (2004: USD 122 million) to the Group's net operating cash flows, paid USD 296 million (2004: USD 341 million) in respect of investing activities and paid USD 30 million (2004: USD 28 million) million in respect of financing activities.

US Dollars million

5. SEGMENTAL INFORMATION

Financial information relating to the Group's consolidated segments is as follows:

2005	Corporate and other	Taimyr peninsula	Kola peninsula	Severo-Eniseysk and Bodaibo[1]	Subtotal Russian Federation	North America	Europe	Total
Metal sales	**-**	**6,063**	**642**	**-**	**6,705**	**434**	**30**	**7,169**
Third party transactions	-	988	130	-	**1,118**	434	5,617	**7,169**
Intra-segment transactions	-	5,075	512	-	**5,587**	-	(5,587)	**-**
Operating (loss)/profit	(231)	3,059	288	-	**3,116**	(32)	192	**3,276**
Interest income	27	1	5	-	**33**	5	5	**43**
Finance costs	23	18	3	-	**44**	12	39	**95**
(Loss)/profit before taxation	(249)	2,961	284	-	**2,996**	(29)	149	**3,116**
Significant non-cash items								
Amortisation and depreciation	9	429	70	-	**508**	5	16	**529**
Other non-cash expenses	(2)	117	(21)	-	**94**	-	1	**95**
Capital expenditures	**58**	**488**	**67**	**-**	**613**	**18**	**1**	**632**
Carrying amount of assets/liabilities								
Property, plant and equipment, including construction-in-progress	182	5,787	661	-	**6,630**	475	40	**7,145**
Investments in associates	95	-	-	-	**95**	-	-	**95**
Net operating assets	(151)	1,078	151	1,952	**3,030**	184	745	**3,959**
Total assets	1,525	7,417	890	3,298	**13,130**	739	861	**14,730**
Total liabilities	727	1,216	156	473	**2,572**	236	525	**3,333**
Average number of employees	**10,161**	**57,552**	**16,636**	**10,033**	**94,382**	**1,591**	**220**	**96,193**

[1] The operations attributable to this segment are presented as discontinued in the Group's consolidated income statement. Assets and liabilities related to discontinued operation are presented in the consolidated balance sheet as at 31 December 20005 as assets and liabilities of a disposal group. Refer also to note 4.

US Dollars million

2004	Corporate and other	Taimyr Peninsula	Kola Peninsula	Severo-Eniseysk and Bodaybo[1]	Subtotal Russian Federation	North America	Europe	Total
Metal sales	**-**	**5,610**	**472**	**-**	**6,082**	**447**	**62**	**6,591**
Third party transactions	-	1,140	116	-	**1,256**	447	4,888	**6,591**
Intra-segment transactions	-	4,470	356	-	**4,826**	-	(4,826)	**-**
Operating (loss)/profit	(172)	2,471	184	-	**2,483**	25	158	**2,666**
Interest income	29	4	-	-	**33**	2	2	**37**
Finance costs	31	6	1	-	**38**	18	11	**67**
(Loss)/profit before taxation	(351)	2,518	182	-	**2,349**	9	149	**2,507**
Significant non-cash items								
Amortisation and depreciation	7	414	65	-	**486**	16	3	**505**
Other non-cash expenses	84	153	20	-	**257**	3	-	**260**
Capital expenditures	**32**	**430**	**57**	**-**	**519**	**21**	**49**	**589**
Carrying amount of assets/liabilities								
Property, plant and equipment, including construction-in-progress	189	5,863	660	616	**7,328**	475	49	**7,852**
Investments in associates	130	-	23	9	**162**	-	-	**162**
Net operating assets	650	1,073	120	96	**1,939**	153	488	**2,580**
Total assets	2,919	7,626	892	782	**12,219**	775	638	**13,632**
Total liabilities	591	1,266	158	174	**2,189**	239	561	**2,989**
Average number of employees	**9,180**	**63,045**	**17,086**	**9,703**	**99,014**	**1,575**	**197**	**100,786**

[1] The operations attributable to this segment are presented as discontinued in the Group's consolidated income statement. Refer also to note 4.

US Dollars million

6. METAL SALES

2005	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Russian Federation						
Taimyr Peninsula	**6,063**	3,143	1,527	654	672	67
Kola Peninsula	**642**	506	117	5	11	3
United States of America	**434**	-	-	253	181	-
Europe	**30**	25	-	2	-	3
	7,169	**3,674**	**1,644**	**914**	**864**	**73**
By destination						
Europe	**4,529**	2,555	1,228	282	414	50
Russian Federation	**649**	135	416	-	76	22
Asia	**925**	657	-	176	91	1
North America	**1,066**	327	-	456	283	-
	7,169	**3,674**	**1,644**	**914**	**864**	**73**

2004	Total	Nickel	Copper	Palladium	Platinum	Gold
By origin						
Russian Federation						
Taimyr Peninsula	**5,610**	3,152	1,220	686	505	47
Kola Peninsula	**472**	412	45	1	10	4
United States of America	**447**	-	-	280	167	-
Europe	**62**	-	-	38	24	-
	6,591	**3,564**	**1,265**	**1,005**	**706**	**51**
By destination						
Europe	**4,100**	2,646	906	266	273	9
Russian Federation	**623**	215	356	1	10	41
Asia	**750**	429	-	210	110	1
North America	**1,118**	274	3	528	313	-
	6,591	**3,564**	**1,265**	**1,005**	**706**	**51**

US Dollars million

	2005	2004

7. COST OF METAL SALES

	2005	2004
Cash operating costs	2,480	2,275
On-mine and concentrating costs (refer to note 8)	1,121	939
Smelting costs (refer to note 9)	623	564
Treatment and refining costs (refer to note 10)	366	325
Other costs (refer to note 11)	370	447
Amortisation and depreciation of operating assets (refer to note 12)	428	422
Decrease in metal inventories	86	241
Total	**2,994**	**2,938**

8. ON-MINE AND CONCENTRATING COSTS

	2005	2004
Labour	467	433
Consumables and spares	387	266
Repairs and maintenance	93	80
Insurance	46	55
Utilities	34	32
Tailing pile maintenance and relocation	24	17
Sundry on-mine and concentrating costs	70	56
Total (refer to note 7)	**1,121**	**939**

9. SMELTING COSTS

	2005	2004
Labour	178	171
Consumables and spares	169	111
Non-ferrous scrap metals purchased	85	98
Platinum group scrap metals purchased	82	77
Insurance	41	40
Utilities	32	30
Repairs and maintenance	21	29
Sundry smelting costs	15	8
Total (refer to note 7)	**623**	**564**

10. TREATMENT AND REFINING COSTS

	2005	2004
Labour	126	121
Consumables and spares	123	96
Platinum group metals toll refining cost	66	55
Utilities	17	17
Insurance	14	15
Repairs and maintenance	11	12
Sundry treatment and refining costs	9	9
Total (refer to note 7)	**366**	**325**

US Dollars million

	2005	2004
11. OTHER COSTS		
Tax on mining and pollution levies	119	115
Transportation	117	97
Cost of refined metals purchased from third parties	87	211
Other	47	24
Total (refer to note 7)	**370**	**447**
12. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS		
Mining and concentrating	269	268
Smelting	120	113
Treatment and refining	39	41
Total (refer to note 7)	**428**	**422**
13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Export customs duties	301	291
Salaries	194	178
Taxes other than mining and income taxes	68	74
Advertising	58	49
Transportation expenses	36	34
Legal and audit services	29	23
Consulting services	27	34
Depreciation	17	10
External research and development	14	32
Insurance	12	9
Commission paid	10	14
Repairs and maintenance	9	11
Bank charges	9	12
Other	57	50
Total	**841**	**821**
14. OTHER NET OPERATING EXPENSES		
Loss on disposal of property, plant and equipment	28	137
Foreign exchange loss	25	11
Change in provision for impairment of other non-current assets	15	72
Change in provision for tax penalties	15	(41)
Change in provision for impairment of capital construction-in-progress	10	19
Net operating profit from non-mining entities	(16)	(34)
Change in provision for impairment of receivables	(10)	3
Other	(9)	(1)
Total	**58**	**166**

US Dollars million

	2005	2004

15. FINANCE COSTS

	2005	2004
Interest expense on borrowings	83	63
Unwinding of discount on decommissioning obligations (refer to note 33)	12	4
Total	**95**	**67**

16. NET INCOME FROM INVESTMENTS

	2005	2004
Interest income	43	35
Income/(loss) from associates (refer to note 21)	2	(32)
Dividends received	9	9
Other	5	(7)
Total	**59**	**5**

17. OTHER NON-OPERATING EXPENSES

	2005	2004
Maintenance of social sphere facilities	69	51
Donations	49	51
Other	6	(5)
Total	**124**	**97**

18. TAXATION

	2005	2004
Current taxation	911	766
Deferred taxation	(73)	(124)
Total	**838**	**642**

US Dollars million

	2005	2004
A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation of 24%, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:		
Profit before taxation	**3,116**	**2,507**
Theoretical income tax at 24%	748	602
Impact of specific tax rates	(20)	(15)
Tax effect of permanent differences	103	111
Change in valuation allowance	7	(56)
Income tax expense	**838**	**642**

The corporate income tax rates in other countries where the Group has a significant taxable presence vary from 8% to 39%.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Cost				
Balance at 31 December 2003	**4,572**	**2,314**	**95**	**6,981**
Acquired on acquisition of subsidiaries (refer to note 38)	181	79	1	**261**
Disposed on disposal of subsidiaries (refer to note 39)	(21)	(1)	(8)	**(30)**
Transfers from capital construction-in-progress (refer to note 20)	243	279	58	**580**
Decommissioning asset raised (refer to note 33)	82	-	-	**82**
Disposals	(61)	(119)	(4)	**(184)**
Effect of translation to presentation currency	262	171	10	**443**
Balance at 31 December 2004	**5,258**	**2,723**	**152**	**8,133**
Acquired on acquisition of subsidiaries (refer to note 38)	397	39	1	**437**
Disposed on disposal of subsidiaries (refer to note 39)	(5)	(9)	-	**(14)**
Transfers from capital construction-in-progress (refer to note 20)	170	403	20	**593**
Decommissioning asset raised (refer to note 33)	135	9	-	**144**
Disposals	(26)	(69)	(9)	**(104)**
Provision for impairment	(6)	-	-	**(6)**
Reclassified to non-current assets of disposal group	(794)	(296)	(9)	**(1,099)**
Effect of translation to presentation currency	(173)	(104)	(6)	**(283)**
Balance at 31 December 2005	**4,956**	**2,696**	**149**	**7,801**

US Dollars million

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Total
Accumulated amortisation and depreciation				
Balance at 31 December 2003	**(463)**	**(441)**	**(9)**	**(913)**
Amortisation and depreciation charge	(295)	(252)	(10)	**(557)**
Disposed on disposal of subsidiaries (refer to note 39)	2	-	-	**2**
Eliminated on disposals	8	42	2	**52**
Effect of translation to presentation currency	(38)	(34)	(1)	**(73)**
Balance at 31 December 2004	**(786)**	**(685)**	**(18)**	**(1,489)**
Amortisation and depreciation charge	(316)	(260)	(11)	**(587)**
Disposed on disposal of subsidiaries (refer to note 39)	-	2	-	**2**
Eliminated on disposals	7	34	2	**43**
Eliminated on reclassification to non-current assets of disposal group	68	64	1	**133**
Effect of translation to presentation currency	30	28	-	**58**
Balance at 31 December 2005	**(997)**	**(817)**	**(26)**	**(1,840)**
Net book value				
31 December 2004	**4,472**	**2,038**	**134**	**6,644**
31 December 2005	**3,959**	**1,879**	**123**	**5,961**

Included in property, plant and equipment at 31 December 2005 are non-mining assets with a carrying value of USD 325 million (2004: USD 318 million).

20. CAPITAL CONSTRUCTION-IN-PROGRESS

	2005	2004
Balance at beginning of the year	**1,208**	**1,150**
Additions	780	635
Acquired on acquisition of subsidiaries (refer to note 38)	8	19
Disposed on disposal of subsidiaries	(1)	-
Transfers to property, plant and equipment (refer to note 19)	(593)	(580)
Disposals	(20)	(65)
Provision for impairment	(15)	(19)
Reclassified to non-current assets of disposal group	(139)	-
Effect of translation to presentation currency	(44)	68
Balance at end of the year	**1,184**	**1,208**

Assets under construction in the amount of USD 8 million were financed through a grant from the Government of Norway (refer to note 42). Carrying value of these assets is zero.

Included in capital construction-in-progress at 31 December 2005 are non-mining assets under construction with a carrying value of USD 297 million (2004: USD 252 million).

US Dollars million

21. INVESTMENTS IN ASSOCIATES

	2005	2004
Balance at beginning of the year	**162**	**108**
Acquired during the year	-	56
Change in classification due to increase in shareholding	(9)	22
Share of post-acquisition profits (refer to note 16)	2	4
Provision for impairment (refer to note 16)	-	(36)
Reclassified to investments held for sale (refer to note 22)	(56)	-
Effect of translation to presentation currency	(4)	8
Balance at end of the year	**95**	**162**

All Group's associates are incorporated in the Russian Federation. The Group's interest in principal associates at 31 December 2005 was as follows:

Name of associate	Principal activity	Share-holding	2005	2004
OJSC "Krasnoyarskenergo"	Electricity utilities	25.7%	23	72
OJSC "Krasnoyarskaya generatsiya"	Electricity utilities	25.5%	37	-
OJSC "Kolenergo"	Electricity utilities	24.8%	-	59
OJSC "Norilskgazprom"	Gas extraction	29.4%	28	22
Other			7	9
Balance at end of the year			**95**	**162**

In October 2005, the Group become a shareholder in OJSC "Krasnoyarskaya generatsiya" as a part of a reorganisation of OJSC "Krasnoyarskenergo".

On 9 December 2005 the Board of Directors of the Company approved a decision to sell its investment in OJSC "Kolenergo". Accordingly, at 31 December 2005 this investment was classified as held for sale and included in current investments in securities (refer to note 22).

Summarised financial information as at 31 December 2005 in respect of the Group's principal associates is set out below:

Name of associate	Market value of investment	Total assets	Total liabilities	Revenue	Profit/ (loss)
OJSC "Krasnoyarskenergo"	66	278	(38)	475	4
OJSC "Krasnoyarskaya generatsiya"	n/a	465	(74)	86	(4)
OJSC "Norilskgazprom"	n/a	145	(54)	97	14
Other	n/a	124	(36)	130	-
Total		**1,012**	**(202)**	**788**	**14**

US Dollars million

22. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2005	2004
Non-current		
Equity securities	615	1,345
Loans advanced	45	9
Long-term accounts receivable	25	5
Promissory notes receivable	-	40
Other	5	8
Total non-current	**690**	**1,407**

Equity securities at 31 December 2004 included investment in Gold Fields Limited (South Africa) recorded at fair value of USD 1,229 million. In May 2005 this investment was sold to CJSC "Gold Mining Company Polus", a 100% subsidiary of the Group, for USD 944 million. As at 31 December 2005 investment in Gold Fields Limited at fair value of USD 1,736 million was included in current assets of disposal group.

	2005	2004
Current		
Current securities held to maturity	71	-
Current investments held for sale (refer to note 21)	56	-
Other	7	30
Total current	**134**	**30**

23. OTHER NON-CURRENT ASSETS

	2005	2004
Value added tax recoverable	137	202
Non-current metal inventories	9	75
Other	44	24
	190	**301**
Less: Provision for impairment of value added tax recoverable	(52)	(57)
Total	**138**	**244**

Non-current metal inventories represent the carrying cost of palladium to be delivered by Stillwater Mining Company, a subsidiary of the Group, after 31 December 2005 under the terms of a loan agreement (refer to note 30).

US Dollars million

	2005	2004

24. INVENTORIES

	2005	2004
Refined metals		
Joint products at net production cost	389	430
By-products at net realisable value	78	65
Work-in-process, at net production cost	254	285
Total metal inventories	**721**	**780**
Stores and materials at cost	639	709
Less: Provision for obsolescence	(59)	(47)
Net stores and materials	**580**	**662**
Total inventories	**1,301**	**1,442**

Certain refined metals were pledged as security:

	2005	2004
Bank overdraft facilities	69	113
Long-term borrowings	-	22
Total	**69**	**135**

25. TRADE AND OTHER RECEIVABLES

	2005	2004
Trade accounts receivable	339	367
Advances to suppliers	46	59
Other receivables	116	142
	501	**568**
Less: Provision for impairment of receivables	(61)	(113)
Total	**440**	**455**

Certain trade receivables from metal sales were pledged as security:

	2005	2004
Bank overdraft facilities	8	28

26. OTHER CURRENT ASSETS

	2005	2004
Value added tax recoverable	453	459
Prepaid customs duties	38	25
Prepaid insurance	27	81
Prepaid income tax	22	92
Other prepaid expenses	27	37
Total	**567**	**694**

US Dollars million

27. CASH AND CASH EQUIVALENTS

		2005	2004
Current accounts	- RUR	137	108
	- foreign currencies	47	524
Bank deposits		639	594
Restricted cash		18	12
Other cash and cash equivalents		81	108
Total		**922**	**1,346**
Less: Bank overdrafts		-	(21)
Net cash and cash equivalents		**922**	**1,325**

28. SHARE CAPITAL

	2005	2004
Authorised		
260,171,000 ordinary shares at par value of RUR 1 each	**11**	**12**
Issued and fully paid		
213,905,884 ordinary shares at par value of RUR 1 each	10	10
Treasury shares		
31 December 2005: 25,198,963 ordinary shares	(1)	-
31 December 2004: 3,263,368 ordinary shares	-	-
Total	**9**	**10**
Number of ordinary shares in issue at 31 December	188,706,921	210,642,516
Weighted average number of ordinary shares in issue during the year	201,242,833	210,642,516

US Dollars million

29. SHARE PREMIUM

	2005	2004
Balance at beginning of the year	**782**	**737**
Re-acquisition of 10,799,433 ordinary shares	(36)	-
Re-acquisition of 12,478,704 ordinary shares	(763)	
Re-issuance of 1,342,542 ordinary shares from treasury shares	12	-
Effect of translation to presentation currency	5	45
Balance at end of the year	**-**	**782**

During November and December 2005 10,799,433 ordinary shares of the Company were re-acquired from shareholders who elected not to participate in the reorganisation of the Group in the form of spin-off of Polus Group (refer to note 4) at RUR 1,855 per share for a total consideration of USD 693 million. Amount paid by the Company for the re-acquisition of its own shares in excess of the par value of RUR 1 was recorded as a reduction of share premium until fully utilised; the remaining balance of USD 657 million was recorded as a deduction from accumulated profits.

On 2 December 2004 the Board of Directors of the Company approved a decision to re-acquire up to 12,500,000 ordinary shares from shareholders at RUR 1,680 per share. The transaction was completed in the first quarter of 2005, and resulted in re-acquisition of 12,478,704 shares for a total consideration of USD 763 million. Amount paid by the Company for the re-acquisition of its own shares in excess of the par value of RUR 1 was recorded as a reduction of share premium.

As part of a restructuring of the Group that took place in 2001-2002 the shareholders of OJSC “RAO “Norilsk Nickel”, a subsidiary of the Group, were entitled during certain periods to swap their shares for shares in OJSC “MMC “Norilsk Nickel”. During 2005 1,342,542 shares had been swapped.

US Dollars million

30. LONG-TERM BORROWINGS

	2005	2004
7.125% Guaranteed notes due 2009, net of direct expenses on issuance	499	498
On 30 September 2004 Norilsk Nickel Luxemburg S.A., a wholly owned special purpose subsidiary of the Group, issued USD 500 million 7.125% notes. The notes were issued at par value with an interest payable semi-annually in arrears on 30 March and 30 September, and mature on 30 September 2009. The notes are unconditionally and irrevocably guaranteed by OJSC "Mining and Metallurgical Company Norilsk Nickel".		
Syndicated loan arranged by Citibank N.A., ING Bank N.V. and Societe Generale	-	299
A USD-denominated loan at LIBOR plus 1.4-1.85% per annum secured by export sales proceeds of the Group. The loan was fully repaid in 2005.		
Syndicated loan arranged by Toronto Dominion	109	132
A USD 250 million credit facility arranged by Stillwater Mining Company, a subsidiary of the Group, at LIBOR + 3.25% per annum. Repayments commenced in 2004, with the final installment due on 30 July 2010. Substantially all the property and assets of Stillwater Mining Company are pledged as security for this credit facility. The loan agreement requires that 50% of the company's annual excess cash flow, any proceeds from asset sales and the issuance of debt or equity securities, subject to specified exceptions, and 25% of the net proceeds on disposal of 63,000 (2004: 500,000) ounces of palladium, received by the company as part settlement of the acquisition of Stillwater Mining Company by the Group, be offered to repay this loan.		
Exempt Facility Reversal Bonds Series 2000 issued through the State of Montana Investment Board	29	29
USD-denominated bonds with an effective interest rate of 8.57% issued on 6 July 2002 and maturing on 1 July 2020.		
Other long-term borrowings	6	22
	643	**980**
Less: Current portion repayable within one year and shown under current liabilities	(8)	(323)
Total	**635**	**657**

US Dollars million

	2005	2004
The long-term borrowings are repayable as follows:		
Due in one year	8	323
Due in the second year	1	5
Due thereafter	634	652
	643	**980**

31. DEFERRED TAX LIABILITIES

The movement in the Group's deferred taxation position for the year was as follows:

	2005	2004
Net liability at beginning of the year	**740**	**775**
Recognised in income statement for the year	(82)	(122)
Change in deferred tax liability due to acquisition of subsidiaries (refer note 38)	89	44
Reclassified to non-current liabilities of disposal group	(169)	-
Effect of translation to presentation currency	(35)	43
Net liability at end of the year	**543**	**740**

Deferred taxation is attributable to temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	2005	2004
Property, plant and equipment	593	785
Accrued operating expenses	(43)	(49)
Provision for impairment of receivables	(7)	(10)
Unrealised profit on intra-group transactions	(43)	(42)
Inventory valuation	36	63
Valuation of investments	(10)	(42)
Other	(38)	(14)
Provision for deferred tax assets	55	49
Total	**543**	**740**

The unutilised tax losses of the North American operations as at 31 December 2005, which are available for offset against future taxable income earned in the United States of America, amounted to USD 271 million, has not been recognised as a deferred tax asset.

The Group does not recognise a deferred tax liability for the taxable temporary difference associated with investments in subsidiaries of USD 2,422 million (2004: USD 1,406 million), because it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

US Dollars million

32. EMPLOYEE BENEFIT OBLIGATIONS

	2005	2004
Non-current		
Lifelong professional pension plan	37	35
Joint corporate pension plan	24	19
Mothers' rights plan	2	4
Six pensions plan	1	3
	64	61
Less: Current portion of employee benefit obligations	(8)	(11)
Total non-current	**56**	**50**
Current		
Accrual for annual leave	120	165
Wages and salaries	72	79
Current portion of employee benefit obligations	8	11
Other	12	10
Total current	**212**	**265**

Defined benefit plans

Number of members	Lifelong professional pension plan	Joint corporate pension plan	Mothers' rights plan	Six pensions plan
At 31 December 2003	**1,252**	**1,352**	**1,112**	**718**
Additions	88	978	12	146
Retirements	(14)	(5)	(387)	(442)
At 31 December 2004	**1,326**	**2,325**	**737**	**422**
Additions	43	311	9	36
Retirements	(20)	(6)	(386)	(277)
At 31 December 2005	**1,349**	**2,630**	**360**	**181**

Movements in the liabilities

Balance at 31 December 2003	**31**	**29**	**9**	**4**
Cash payments	(4)	-	(6)	(4)
Charge for the year	5	7	1	3
Change in estimate	-	(19)	-	-
Effect of translation to presentation currency	3	2	-	-
Balance at 31 December 2004	**35**	**19**	**4**	**3**
Cash payments	(5)	(1)	(4)	(2)
Charge for the year	8	6	2	1
Effect of translation to presentation currency	(1)	-	-	(1)
Balance at 31 December 2005	**37**	**24**	**2**	**1**

US Dollars million

Amounts in respect of defined benefit plans recognised in the balance sheet were as follows:

	Lifelong professional pension plan	**Joint corporate pension plan**	**Mothers' rights plan**	**Six pensions plan**
Fair value of plan assets	-	-	-	-
Defined benefit obligations	41	22	4	3
Funded status	41	22	4	3
Unrecognised actuarial losses	(6)	(3)	-	-
Balance accrued at 31 December 2004	**35**	**19**	**4**	**3**
Fair value of plan assets	-	-	-	-
Defined benefit obligations	66	35	2	1
Funded status	66	35	2	1
Unrecognised actuarial losses	(29)	(11)	-	-
Balance accrued at 31 December 2005	**37**	**24**	**2**	**1**

Key assumptions used in estimation of defined benefit obligations are the following:

	2005	**2004**
Discount rate	7.0%	13.0%
Pre-retirement increases to capital accounts	4.5%	7.5%
Future salary increases	6.7%	6.2%
Future pension increases	5.2%	7.5%
Average life expectancy of members from the date of retirement	17 years	17 years

Defined contribution plans

Amounts recognised in the income statement in respect of defined contribution plans for the year:

Pension fund of the Russian Federation	156	162
Stillwater Mining Company savings plan	5	4
Total	**161**	**166**

US Dollars million

33. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	2005	2004
Balance at beginning of the year	**149**	**60**
New obligations raised (refer to note 19)	105	-
Change in estimate (refer to note 19)	39	82
Acquired on acquisition of subsidiary	18	-
Unwinding of discount on decommissioning obligations (refer to note 15)	12	4
Reclassified to non-current liabilities of disposal group	(53)	-
Effect of translation to presentation currency	(4)	3
Balance at end of the year	**266**	**149**

Management regularly reassesses decommissioning obligations for its operations in the Russian Federation due to changes in inflation and discount rates, and expected closure dates of mines based on the results of an independent audit of ore reserves. The results of reassessments are presented as a change in estimate.

The Group's subsidiary, Stillwater Mining Company, is required to post surety bonds, letters of credit, cash or other acceptable financial instruments to guarantee performance of reclamation activities at Stillwater and East Boulder Mines. As at 31 December 2005 and 2004 the surety amount at the East Boulder Mine was USD 11.5 million, and at the Stillwater Mine USD 8.9 million.

Provision for land restoration

	2005	2004
Balance at beginning of the year	**6**	**-**
Acquired on acquisition of subsidiary	3	-
Charge to income statement	3	6
Reclassified to non-current liabilities of disposal group	(8)	-
Effect of translation to presentation currency	(1)	-
Balance at end of the year	**3**	**6**
Total environmental obligations	**269**	**155**

US Dollars million

	2005	2004

34. SHORT-TERM BORROWINGS

	2005	2004
USD-denominated short-term borrowings at floating rates	295	150
USD-denominated short-term borrowings at fixed rates	-	42
RUR-denominated short-term borrowings	54	16
Bank overdrafts	-	21
Total	**349**	**229**

The interest rates on these borrowings vary as follows:

	2005	2004
USD-denominated short-term borrowings at floating rates	LIBOR+0.7%	LIBOR+1.5%
USD-denominated short-term borrowings at fixed rates	-	4% to 10%
RUR-denominated short-term borrowings	5.5%	10% to 20%

35. TRADE AND OTHER PAYABLES

	2005	2004
Trade accounts payable	170	151
Advances from customers	56	57
Interest payable	11	12
Other payables	63	79
Total	**300**	**299**

36. TAXES PAYABLE

	2005	2004
Value added tax payable	60	82
Income tax	38	31
Provision for fines and penalties	31	44
Property tax	21	21
Unified social tax	10	13
Other	27	70
Total	**187**	**261**

US Dollars million

37. RECONCILIATION OF PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATIONS

	2005	2004
Profit for the year	**2,352**	**1,857**
Adjustments for:		
Income tax expense	889	696
Amortisation and depreciation	578	540
Interest expense	110	72
Impairment of goodwill on acquisition	-	115
Change in provision for impairment of capital construction-in-progress	21	19
Change in impairment provision	(9)	5
Change in provision for obsolete inventory	15	(71)
Change in provision for impairment of other non-current assets	(16)	72
Change in provision for tax penalties	17	(56)
Loss on disposal of property, plant and equipment	33	140
(Income)/loss from associates	(2)	32
Foreign exchange loss	26	12
Other	11	11
Operating profit before working capital changes	**4,025**	**3,444**
Decrease in inventories	22	208
(Increase)/decrease in trade and other receivables	(29)	9
Increase/(decrease) in trade and other payables	37	(54)
(Increase) in other non-current and current assets	(3)	(120)
(Decrease) in employee benefit obligations	(21)	(27)
(Decrease)/increase in taxes payable	(57)	38
Cash flows from operations	**3,974**	**3,498**

US Dollars million

38. ACQUISITION OF SUBSIDIARIES

	2005	2004
Net assets acquired		
Property, plant and equipment (refer to note 19)	437	261
Capital construction-in-progress (refer to note 20)	8	19
Inventories	15	28
Trade and other receivables	13	12
Other assets	12	52
Loans and borrowings	(37)	(68)
Trade and other payables	(53)	(54)
Deferred taxation (refer to note 31)	(89)	(44)
Net assets at date of acquisition	**306**	**206**
Decrease in minority interest due to increase of investments in subsidiaries by the Group	18	18
Less: Minority interest	(1)	(48)
Groups' share of net assets acquired	**323**	**176**
Add: Goodwill on acquisition	14	115
Less: Pre-acquisition amount invested in subsidiary	(9)	-
Total consideration	**328**	**291**
Satisfied by re-issuance of treasury shares	(12)	-
Satisfied by cash	(176)	(291)
Deferred cash consideration	(140)	-
Net cash outflow arising on acquisition:		
Cash consideration	(176)	(291)
Cash and cash equivalents acquired	1	2
Net cash outflow on acquisition of subsidiaries	**(175)**	**(289)**

Holdings in the following companies were acquired:

	2005	2004
Russian gold mining companies		
OJSC "Aldanzoloto GRK"	99.2%	-
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya"	50.0%	-
OJSC "Yakutskaya Gornaya Kompaniya"	100.0%	-
OJSC "Pervenets"	74.0%	-
OJSC "Lenzoloto"	11.2%	57.0%
OJSC "Matrosov Mine"	30.3%	57.1%
OJSC "Tonoda"	-	100.0%
Other acquisitions		
LLC "Terminal"	100.0%	-
LLC "Gornaya Leasingovaya Kompaniya"	80.1%	-
CJSC "Kraus – M"	-	40.0%

US Dollars million

39. DISPOSAL OF SUBSIDIARIES

	2005	2004
Net assets disposed of		
Property, plant and equipment (refer to note 19)	12	28
Other assets	10	28
Trade and other payables	(21)	(28)
Net assets at date of disposal	**1**	**28**
Less: Minority interest	-	-
Group's share of assets disposed of	**1**	**28**
Less: Loss on disposal	-	(1)
Proceeds from disposal of subsidiaries	**1**	**27**
Less: Cash and cash equivalents disposed of	-	(2)
Net cash inflow from disposal of subsidiaries	**1**	**25**

The following entities were disposed of or the Group's holding decreased:

	2005	2004
OJSC "Nedra Bodaybo"	51.0%	-
LLC "Norilskiye Metally"	100.0%	-
OJSC "Monchebank"	-	15.4%
OJSC "Olenegorsky Mekhanichesky Zavod"	-	100.0%
OJSC "Tuimsky Zavod Tsvetnykh Metallov"	-	99.9%
OJSC "PromEstate"	-	99.1%

40. DIVIDENDS

	2005	2004
On 30 December 2005 the Company declared an interim dividend of RUR 43 (USD 1.49) per share in respect of the year ended 31 December 2005. The dividend was paid to shareholders on 28 February 2006. This amount is net of USD 3 million paid to Group subsidiaries.	298	-
On 30 June 2005 the Company declared a final dividend for the year ended 31 December 2004 of RUR 28 (USD 0.98) per share. The dividend was paid to shareholders on 31 August 2005. This amount is net of USD 3 million paid to Group subsidiaries.	194	-
On 26 November 2004 the Company declared an interim dividend of RUR 41.4 (USD 1.46) per share in respect of the year ended 31 December 2004. The dividend was paid to shareholders on 30 December 2004. This amount is net of USD 5 million paid to Group subsidiaries.	-	308
Total	**492**	**308**

US Dollars million

41. RELATED PARTIES

Related parties are considered to include shareholders, associates, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties.

Transactions with related parties

	Sale of goods	Purchase of goods	Purchase of services	Purchase of investments
2005				
By the Company	52	54	63	47
By subsidiaries of the Group	12	62	37	-
Total	**64**	**116**	**100**	**47**
2004				
By the Company	19	65	26	8
By subsidiaries of the Group	-	68	7	38
Total	**19**	**133**	**33**	**46**

Outstanding balances with related parties

	Loans and borrowings	Investments and cash	Trade receivables	Trade Payables
31 December 2005				
By the Company	-	242	2	20
By subsidiaries of the Group	31	214	6	14
Total	**31**	**456**	**8**	**34**
31 December 2004				
By the Company	-	732	6	15
By subsidiaries of the Group	9	111	4	3
Total	**9**	**843**	**10**	**18**

The amounts outstanding were unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised for bad or doubtful debts in respect of the amounts owed by related parties.

US Dollars million

Compensation of key management personnel

The remuneration of key management personnel of the Company for the year ended 31 December 2005 amounted to USD 14 million (2004: USD 11 million).

42. COMMITMENTS

Capital commitments

The Management Board has approved the following capital expenditure budget for the year ending 31 December 2006:

Maintenance of property, plant and equipment	614
Expansion of property, plant and equipment	205
Total	**819**

2006 budgeted capital expenditure allocated between:

Contracted	416
Not contracted	403
Total	**819**

Contracted obligations in respect of capital commitments for the period after 2006 amount to approximately USD 14 million.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group leases land through operating lease agreements, which expire in various years through 2051. Future minimum lease payments due under non-cancelable operating lease agreements at 31 December 2005 are as follows:

Due in one year	3
Due in the second year	3
Due thereafter	16
Total	**22**

Intergovernmental agreement with Norway

In 2001 an intergovernmental agreement between the Government of the Russian Federation and the Norway was signed on the provision of technical assistance in the reconstruction project for the metallurgical production facilities of the Pechenganickel combine, a branch of OJSC "Kolskaya Mining and Metallurgical Company".

US Dollars million

Total investment in reconstruction of production facilities is expected to be USD 103 million, financed as follows:

Grants from the Government of Norway	31
Loan from Nordic Investment Bank	30
Contribution by the Group	42
Total	**103**

As at 31 December 2005 the Group received USD 8 million in grant from the Government of Norway (refer to note 20) and a loan from Nordic Investment Bank in the amount of USD 0.5 million. The received cash was invested in the reconstruction of the equipment in accordance with the terms of the Grant Facility Agreement.

Social commitments

The Group contributes to mandatory and voluntary social programs and maintains social assets in the locations where it has its main operating facilities. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. These contributions are expensed in the period in which they are incurred.

The Group's commitments will be funded from its own cash resources and borrowings.

43. CONTINGENCIES

Litigation

Unresolved tax litigation at 31 December 2005 amounted to approximately USD 142 million (2004: USD 129 million). Management has assessed as possible the unfavourable outcome to the tax litigation.

In addition, the Group has a large number of small claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The Government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Management has assessed possible tax risks at 31 December 2005 to be approximately USD 117 million (2004: USD 49 million).

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, the disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with all current existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements and the term of license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

44. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, interest rate, operational, credit and liquidity risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Risk management structure

The Group's treasury function is responsible for the management of currency, liquidity, interest rate and credit risk. Within the treasury function, there is an independent risk management unit, responsible for monitoring the treasury's adherence to the Group's risk management policies.

Commodity price risk is managed by the Sales Block of the Group. An independent risk management unit exists within that function to control exposures and ensure they are in line with policies set by management of the Sales Block and senior management of the Group.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's joint products, i.e. nickel, copper, palladium, platinum and gold.

The Group is exposed to commodity price risk as a substantial part of its metal sales revenues is derived from long-term contracts with physical off-takers for known volumes of metals, but at prices that will be determined by reference to market prices at the delivery date.

For a certain portion of its metal sales revenues the Group manages its exposure to commodity price risk by entering into fixed price sales contracts and cap and floor arrangements for the sale of refined metal to physical off-takers.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits may be adversely impacted by appreciation of the RUR against the USD.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management believes that this risk is currently not significant because majority of the Group's borrowings are at a fixed rate.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. In 2005 the Group developed a comprehensive insurance program that reduces the following risks related to production activities of the Group:

- risk of business interruption;
- risk of possible damage to the key production equipment directly involved in the technological process, buildings and structures as a result of fire or natural disaster, as well as risk of breakages and accidents with the key equipment;
- risk of loss or damage to domestic and export deliveries of semi-finished and finished goods and imported stores and materials.

In accordance with the statutory requirements the Group insures third party liability under claims resulting from accidents at the Group's production facilities.

Credit risk

Credit risk is the risk that customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimises its exposure to this risk by ensuring that credit risk is spread across a number of customers.

The Group is not economically dependent on a limited number of customers for the sale of its products because of the existence of liquid commodity markets for all of its products. Metal sales to the Group's top 20 customers are presented below:

	2005				2004			
	Number of customers	%	Turnover USD million	%	Number of customers	%	Turnover USD million	%
Largest customer	1	-	594	8	1	1	543	8
Next 9 largest customers	9	3	2,323	33	9	3	2,081	32
Total	**10**	**3**	**2,917**	**41**	**10**	**4**	**2,624**	**40**
Next 10 largest customers	10	3	1,067	15	10	4	831	13
Total	**20**	**6**	**3,984**	**56**	**20**	**8**	**3,455**	**53**
Remaining customers	314	94	3,185	44	243	92	3,136	47
Total	**334**	**100**	**7,169**	**100**	**263**	**100**	**6,591**	**100**

Trade receivables comprise international companies, and credit is only extended to such customers after rigid credit approval procedures. These procedures include regular analysis of financial position of the customers and setting appropriate credit limits.

The Group has a concentration of cash and bank deposits with a related party commercial bank that at 31 December 2005 represents 46% of such cash and bank deposits (2004: 58%).

The Group believes that there is no other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.
The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

US Dollars million

At 31 December 2005 and 2004 the Group had financing facilities for the management of its day to day liquidity requirements available with the following banks:

	2005	2004
Committed credit lines		
OJSC "Sberbank"	486	-
Societe Generale; Calyon; ING Bank N.V, London Branch; Mizuho Corporate Bank, Ltd.; Sumitomo Mitsui Banking Corporation Europe Limited; The Bank of Tokyo-Mitsubishi, Ltd.; West LB AG; ZAO Citibank	400	-
Barclays Capital; BNP Paribas (Suisse) S.A.	295	400
Citibank N.A.; ING Bank N.V.; Societe Generale	-	300
Total committed credit lines	**1,181**	**700**
Uncommitted credit lines		
CJSC "Gazprombank"	120	35
CJSC "ING Bank Eurasia"	100	100
OJSC "Vneshtorgbank"	100	100
CJSC "West LB Vostok"	50	30
CJSC "BNP Pariba"	50	20
CJSC "Natexis Bank"	50	15
CJSC "Societe Generale Vostok"	35	20
CJSC "KB Citibank"	25	50
CJSC "Commerzbank"	20	60
Other	194	236
Total uncommitted credit lines	**744**	**666**
Bank overdraft facilities		
ING (Switzerland)	100	100
Credit Suisse (Switzerland)	75	75
BNP Paribas Suisse (Switzerland)	75	75
Banque Cantonale Vaudoise (Switzerland)	50	50
Other	-	46
Total bank overdraft facilities	**300**	**346**
Total borrowing facilities	**2,225**	**1,712**
Less: Loans received related to the above facilities	(312)	(480)
Less: Outstanding letters of credit	(61)	(111)
Less: Bank overdrafts received	-	(21)
Net facilities available	**1,852**	**1,100**
Weighted average interest rate for bank overdrafts denominated in foreign currencies	LIBOR+0.91%	LIBOR+1.10%
Weighted average interest rate for bank overdrafts denominated in RUR	-	8%

US Dollars million

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Investments in securities and other financial assets (refer to note 22)	824	824	1,437	1,437
Trade and other receivables (refer to note 25)	440	440	455	455
Other current and non-current assets (refer to notes 23 and 26)	705	705	938	938
Cash and cash equivalents (refer to note 27)	922	922	1,346	1,346
Long-term borrowings (refer to note 30)	(643)	(638)	(980)	(971)
Short-term borrowings (refer to note 34)	(349)	(349)	(229)	(229)
Trade and other payables (refer to note 35)	(300)	(300)	(299)	(299)

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

Listed investments in securities are carried at their market values, whereas unlisted investments are carried at management's valuation.

Other financial assets, trade and other receivables, other current assets, cash and cash equivalents and trade and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on long and short-term borrowings are market related. Consequently the carrying values of these financial instruments approximate their fair values.

The fair values of financial instruments are estimates and do not necessarily reflect the amount of cash that would have been realised had these instruments been liquidated at the date of valuation.

46. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Spin-off of Polus Group

In accordance with the decision to spin-off CJSC "Gold Mining Company Polus" approved by the shareholders (refer to note 4), on 17 March 2006 a new company OJSC "Polyus Gold" was incorporated in the Russian Federation. Shareholders contributed into the new company 100% of CJSC "Gold Mining Company Polus" shares and cash in the amount of USD 360 million.

Sale of investment in Gold Fields Limited

In March 2006 CJSC "Gold Mining Company Polus", a subsidiary of the Group, sold its whole stake of 98,467,758 ordinary shares in Gold Fields Limited at a price of USD 20.50 per share. Net proceeds from the sale amounted to USD 1,927 million.

Reduction in share capital

On 17 February 2006 an Extraordinary General Meeting of shareholders passed a resolution to reduce the share capital of MMC "Norilsk Nickel" by 23,278,137 shares. The reduction in share capital is to be achieved by the cancellation of shares re-acquired by the Company during 2004-2005 (refer to note 29).

Acquisition of shares in Plug Power

On 11 April 2006 MMC "Norilsk Nickel" and Interros Holding Company arranged for the acquisition of a 35% stake in Plug Power, a US leading designer of environmentally clean and reliable energy products.

Smart Hydrogen, a 50-50% joint venture of MMC "Norilsk Nickel" and Interros, established specifically for international hydrogen energy projects, is acting as the buyer of the assets.
The transaction amounting to USD 241 million is expected to be completed in June 2006.

Joint venture with Rio Tinto

MMC "Norilsk Nickel" and Rio Tinto signed an agreement to incorporate a joint venture in the Russian Federation to conduct exploration and development of mineral resources in the Siberian and Far-Eastern regions of the Russian Federation. The new company will be owned 51% by Norilsk Nickel and 49% by Rio Tinto.

47. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Shares held '000		% held	
Subsidiaries by country of incorporation	**Nature of business**	**2005**	**2004**	**2005**	**2004**
Russian Federation					
OJSC "RAO "Norilsk Nickel"	Market agent	187,079	185,787	98.9	98.3
OJSC "Taimyrgaz"	Gas extraction	7,547	2,000	98.4	94.4
CJSC "Polus"	Mining	-	-	100.0	100.0
OJSC "Matrosov Mine"	Mining	233	44	88.4	57.1
OJSC "Lenzoloto"	Mining	1,015	848	68.2	57.0
CJSC "Tonoda"	Mining	9	9	100.0	100.0
LLC "LZRK" [3]	Management company	-	-	100.0	-
OJSC "Pervenets" [1]	Mining	-	-	100.0	14.8
OJSC "Yenisey River Shipping Company"	River shipping operations	181	181	43.9	43.9
OJSC "Arkhangelsk Sea Commercial Port"	Sea shipping operations	532	532	53.1	53.1
CJSC "NORIMETIMPEX"	Market agent	5	5	100.0	100.0
OJSC "Kolskaya Mining and Metallurgical Company"	Mining	4,000	4,000	100.0	100.0
CJSC "Alykel"	Airport	-	-	100.0	100.0
LLC "Norilskiye Metally" [2]	Market agent	-	-	-	100.0
OJSC "Institut Gypronickel"	Science	23	23	100.0	100.0
OJSC "Norilsky Kombinat"	Lessor of equipment	14,673	14,673	98.8	98.2
OJSC "Kombinat "Severonickel"	Lessor of equipment	9,860	9,860	98.9	98.3
OJSC "Gornometallurgichesky Kombinat "Pechenganickel"	Lessor of equipment	1,236	1,236	98.9	98.3
LLC "Gornaya Leasingovaya Kompaniya"[1]	Lessor of equipment	-	-	100.0	19.9
CJSC "Kraus-M"	Property holding	10	10	100.0	100.0
LLC "Norilsk telecom"	Telecommunications	-	-	100.0	100.0
CJSC "Vitimenergo"	Electricity production	356	356	100	50.5
OJSC "Aldanzoloto GRK" [1]	Minning	88,021,708	-	99.2	-
OJSC "Yuzhno-Verkhoyanskaya Gornaya Kompaniya" [1]	Minning	250	-	50	-
OJSC "Yakutskaya Gornaya Kompaniya" [1]	Minning	735	-	100	-

[1] Acquired in 2005 (refer to note 38)
[2] Disposed of in 2005 (refer to note 39)
[3] Founded in 2005

		Shares held '000		% held	
Subsidiaries by country of incorporation	**Nature of business**	**2005**	**2004**	**2005**	**2004**
China					
Norilsk Nickel Asia	Market agent	-	-	100.0	100.0
Great Britain					
Norimet Limited	Market agent	5,760	5,760	100.0	100.0
Norilsk Nickel Europe Limited	Market agent	-	-	100.0	100.0
Luxembourg					
Norilsk Nickel Finance	Bond issuer	1	1	100.0	100.0
Switzerland					
Norilsk Nickel Holding SA	Investment holding	-	-	100.0	100.0
Metal Trade Overseas SA	Market agent	-	-	100.0	100.0
United States of America					
Stillwater Mining Company	Mining	49,813	49,813	54.9	55.1
Norilsk Nickel USA	Market agent	1	1	100.0	100.0

EXHIBIT II — AUDITED CONSOLIDATED FINANCIAL STATEMENTS — WGC-3

Below are the audited consolidated annual financial statements of WGC-3 for the year ended December 31, 2006.

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

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
30 July 2007

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

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

General Director — Ivan Blagodyr'

Chief Accountant — Margarita Komarova

30 July 2007

WGC-3 Group
Consolidated Income Statement for the year ended 31 December 2006
(in thousands of Russian Roubles, except for earning/(loss) per ordinary share information)

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

General Director — Ivan Blagodyr'

Chief Accountant — Margarita Komarova

30 July 2007

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		**6 015 778**	**(565 043)**
Adjustments for non-cash items:			
Depreciation	6	1 093 393	1184 747
Provision for impairment of accounts receivable		147 240	405 440
Finance cost, net	19	170 728	228 278
Forgiveness of tax penalties		(134 137)	(181 193)
Impairment loss reversed during the year	6	(6 400 021)	-
Impairment loss recognized during the year	6	49 693	-
Other non-cash items		79 479	358 268
Operating cash flows before working capital changes and income tax paid		**1 022 153**	**1 430 497**
Working capital changes:			
Increase in accounts receivable and prepayments		39 465	(107 619)
Increase in inventories		(771 072)	(319 932)
Increase in other assets		(170 726)	(200 546)
Increase in accounts payable and accruals		307 013	304 694
(Decrease)/Increase in taxes payable, other than income tax		(276 692)	328 722
Increase/(decrease) in other non-current liabilities		200 297	(112 424)
Income tax paid in cash		(519 509)	(542 325)
Net cash generated from operating activities		**(169 071)**	**781 067**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(1 264 970)	(740 295)
Proceeds from sale of property, plant and equipment and other non-current assets		18 391	21 253
Interest received		13 850	5 544
Net cash used in investing activities		**(1 232 729)**	**(713 498)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		9 678 548	2 915 420
Repayment of debt		(7 654 557)	(2 568 425)
Interest paid		(130 798)	(176 941)
Dividend paid to shareholders of OJSC WGC-3		(240 282)	(104 990)
Dividend paid to minority interest shareholders		(13 845)	(181 515)
Settlement of previously unpaid share capital		-	15 000
Net cash generated from financing activities		**1 639 066**	**(101 451)**
Net increase in cash		**237 267**	**(33 882)**
Cash at the beginning of the year		**117 625**	**151 507**
Cash at the end of the year		**354 892**	**117 625**

General Director — Ivan Blagodyr'

Chief Accountant — Margarita Komarova

30 July 2007

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

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

General Director Ivan Blagodyr'

Chief Accountant Margarita Komarova

30 July 2007

(in thousands of Russian Roubles)

Note 1. The Group and its operations

Open Joint-Stock Company WGC-3 (OJSC "WGC-3", or the "Company") was established on 23 November 2004 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The WGC-3 Group (the "Group") operates 6 power plants and its principal activity is electricity and heat generation. The Group consists of OJSC WGC-3 and its subsidiaries. The Group's principal subsidiaries as at 31 December 2005 were six State-District Power Plants (the "SDPP"):

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

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

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

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

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

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

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

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

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales. Tariffs which the Group entities may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

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

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Parent can raise the capital required to maintain and expand current capacity.

- The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities" and Federal Law No. 36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".

- In June 2003 the government issued Resolution No. 1254-r "On formation of generation companies of the wholesale electricity market" which approved composition of wholesale generating companies of the wholesale electricity market, including a list of the six power plants to be contributed into the Group.

- In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity Market (FOREM): regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers will be able to sell electricity generated with the use of facilities and equipment accounting for 15.00% of the working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity market during the transition period, has been holding electricity bidding in the free trading sector. The Group participates in this free trading scheme. According to the laws underlying the electric utilities reform, subsequently free trading would be extended over the whole volume of trading.

- As at 1 September 2006 a new liberalized model of the wholesale and retail electricity (power) markets has been launched according to the Russian Government's Resolution No. 529 "On Improvement of the Procedure for Functioning of Wholesale Electricity (Power) Market" and No. 530 "On Rules for the Functioning of Retail Electricity Markets". Under the new wholesale market model, the existing electricity and power purchase-and-sale relations in the regulated market sector are to be replaced by a regulated bilateral contract system. From 1 September 2006 regulated contracts covered all volumes of electricity and power produced and consumed. From 2007 the volumes of electricity (power) traded in the wholesale market at regulated prices will substantially reduce. The pace of reduction will be set annually by the Russian Federation Government according to socio-economic development forecasts. In 2007 up to 95.00% of the forecasted production volumes will be traded at regulated prices. The period from 2006 to approximately 2013 is a transition period. After that it will become possible to launch a fully competitive wholesale market. The new market model implies two ways of electricity trading at free prices, being free bilateral contracts and a day – ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and supply volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers a day before the electricity is actually supplied. The competitive selection is performed by the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market". If there are deviations from the day-ahead forecast, participants are obliged to sell excess amounts or buy missing ones in the balancing market. As a whole, the day-ahead market replaces the free trade sector that was previously operating. Consumption and production planning held by System operator CDU UES is based on the results of bidding.

- As at 29 May 2003, the Board of Directors of RAO UES of Russia approved a "Concept of RAO UES of Russia strategy for the period from 2003 through 2008". In February 2006 the Board of Directors approved an Appendix to the Concept of RAO UES Strategy: "Generating companies of the Wholesale Electricity Market (WGCs)". This document provides a detailed description of the major changes that are planned to take place in respect of wholesale generation companies during the electric utilities reform program. In accordance with this Concept, RAO UES of Russia is developing the first stage of its own reorganization which assumes a spin-off of 2-3 generating companies (including OJSC WGC-3) with proportional distribution of shares of the separated companies between the shareholders of RAO UES of Russia. It also assumes a disposal of 40.29% of OJSC WGC-3 to take its holding from 59.70% to 19.41%.

Note 2. Financial condition

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

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

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

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

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

Note 3. Basis of preparation

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

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

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

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

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

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

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

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

Certain new IFRSs became effective from 1 January 2006:

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

- IFRS 6 "Exploration for and evaluation of mineral resources", which is effective for annual periods beginning on or after 1 January 2006. IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

- Amendment to IAS 19 "Employee Benefits", which is effective for annual periods beginning on or after 1 January 2006. The amendment to IAS 19 introduces an additional option to recognize actuarial gains and losses arising in post-employment benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employees.

- Amendment to IAS 21 "Net Investment in a Foreign Operation", which is effective for annual periods beginning on or after 1 January 2006. This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognized in consolidated profit or loss. It also extends the definition of net investment in a foreign operation to include loans between sister companies.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee contract", which is effective for annual periods beginning on or after 1 January 2006. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognizing of financial assets or result in continuing involvement accounting.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – The Fair Value Option", which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".

- IFRIC 4 "Determining whether an Arrangement Contains a Lease", which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.

- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds", which is effective for annual periods beginning on or after 1 January 2006. Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

- IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment", which is effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognized because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

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

- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure about the Group's financial instruments.

- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2007. Management is currently assessing the impact of IFRS 8 on the disclosures of segment information. The Group will apply IFRS 8 from annual periods beginning 1 January 2007.

- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's capital.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions", is effective for annual periods beginning on or after 1 January 2006. The amendment allows hedge accounting for the foreign currency risk of a highly probable forecast intragroup transaction which is denominated in a currency other than the functional currency of the entities entering into that transaction if the foreign currency risk will affect consolidated profit or loss.
- IAS 23, Borrowing Cost (Amendment, applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

- IFRIC 7 "Applying the Restatement Approach under IAS 29", which is effective for periods beginning on or after 1 March 2006, that is from 1 January 2007. The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that

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

- IFRIC 8, Scope of IFRS 2, which is effective for periods beginning on or after 1 May 2006, that is from 1 January 2007. The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

- IFRIC 9 "Reassessment of Embedded Derivatives", which is effective for annual periods beginning on or after 1 June 2006. The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contact. Only if the contact subsequently is significantly modified the entity reassesses whether to separate or not.

- IFRIC 10 "Interim Financial Reporting and Impairment" which is effective for periods beginning on or after 1 November 2006, that is from 1 January 2007. The interpretation clarifies that an entity should not reverse an impairment loss recognized in a previous interim periods in respect of goodwill or an investment in a financial asset carried at cost.

- IFRIC 11 IFRS 2 "Group and Treasury Shares Transactions" which is effective for periods beginning on or after 1 March 2007. This Interpretation addresses how to apply IFRS 2 “Share-based Payment” to share-based payment arrangements involving an entity’s own equity instruments or equity instruments of another entity in the same group (eg. equity instruments of its parent).

- IFRIC 12 "Service Concession Arrangements", which is effective for annual periods beginning on or after 1 January 2008.

- IFRIC 13 "Customer Loyalty Programmes", which is effective for annual periods beginning on or after 1 January 2008.

- IFRIC 14 IAS 19 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”, which is effective for annual periods beginning on or after 1 January 2008.

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

Going concern. The Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments should the Group be unable to continue as a going concern.

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

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

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

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

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

Note 4. Summary of significant accounting policies

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

A) Subsidiaries

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

B) Transactions eliminated on consolidation

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

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

As at 31 December 2006, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 26.3311: USD 1.00 (31 December 2005: RR 28.7825: USD 1.00), between the RR and EURO RR 34.6965: EURO 1.00 (31 December 2005: RR 34.1850: EURO 1.00).

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

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

(in thousands of Russian Roubles)

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

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

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

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

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

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

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	4-63	25 -50
Electricity distribution	6-30	30
Heating networks	4-22	25
Other	8	10

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

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

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

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

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

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

Income tax

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

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

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

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

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

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

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

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

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

The Group also operates defined benefit plans. In respect of some of these plans the Group has contract with non-governmental pension fund, the other plans are operated by the Group without engaging pension funds. The liability recognized in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustment for unrecognized actuarial gains and losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related pension liabilities.

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

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

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

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

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

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

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

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

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

Seasonality. Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to

(in thousands of Russian Roubles)

March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

Note 5. Related Parties

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

Parent

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

Transactions with the Parent's subsidiaries

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

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

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

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

State-controlled entities

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

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

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

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

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

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

(in thousands of Russian Roubles)

Transactions with key management and close family members

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

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the year ended 31 December 2006 was RR 53 687 thousand (for the year ended 31 December 2005 – RR 143 406 thousand).

Note 6. Property, plant and equipment

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

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

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

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

Impairment

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

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

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

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

1. Electricity tariffs in the regulated sector will be increased by 19.00%, 20.00%, 22.30% for the years ended 31 December 2008, 2009 and 2010, respectively;
2. Heat tariffs will be increased by 17.00%, 18.20%, 18.40% for the years ended 31 December 2008, 2009 and 2010, respectively;
3. Gas price will be increased by 25.00%, 27.70%, 27.70% for the years ended 31 December 2008, 2009 and 2010, respectively;
4. Growth of gas prices and other operating costs will be accounted for by the Regional Tariff Service in the course of establishing regulated electricity and heat tariffs on a “cost-plus” basis;
5. Inflation rate will not exceed 7.00% year;
6. Increase of major variable cost (except for fuel) will not exceed the inflation rate;
7. The pre-tax discount rate used to determine assets value in use is equal to 13.13% until 2009 year and 14.02% after 2009 year.

Gas price, heat tariffs and electricity tariffs (in the regulated sector) approved by respective regulators for the year ended 31 December 2007 indicates increases of 15.00%, 15.00% and 16.50%, respectively in comparison with the year ended 31 December 2006.

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

In respect of Pechorskaya SDPP, management believes this power plant will be unable to generate positive cash flow from the operations of its assets for the foreseeable future due to low installed capacity, a large portion of fixed costs, and limitations of the distribution market. As a consequence, the Group recognized an impairment loss of RR 50 million in respect of the property, plant and equipment of Pechorskaya SDPP with a corresponding deferred tax benefit of RR 12 million in the statement of operations for the year ended 31 December 2006.

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

(in thousands of Russian Roubles)

Operating leases

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

Non-cancelable operating lease rentals are payable as follows:

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

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

Note 7. Other non-current assets

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

Note 8. Inventories

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

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

Note 9. Accounts receivable and prepayments

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

(in thousands of Russian Roubles)

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

Note 10. Equity

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

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

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

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

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

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

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

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

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

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

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

(in thousands of Russian Roubles)

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

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

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

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

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

Note 11. Income tax

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

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

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

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

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

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

(in thousands of Russian Roubles)

Deferred tax liabilities

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

Deferred tax assets

	31 December 2005	Movement for the year recognized in the income statement	Movement for the year recognized in the Statement of Changes in Equity	31 December 2006
Property, plant and equipment	388 503	(388 503)	-	-
Accounts receivable including provision for impairment	183 829	(2 069)	-	181 760
Accounts payable	21 561	126 106	-	147 667
Inventories	255	60 693	-	60 948
Other	1 884	(1 884)	-	-
Total	**596 032**	**(205 657)**	-	**390 375**
Net deferred tax liabilities	**(181 464)**	**(1 356 192)**	**(8 097)**	**(1 545 753)**

Deferred tax liabilities

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

(in thousands of Russian Roubles)

Deferred tax assets

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

Note 12. Pension liabilities

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

Amounts recognized in the Consolidated Balance Sheet:

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

Amounts recognized in the Consolidated Statement of Operations:

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

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

(in thousands of Russian Roubles)

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

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

Principal actuarial estimations are as follows:

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

Reconciliation of the balance sheet:

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

Experience adjustments:

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

Sensitivity of Defined Benefit Obligation to changes in assumptions:

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

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

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

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

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

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

Note 14. Accounts payable and accruals

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

Note 15. Provision for liabilities and charges

Movements in provision for liability and charges are as follows:

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

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

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

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

(in thousands of Russian Roubles)

Note 16. Taxes payable

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

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

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

Note 17. Other operating income

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

(in thousands of Russian Roubles)

Note 18. Operating expenses

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

Employee benefits expenses comprise the following:

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

Note 19. Finance costs

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

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

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

Note 21. Restructured taxes and penalties liability.

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

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

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

Note 22. Commitments

Sales commitments. The Group's entities sell electricity on the two wholesale market sectors: free trading sector and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

The Group has entered into a number of annual electricity sales agreements with CJSC Center for Financial Settlements, CJSC INTER RAO UES, retail companies and large industrial customers.

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

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

Note 23. Contingencies

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

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

Legal proceedings. The Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding and not provided for which, upon final disposition, will have a material adverse effect on the financial position of the Group.

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

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

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

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

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

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

Note 24. Financial instruments and financial risks

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

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

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

Interest rate risk. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term borrowings; this information is disclosed in Note 13. The Group has no material interest-bearing assets.

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

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

Note 25. Post balance sheet events

Purchase of shares issued

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

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

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

Partial redemption of bonds in June 2007

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

EXHIBIT III — UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS — THE NORILSK GROUP

Below are the unaudited consolidated interim financial statements of the Norilsk Group for the six months ended June 30, 2007 prepared in accordance with IFRS.

Mining and Metallurgical Company Norilsk Nickel

Consolidated interim financial statements for the six months ended 30 June 2007 (unaudited)

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007

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MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities as stated in the independent auditors' report on review of interim financial statements set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated interim financial statements of Open Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated interim financial statements that present fairly the consolidated financial position of the Group at 30 June 2007, the results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated interim financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated interim financial statements; and
- preparing the consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated interim financial statements for the six months ended 30 June 2007 were approved by:

D. S. Morozov
General Director

I. A. Komarov
Deputy General Director

Moscow
30 September 2007

Deloitte.

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INDEPENDENT AUDITORS’ REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of Open Joint Stock Company “Mining and Metallurgical Company Norilsk Nickel”:

We have reviewed the accompanying consolidated interim balance sheet of Open Joint Stock Company “Mining and Metallurgical Company Norilsk Nickel” and its subsidiaries (the “Group”) as at 30 June 2007 and the related consolidated interim statements of income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2007, and of its financial performance and its cash flows for the six months then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Moscow
30 September 2007

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
US Dollars million

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Metal sales	7	**7,645**	**4,191**	**11,550**
Cost of metal sales	8	(1,805)	(1,375)	(3,158)
Gross profit on metal sales		**5,840**	**2,816**	**8,392**
Selling, general and administrative expenses	14	(668)	(472)	(1,090)
Other net operating expenses	15	(148)	(133)	(272)
Operating profit		**5,024**	**2,211**	**7,030**
Net finance (cost)/benefit	16	(52)	2	(21)
Net income/(loss) from investments	17	68	(368)	(199)
Share of profits/(losses) of associates	22	34	6	(33)
Profit before income tax		**5,074**	**1,851**	**6,777**
Income tax	18	(1,266)	(477)	(1,805)
Profit for the period from continuing operations		**3,808**	**1,374**	**4,972**
Profit for the period from discontinued operation	43	-	993	993
Profit for the period		**3,808**	**2,367**	**5,965**
Attributable to:				
Shareholders of the parent company		3,792	2,370	5,989
Minority interest		16	(3)	(24)
		3,808	**2,367**	**5,965**

EARNINGS PER SHARE

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Weighted average number of ordinary shares in issue during the period	28	181,417,913	188,750,738	188,767,177
Basic and diluted earnings per share from continuing and discontinued operations attributable to shareholders of the parent company (US Dollars)		20.9	12.6	31.7
Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent company (US Dollars)		20.9	7.3	26.5

CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2007 (UNAUDITED)
US Dollars million

	Notes	30 June 2007	30 June 2006	31 December 2006
ASSETS				
Non-current assets				
Property, plant and equipment	19	15,644	7,580	8,134
Goodwill	20	26	15	25
Intangible assets	21	60	42	48
Investments in associates	22	4,209	257	208
Investments in securities and other financial assets	23	2,539	1,170	2,615
Taxes receivable	24	50	118	44
Deferred tax assets	18	26	12	-
Pension plans assets	31	37	-	-
		22,591	**9,194**	**11,074**
Current assets				
Inventories	25	2,235	1,533	1,471
Trade and other receivables	26	1,249	502	850
Investments in securities and other financial assets	23	390	133	104
Taxes receivable	24	679	518	602
Cash and cash equivalents	27	7,573	1,061	2,178
		12,126	**3,747**	**5,205**
TOTAL ASSETS		**34,717**	**12,941**	**16,279**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	28	8	8	8
Share premium		611	610	611
Treasury shares	28	(999)	-	(999)
Other reserves	29	3,348	1,740	2,562
Retained earnings		13,540	7,415	10,635
Equity attributable to shareholders of the parent company		**16,508**	**9,773**	**12,817**
Minority interest		955	302	319
		17,463	**10,075**	**13,136**
Non-current liabilities				
Long-term borrowings	30	4,119	629	632
Employee benefit obligations	31	11	65	57
Environmental obligations	32	412	288	322
Derivative financial liabilities	35	82	-	-
Liabilities associated with acquisition of business from OM Group	5	74	-	-
Deferred tax liabilities	18	2,739	592	881
		7,437	**1,574**	**1,892**
Current liabilities				
Short-term borrowings	33	2,368	12	158
Current portion of employee benefit obligations	31	275	230	259
Current portion of environmental obligations	32	26	-	-
Trade and other payables	34	5,847	389	421
Taxes payable	24	412	242	393
Derivative financial liabilities	35	13	46	15
Dividends payable		856	373	5
Liabilities associated with acquisition of business from OM Group	5	20	-	-
		9,817	**1,292**	**1,251**
TOTAL EQUITY AND LIABILITIES		**34,717**	**12,941**	**16,279**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
US Dollars million

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Cash flows from operating activities			
Profit for the period	**3,808**	**2,367**	**5,965**
Adjustments for[1]:			
Income tax	1,266	489	1,817
Amortisation and depreciation	299	283	586
Interest expense	57	47	88
Change in provision for impairment of property, plant and equipment	12	(2)	87
Loss on disposal of property, plant and equipment	14	17	21
Change in allowance for promissory notes and loans advanced	5	79	83
Share of (profits)/losses of associates	(34)	(6)	33
Loss/(gain) on disposal of subsidiaries	18	(6)	(6)
Excess of interest in net assets acquired over consideration paid on increase of Group's share in a subsidiary	(9)	-	-
Interest income	(62)	(22)	(79)
Foreign exchange loss/(gain)	13	(31)	(32)
Gain on disposal of investments	-	(733)	(733)
Gain on disposal of associates	(6)	-	(117)
Other	2	(13)	(4)
Operating profit before working capital changes	**5,383**	**2,469**	**7,709**
Increase in inventories	(413)	(128)	(73)
Decrease/(increase) in trade and other receivables	22	56	(329)
(Increase)/decrease in taxes receivable	(2)	16	49
(Decrease)/increase in trade and other payables	(91)	(3)	82
(Decrease)/increase in employee benefit obligations	(77)	3	15
Decrease in taxes payable	(9)	(14)	(17)
Cash flows from operations	**4,813**	**2,399**	**7,436**
Interest paid	(34)	(37)	(63)
Income tax paid	(1,380)	(571)	(1,726)
Net cash generated from operating activities	**3,399**	**1,791**	**5,647**

[1] Adjustments are presented for continuing and discontinued operations on a combined basis

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
US Dollars million

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	72	-	(269)
Purchase of property, plant and equipment	(306)	(276)	(743)
Purchase of intangible assets	(15)	(17)	(27)
Proceeds from sale of property, plant and equipment	68	12	46
Acquisition of associates	(3,287)	(100)	(151)
Advance payment on acquisition of a subsidiary	-	(18)	-
Proceeds from disposal of associates	7	-	156
Purchase of securities and other financial assets	(215)	(149)	(865)
Proceeds from sale of securities and other financial assets	159	2,096	2,231
Net cash (used in)/generated from investing activities	**(3,517)**	**1,548**	**378**
Cash flows from financing activities			
Proceeds from short-term borrowings	3,918	296	573
Repayments of short-term borrowings	(1,900)	(902)	(1,055)
Proceeds from long-term borrowings	3,432	-	-
Repayments of long-term borrowings	(1)	(10)	(11)
Proceeds from increase in share capital of a special purpose entity	-	28	28
Buy back of issued shares	-	-	(999)
Acquisition of a special purpose entity	(50)	-	-
Cash distributed to shareholders on disposal of Polyus Group	-	(2,366)	(2,366)
Dividends paid	(1)	(305)	(1,079)
Net cash generated from/(used in) financing activities	**5,398**	**(3,259)**	**(4,909)**
Net increase in cash and cash equivalents	**5,280**	**80**	**1,116**
Cash and cash equivalents at beginning of the period	**2,178**	**922**	**922**
Effect of translation to presentation currency	115	59	140
Cash and cash equivalents at end of the period	**7,573**	**1,061**	**2,178**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
US Dollars million

	Notes	Equity attributable to shareholders of the parent company: Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 31 December 2005		**9**	**695**	**(1,457)**	**1,438**	**10,378**	**11,063**	**334**	**11,397**
Profit for the period		-	-	-	-	2,370	**2,370**	(3)	**2,367**
Dividends	36	-	-	-	-	(373)	**(373)**	-	**(373)**
Cancellation of treasury shares		(1)	(86)	1,457	(15)	(1,355)	**-**	-	**-**
Issuance of ordinary shares from treasury shares		-	1	-	-	-	**1**	(1)	**-**
Increase in fair value of available-for-sale investments		-	-	-	365	-	**365**	-	**365**
Realised gain on disposal of available-for-sale investments		-	-	-	(620)	7	**(613)**	-	**(613)**
Contribution to share capital of a special purpose entity		-	-	-	-	(17)	**(17)**	17	**-**
Net assets distributed to shareholders on disposal of Polyus Group	43	-	-	-	(103)	(3,595)	**(3,698)**	(31)	**(3,729)**
Loss on cash flow hedge		-	-	-	(46)	-	**(46)**	(21)	**(67)**
Translation of foreign operations		-	-	-	(18)	-	**(18)**	-	**(18)**
Effect of translation to presentation currency		-	-	-	739	-	**739**	7	**746**
Balance at 30 June 2006		**8**	**610**	**-**	**1,740**	**7,415**	**9,773**	**302**	**10,075**
Profit for the period		-	-	-	-	3,619	**3,619**	(21)	**3,598**
Dividends	36	-	-	-	-	(399)	**(399)**	-	**(399)**
Issuance of ordinary shares from treasury shares		-	1	-	-	-	**1**	(1)	**-**
Increase in fair value of available-for-sale investments		-	-	-	555	-	**555**	-	**555**
Buy back of issued shares		-	-	(999)	-	-	**(999)**	-	**(999)**
Gain on cash flow hedge		-	-	-	31	-	**31**	14	**45**
Translation of foreign operations		-	-	-	(37)	-	**(37)**	-	**(37)**
Effect of translation to presentation currency		-	-	-	273	-	**273**	25	**298**
Balance at 31 December 2006		**8**	**611**	**(999)**	**2,562**	**10,635**	**12,817**	**319**	**13,136**
Profit for the period		-	-	-	-	3,792	**3,792**	16	**3,808**
Dividends	36	-	-	-	-	(842)	**(842)**	-	**(842)**
Increase in fair value of available-for-sale investments		-	-	-	539	-	**539**	-	**539**
Acquisition of a special purpose entity		-	-	-	-	(50)	**(50)**	-	**(50)**
Decrease in minority interest due to increase of Group's share in subsidiary	5	-	-	-	-	-	**-**	(10)	**(10)**
Minority interest in subsidiaries acquired during the period	5	-	-	-	-	-	**-**	623	**623**
Transfer to retained earnings on disposal of subsidiaries		-	-	-	(5)	5	**-**	-	**-**
Loss on cash flow hedge		-	-	-	(14)	-	**(14)**	-	**(14)**
Translation of foreign operations		-	-	-	(9)	-	**(9)**	-	**(9)**
Effect of translation to presentation currency		-	-	-	275	-	**275**	7	**282**
Balance at 30 June 2007		**8**	**611**	**(999)**	**3,348**	**13,540**	**16,508**	**955**	**17,463**

1. GENERAL

Organisation

Open Joint Stock Company “Mining and Metallurgical Company Norilsk Nickel” (the “Company” or “MMC Norilsk Nickel”) was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the “Group” or “Norilsk Group”) are exploration, extraction, production and sale of base and precious metals. Further details regarding the nature of the business and structure of the Group are presented in note 45.

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation, Australia, Botswana, USA (Montana), Finland and South Africa. The registered office of the Company is located at 22, Voznesensky pereulok, Moscow, Russian Federation.

Shareholding structure of the Group is as follows:

	30 June 2007		31 December 2006	
Shareholders	**Number of shares**	**% held**	**Number of shares**	**% held**
CJSC “ING Bank (Eurasia)” (nominee)	81,349,427	44.84%	80,209,132	44.21%
OJSC AKB “Rosbank” (nominee)	62,217,695	34.30%	46,386,181	25.57%
CJSC “Depository Clearing Company”	15,298,114	8.43%	12,547,555	6.92%
Non-for-profit Partnership “National Depository Centre”	9,180,300	5.06%	10,713,585	5.91%
Dimosenco Holdings Co. Limited	-	-	6,920,313	3.81%
Pharanco Holdings Co. Limited	-	-	6,920,313	3.81%
J.P. Morgan Bank International Limited	2,424,825	1.34%	-	-
Other, less than 5%	10,947,552	6.03%	17,720,834	9.77%
Total	**181,417,913**	**100.00%**	**181,417,913**	**100.00%**

The principal beneficial shareholders of the Group are Mr. Vladimir O. Potanin and Mr. Mikhail D. Prokhorov.

Statement of compliance

The consolidated interim financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS include standards and interpretations approved by the International Accounting Standards Board (“IASB”), including International Accounting Standards (“IAS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. Accounting principles in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated interim financial statements are presented in accordance with IFRS.

The consolidated interim financial statements of the Group are prepared on the historical cost basis, except for:

- fair value of subsidiaries acquired, in accordance with IFRS 3 "Business Combinations";
- mark-to-market valuation of by-products, in accordance with IAS 2 "Inventories"; and
- mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

The impact of adoption of new or revised standards and interpretations issued by IASB and IFRIC in the preparation of the consolidated financial statements in future periods is currently being assessed by management. No material effect on the Group's accounting policies is anticipated, however, adoption of IFRS 7 "Financial Instruments: Disclosures" will require more comprehensive disclosure of the Group's financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in preparation of the consolidated interim financial statements are consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2006.

Basis of consolidation

Subsidiaries

The consolidated interim financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the parent company, except to the extent that the minority has binding obligations and is able to make an additional investment to cover the losses.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted for based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

Special purpose entities

Special purpose entities ("SPEs") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or is exposed to risks associated with the activities of the SPE.

SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

Accounting for acquisitions

Where an investment in a subsidiary or an associate is made, any excess of the purchase consideration over the fair value of the identifiable assets, liabilities, contingent liabilities and attributable ore reserves at the date of acquisition is recognised as goodwill. Goodwill in respect of mining subsidiaries, which represents mineral resources, is amortised on a systematic basis to recognise the depletion of the resources over the life of mine.

Goodwill in respect of non-mining subsidiaries is disclosed separately and goodwill relating to associates is included within the carrying value of the investment in associates.

Goodwill is reviewed for impairment at least annually and if impairment has occurred, it is recognised in the income statement during the period in which the circumstances are identified and is not subsequently reversed.

On disposal of a subsidiary or an associate the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where an investment in a subsidiary or an associate is made, any excess of the Group's share in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is recognised in the income statement immediately.

Functional and presentation currency

The individual financial statements of each group entity are presented in its functional currency.

It was determined that the Russian Rouble ("RUR") is the functional currency of the Company and all foreign subsidiaries of the Group, except for Stillwater Mining Company, Norilsk Nickel Harjavalta Oy, Norilsk Nickel Finland Oy, LionOre Mining International Limited, Norilsk Nickel Cawse Proprietary Limited and MPI Nickel Proprietary Limited. These entities have a significant degree of autonomy and use the functional currencies of the economies in which they operate, US Dollar ("USD" or "US Dollar"), Botswana Pula ("BWP"), South African Rand ("ZAR") and Australian Dollar ("AUD" or "AU Dollar"), respectively.

The presentation currency of the consolidated interim financial statements is the United States of America Dollar. Using USD as a presentation currency is common practice for global mining companies. In addition, USD is a more relevant presentation currency for international users of the consolidated interim financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each balance sheet presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognised as a separate component in equity.

The RUR is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUR denominated assets and liabilities into USD for the purpose of this consolidated interim financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Exchange rates were as follows (RUR to 1 US Dollar):

	30 June 2007	30 June 2006	31 December 2006
Period-end rates	25.8162	27.0789	26.3311
Average for the period	26.0827	27.6799	27.1852

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing at the date of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing at the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing at the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the income statement.

Property, plant and equipment

Mining assets

Mining assets are recorded at cost less accumulated amortisation and impairment losses. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and mining and exploration licenses and the present value of future decommissioning costs. Amortisation of mining assets is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

Mineral rights, mineral resources and reserves

Mineral rights, mineral resources and reserves are recorded as assets when acquired as part of a business combination and are then amortised on a straight-line basis over the life of mine, which is based on estimated proven and probable ore reserves. Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits.

Mine development costs

Mine development costs are recorded as capital construction-in-progress and transferred to mining property, plant and equipment when a new mine reaches commercial production quantities.

Capitalised mine development costs include expenditures incurred in:

- acquiring mineral rights and mining and exploration licenses;
- developing new mining operations;
- defining further mineralisation in existing ore bodies; and
- expanding the capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings, and the present value of future decommissioning costs.

Mine development costs are amortised on a straight-line basis over the lives of mines varying from 7 to 40 years.

Mine infrastructure

Processing plant and equipment are recorded at cost and amortised on a straight-line basis over the lesser of their economic useful lives or the life of mine, varying from 5 to 40 years.

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of these assets at the following annual rates:

- buildings and equipment 2% to 10%;
- motor vehicles 9% to 25%;
- office equipment 10% to 20%.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor.

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalised during the development and construction periods where such costs are financed by borrowings. Amortisation or depreciation of these assets commences when the assets are put into production.

Intangible assets, excluding goodwill

Intangible assets are reported at cost less accumulated amortisation and impairment losses. Intangible assets mainly include software, patents and licenses. Amortisation is charged on a straight-line basis over the economic useful lives of these assets at the following annual rates:

- software 33% to 50%;
- patents and licenses 5% to 50%.

Impairment of tangible and intangible assets, excluding goodwill

An impairment review of tangible and intangible assets is carried out when there is an indication that those assets have suffered an impairment loss by comparing the carrying amount of the assets to their respective recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

Research and exploration expenditure

Research and exploration expenditure, including geophysical, topographical, geological and similar types of expenditure, is expensed in the period in which it is incurred, unless it is deemed that such expenditure will lead to an economically viable capital project. In this case the expenditure is capitalised and amortised over the life of mine, when a mine reaches commercial production quantities.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

Inventories

Refined metals

Joint products, i.e. nickel, copper, palladium, platinum and gold, are measured at the lower of net cost of production on the average basis, or net realisable value. The net cost of production per unit of a joint product is determined by dividing the total production cost, less net revenue from sales of by-products and valuation of by-product inventories on hand, allocated in the ratio of the contribution of these joint products to total relative sales value, by the saleable mine output of a joint product.

Production costs include on-mine and concentrating costs, smelting costs, treatment and refining costs, other cash costs and amortisation and depreciation of operating assets.

By-products, i.e. cobalt, ruthenium, rhodium, iridium, silver and other minor metals, are measured at net realisable value, through a mark-to-market valuation.

Work-in-process

Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

Stores and materials

Stores and materials consist of consumable stores and are valued at the weighted average cost less allowance for obsolete and slow-moving items.

Financial instruments

Financial instruments recognised on the Group's balance sheet include investments, trade and other receivables, borrowings, trade and other payables and derivative financial instruments. Financial instruments are initially measured at cost, including transaction costs, when the Group has become a party to the contractual arrangement of the instrument. The subsequent measurement of financial instruments is dealt with below.

A financial instrument or a portion of a financial instrument is derecognised, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument.

On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the income statement.

On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in the income statement.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments over the expected life of the financial asset or liability.

Investments

Investments, other than investments in subsidiaries and associates, are initially measured at fair value on a trade date basis, including directly attributable transaction costs.

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit and loss; and
- available-for-sale.

The classification depends on the nature and purpose of the investments and is determined at the time of initial recognition.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest rate method less any allowance for impairment.

Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the balance sheet date.

Investments at fair value through profit and loss include investments held for trading and investments that are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit and loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss is recognised in the income statement for the period. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in equity through the statement of changes in equity, until such investments are derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts, calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition, are recognised in the income statement when there is the objective evidence the asset is impaired.

Borrowings

Loans and borrowings are initially measured at fair value, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premium on settlement.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to manage its exposure to the risk of changes in metal prices.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as a cash flow hedge.

The effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges is recognised directly in equity. The ineffective portion of cash flow hedges is recognised in profit or loss. When a hedging instrument is expired or sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity is transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

Defined contribution plans

The Group contributes to the following defined contribution plans:

- Pension fund of the Russian Federation;
- Stillwater Mining Company savings plan; and
- Corporate pension option program.

The only obligation of the Group with respect to these defined contribution plans is to make the specified contributions in the period in which they arise. These contributions are expensed as incurred.

Defined benefit plans

The Group operates a number of funded defined benefit plans for its employees. At management's discretion and within the established annual budgets, the Group admits employees, who have met certain criteria, into one of the following retirement benefit plans:

- *Six pensions plan,* whereby a retired employee receives a monthly allowance equal to 600% of the Russian Federation state pension for the immediate two years subsequent to retirement; or
- *Lifelong professional pension plan,* whereby a retired employee receives a monthly allowance equal to 200% of the Russian Federation state pension for the rest of his/her life; or
- *Joint corporate pension plan,* whereby a retired employee receives a monthly allowance equal to 1/150th of the total Starting and Counter capital for the rest of his/her life. Starting capital is determined on an individual basis taking into account seniority, salary level, etc. The Counter capital consists of a contribution funded by the Group of 3% of salaries paid to an employee during the period of participation in the plan.

In addition, the Group operates the *Mother's rights program*, whereby a qualified mother with a child between the ages of three and seven receives a monthly benefit equal to her average salary, but limited to 150% of minimum basic salary.

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with an actuarial valuation being carried out on a regular basis. Actuarial gains and losses that exceed 10% of the present value of the Group's defined benefit obligation are amortised over the expected average remaining lives of the participating employees. Past service cost is recognised immediately in the income statement to the extent that the benefits are already vested, and otherwise amortised on the straight-line basis over the average period until the benefit becomes vested.

The Group's obligation in respect of these defined benefit plans relating to post employment benefits is recognised in the balance sheet and represents the present value of the defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs.

Income tax

Income tax on the profit or loss for the period comprises current and deferred taxation.

Current tax is the tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred taxation is calculated at rates that are expected to apply to the period when the asset is realised or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case deferred taxation is also dealt with in equity.

Government grants

Government grants related to assets are deducted from the cost of these assets in arriving at their carrying value.

Revenue recognition

Revenue consists of the sale of joint product metals, and is recognised when the risks and rewards of ownership are transferred to the buyer. Metal sales revenue represents the net invoiced value of all joint products shipped to customers, net of value-added tax. Revenues from the sale of by-products are netted-off against production costs.

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception, and are expected to be settled by physical delivery, are recognised in the consolidated financial statements as and when they are delivered.

Segmental information

The Group predominantly operates in a single business segment, being exploration, extraction, production and sale of base and precious metals. Reportable segments are based on the geographic location of the Group's operations, which are the Russian Federation, North America, Australia, Africa and Europe.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Interest on borrowings

Interest on borrowings relating to major qualifying capital projects under construction is capitalised during the construction period in which they are incurred. Once a qualifying capital project has been fully commissioned, the associated interest is expensed in the income statement as and when incurred.

Interest relating to operating activities is expensed in the income statement as and when incurred.

Operating lease payments

Payments made under operating leases are recognised in the income statement in the period in which they are due in accordance with lease terms. Lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases.

Dividends declared

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

Future decommissioning costs, discounted to net present value, are capitalised and the corresponding decommissioning obligations raised as soon as the constructive obligation to incur such costs arises and the future decommissioning cost can be reliably estimated. Decommissioning assets are amortised on a straight-line basis over the life of mine. The unwinding of the decommissioning obligations is included in the income statement. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary.

Provision for land restoration, representing the cost of restoring land damage after the commencement of commercial production, is estimated at net present value of the expenditures expected to settle the obligation. Increases in provision are charged to the income statement as a cost of production.
The unwinding of restoration costs are expensed over the life of mine.

Ongoing rehabilitation costs are expensed when incurred.

Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale or other type of disposal at the balance sheet date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

Comparative information related to the discontinued operations is amended in the income statement for the prior period.

Assets and liabilities of a disposal group are presented in the balance sheet separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the balance sheet for the prior period.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving raw materials and spare parts;
- environmental obligations;
- employee benefit obligations;
- tax matters; and
- contingencies.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect the estimation of the life of mine include the following:

- changes in proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation and classification of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates could possibly adversely affect the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value. Non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of the assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of the underlying cash flows within the value-in-use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimate on the current overall economic conditions, the ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated interim financial statements.

The Group creates an allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Employee benefits

The expected costs of providing pensions and post-retirement benefits under defined benefit arrangements and related employee current service cost during the period are charged to the income statement.

Assumptions in respect of the expected costs are set after consultation with actuaries. While management believes the assumptions used are appropriate, a change in the assumptions used could impact the results of the Group's operations.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

US Dollars million

4. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated interim financial statements and annual financial statements for the periods ended 30 June 2006 and 31 December 2006 respectively, has been reclassified.

The effect of the reclassifications of the consolidated income statement for the six months ended 30 June 2006 is summarised below:

	After reclassifications	Before reclassifications	Difference
Other net operating expenses	(133)	(39)	(94)
Other non-operating expenses	-	(51)	51
Net loss from investments	(368)	(356)	(12)
Share of profits of associates	6	-	6
Net finance benefit/(cost)	2	(47)	49
			-

Management has chosen to present loss on disposal of investments in subsidiaries, previously presented within net loss from investments, donations and expenditures on maintenance of social sphere facilities, previously presented within other non-operating expenses, within net operating expenses.

In addition, all exchange differences related to financing activities were reclassified to net finance benefit/(cost).

In previous reporting periods share of profits of associates was not presented separately in the consolidated income statement, but included in net income/(loss) from investments. Commencing 2007 it is presented separately in consolidated income statement.

The effect of the reclassifications of the consolidated balance sheet as at 30 June 2006 is summarised below:

Non-current assets			
Goodwill	15	-	15
Intangible assets	42	-	42
Taxes receivable	118	-	118
Other non-current assets	-	175	(175)
			-
Current assets			
Trade and other receivables	502	462	40
Taxes receivable	518	-	518
Other current assets	-	558	(558)
			-

US Dollars million

In previous reporting periods intangible assets, goodwill and taxes receivable were not presented separately in the consolidated balance sheet, but included in other non-current and current assets. Commencing 2007 these balances will be presented separately in consolidated balance sheet.

	After reclassifications	Before reclassifications	Difference
Capital and reserves			
Share capital	8	9	(1)
Share premium	610	1	609
Other reserves	1,740	-	1,740
Investments revaluation reserve	-	458	(458)
Hedging reserve	-	(46)	46
Retained earnings	7,415	9,351	(1,936)
			-

Management decided to change the presentation of exchange differences arising on translation of consolidated financial statements from functional to presentation currency in order to better comply with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates". All exchange differences resulting from such translation have now been presented as a separate component in the statement of changes in equity starting from 2006.

Commencing 2007 management has made a decision to present investments revaluation reserve, hedging reserve and translation reserve on a combined basis as other reserves.

The effect of the reclassifications of consolidated income statement for the year ended 31 December 2006 is summarised below:

Net loss from investments	(199)	(226)	27
Share of losses of associates	(33)	-	(33)
Other net operating expenses	(272)	(278)	6
			-

In previous reporting periods share of losses of associates was not presented separately in the consolidated income statement, but included in net loss from investments. Commencing 2007 it is presented separately in consolidated income statement.

Management has chosen to present gain on disposal of investments in subsidiaries, previously presented within net loss from investments, within net operating expenses.

US Dollars million

The effect of the reclassifications of consolidated balance sheet as at 31 December 2006 is summarised below:

	After reclassifications	Before reclassifications	Difference
Non-current assets			
Goodwill	25	-	25
Intangible assets	48	73	(25)
Taxes receivable	44	-	44
Other non-current assets	-	44	(44)
			-
Current assets			
Trade and other receivables	850	745	105
Taxes receivable	602	-	602
Other current assets	-	707	(707)
			-

In previous reporting periods intangible assets, goodwill and taxes receivable were not presented separately in the consolidated balance sheet, but included in other non-current and current assets. Commencing 2007 these balances will be presented in the separate notes.

Capital and reserves			
Other reserves	2,562	-	2,562
Investments revaluation reserve	-	997	(997)
Hedging reserve	-	(15)	15
Translation reserve	-	1,580	(1,580)
			-

Commencing 2007 management has chosen to present investments revaluation reserve, hedging reserve and translation reserve on a combined basis as other reserves.

Other reclassifications of comparative information, individually or in aggregate, were not material to the consolidated interim financial statements of the Group.

US Dollars million

5. BUSINESS COMBINATIONS AND INCREASE OF OWNERSHIP IN SUBSIDIARIES

Acquisitions of controlling interests

Subsidiaries acquired	Principal activity	Date of acquisition	Shareholding	Cost of acquisitions
Six months ended 30 June 2007				
OMG Harjavalta Nickel Oy and OMG Cawse Proprietary Limited	Mining and metallurgy	1 March 2007	100.0%	408
LionOre Mining International Limited	Mining	28 June 2007	90.7%	5,233
				5,641
Six months ended 30 June 2006				
LLC “Nortrans”	Transportation	13 June 2006	100.0%	1
				1
Six months ended 31 December 2006				
LLC “Astron”	Telecommunications	20 July 2006	71.0%	1
LLC “Astron-S”	Telecommunications	20 July 2006	71.0%	1
OJSC “Taimyrenergo”	Lessor of equipment	31 July 2006	100.0%	271
LLC “Zapolyarnyi Torgovyi Alians”	Retail	1 November 2006	100.0%	-
				273

Acquisitions during six months ended 30 June 2007

Acquisition of OMG Harjavalta Nickel Oy and OMG Cawse Proprietary Limited

On 1 March 2007 the Group acquired 100% of the ordinary shares of OMG Harjavalta Nickel Oy (“OMG Harjavalta”), a company engaged in nickel refining operations in Finland, and OMG Cawse Proprietary Limited (“OMG Cawse”), a company engaged in nickel mining and processing operations in Australia, for a consideration of USD 408 million.

The initial accounting for the acquisition of OMG Harjavalta and OMG Cawse has been provisionally determined at 1 March 2007.

	Provisional values at the date of acquisition
ASSETS	
Property, plant and equipment	122
Inventories	202
Trade and other receivables	225
Investments in securities and other financial assets	60
Cash and cash equivalents	7
	616

	Provisional values at the date of acquisition
LIABILITIES	
Employee benefit obligations	5
Environmental obligations	4
Deferred tax liabilities	21
Trade and other payables	124
Taxes payable	54
	208
Group's share of net assets acquired	**408**
Total consideration	**408**
Satisfied by cash	(371)
Satisfied by supply agreements	(36)
Costs associated with acquisition	(1)
Net cash outflow arising on acquisition:	
Cash consideration	(372)
Cash and cash equivalents acquired	7
Net cash outflow on acquisition	**(365)**

OMG Harjavalta contributed USD 418 million of revenue and USD 151 million of profit before income tax from the date of acquisition to 30 June 2007.

OMG Cawse contributed USD 57 million of revenue and USD 29 million of profit before income tax from the date of acquisition to 30 June 2007.

In the preparation of consolidated interim financial statements for the six months ended 30 June 2007, the excess of purchase consideration paid over the Group's share of net assets of OMG Harjavalta and OMG Cawse was provisionally accounted for as mineral rights and resources together with the attributable deferred tax liabilities amounting to USD 13 million and USD 4 million, respectively.

As a part of the acquisition, the Group entered into five-years supply agreements with OM Group Incorporated (former controlling shareholder of OMG Harjavalta and OMG Cawse).

At 1 March 2007 the value of the above agreements was determined provisionally in the amount of USD 96 million. At 30 June 2007 the liabilities under these contracts amounted to USD 94 million.

Acquisition of LionOre Mining International Limited

On 28 June 2007 the Group acquired 90.7% of the voting shares of LionOre Mining International Limited ("LionOre"), an international nickel producer with operations in Australia, South Africa and Botswana for a cash consideration of USD 5,233 million.

The initial accounting for the acquisition of LionOre has been provisionally determined at 30 June 2007.

US Dollars million

	Provisional values at the date of acquisition
ASSETS	
Property, plant and equipment	7,380
Intangible assets (refer to note 21)	6
Investments in associates (refer to note 22)	59
Investments in securities and other financial assets	37
Inventories	117
Trade and other receivables	258
Cash and cash equivalents	438
	8,295
LIABILITIES	
Borrowings	237
Employee benefit obligations	10
Environmental obligations	94
Derivative financial liabilities	80
Deferred tax liabilities	1,642
Trade and other payables	112
Taxes payable	67
	2,242
Net assets at the date of acquisition	**6,053**
Less: Share of net assets attributable to minority shareholders	(623)
Group's share of net assets acquired	**5,430**
Less: Pre-acquisition amount invested in subsidiary	(197)
Total consideration	**5,233**
Deferred cash consideration (refer to note 34)	(5,230)
Deferred costs associated with acquisition (refer to note 34)	(3)
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	438
Net cash inflow on acquisition	**438**

The acquisition was accounted for as if it had taken place at 30 June 2007. Thus acquisition of LionOre did not affect operating results of the Group for the six months ended 30 June 2007.

In the preparation of consolidated interim financial statements for the six months ended 30 June 2007, the excess of purchase consideration paid over the Group's share of net assets of LionOre was provisionally accounted for as mineral rights and resources together with the attributable deferred tax liabilities amounting to USD 6,464 million and USD 1,464 million, respectively.

Increase of ownership in subsidiaries

OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya"

On 7 May 2007 the Group acquired an additional 49% of interest in OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya" ("NTEK") for a cash consideration of USD 1 million, increasing its ownership to 100%. The carrying value of NTEK net assets in the consolidated interim financial statements on the date of increase of ownership was USD 20 million. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of USD 10 million. Excess of the Group's share in net assets acquired over consideration paid in the amount of USD 9 million was recognised in the consolidated income statement within other net operating expenses (refer to note 15).

OJSC "RAO "Norilsk Nickel"

As part of restructuring of the Group that took place in 2001 – 2002 shareholders of OJSC "RAO "Norilsk Nickel", a subsidiary of the Group, were entitled during certain periods to swap their shares for shares in OJSC "MMC "Norilsk Nickel". The Group used treasury shares to effect the swaps. At 30 June 2007 this resulted in a decrease in minority of USD nil million (30 June 2006: USD 1 million; 31 December 2006: USD 2 million) with a corresponding increase in share premium.

Acquisitions during the year ended 31 December 2006

Acquisition of OJSC "Taimyrenergo"

On 31 July 2006 the Group acquired for a cash consideration of USD 271 million 100% of the ordinary shares of OJSC "Taimyrenergo" ("Taimyrenergo"). This is an unlisted company (previously a wholly owned subsidiary of RAO "UES of Russia") located in Snezhnogorsk and Svetlogorsk of the Krasnoyarsk Kray which primary business activities include generation and distribution of electricity in the Norilsk production area.

On 19 June 2006 the Group made an advance payment of USD 18 million for participation in the open auction. This advance payment was added to the amount of the consideration paid for Taimyrenergo.

	Fair values at the date of acquisition
ASSETS	
Property, plant and equipment	313
Inventories	2
Trade and other receivables	10
Cash and cash equivalents	4
	329
LIABILITIES	
Borrowings	5
Deferred tax liabilities (refer to note 18)	57
Trade and other payables	6
	68
Group's share of net assets acquired	**261**
Add: Goodwill arising on acquisition (refer to note 20)	10
Total consideration	**271**
Satisfied by cash	(271)
Net cash outflow arising on acquisition:	
Cash consideration	(271)
Cash and cash equivalents acquired	4
Net cash outflow on acquisition	**(267)**

Taimyrenergo contributed USD nil million of revenue and USD 6 million of loss before income tax from the date of acquisition to 31 December 2006.

Goodwill arose on acquisition as the cost of the controlling premium paid to acquire Taimyrenergo. Purchase consideration included an amount paid for the expected synergy benefits, control over cost escalations, utility independence from a monopoly supplier and access to unique hydro-generating utility facilities, located in Taimyr Peninsula.

US Dollars million

6. SEGMENTAL INFORMATION

Financial information relating to the Group's consolidated segments is as follows:

	Corporate and other	Taimyr peninsula	Kola peninsula	Subtotal Russian Federation	North America	Europe	Africa	Australia	Total
Six months ended 30 June 2007									
Metal sales	**-**	**6,038**	**815**	**6,853**	**257**	**478**	**-**	**57**	**7,645**
Third party transactions	-	562	124	**686**	257	6,702	-	-	**7,645**
Intra-segment transactions	-	5,476	691	**6,167**	-	(6,224)	-	57	**-**
Operating (loss)/profit	(347)	4,300	581	**4,534**	(3)	462	-	31	**5,024**
Interest income	34	9	1	**44**	6	12	-	-	**62**
Net finance cost	17	11	2	**30**	6	16	-	-	**52**
Share of profits of associates	9	14	-	**23**	-	11	-	-	**34**
(Loss)/profit before income tax	(298)	4,311	580	**4,593**	(3)	453	-	31	**5,074**
Significant non-cash items									
Amortisation and depreciation	12	240	37	**289**	6	7	-	1	**303**
Other non-cash expenses	10	5	-	**15**	2	1	-	-	**18**
Capital expenditures	**53**	**231**	**44**	**328**	**8**	**4**	**-**	**1**	**341**
Carrying value of assets/liabilities									
Property, plant and equipment	268	6,625	741	**7,634**	470	441	4,985	2,114	**15,644**
Investments in associates	873	3,157	8	**4,038**	-	112	59	-	**4,209**
Net operating assets	(2,599)	1,735	186	**(678)**	150	2,409	379	49	**2,309**
Total assets	3,858	12,325	1,151	**17,334**	969	8,118	5,490	2,806	**34,717**
Total liabilities	6,558	1,986	191	**8,735**	250	6,024	1,172	1,073	**17,254**

US Dollars million

	Corporate and other	Taimyr peninsula	Kola peninsula	Subtotal Russian Federation	North America	Europe	Total
Six months ended 30 June 2006							
Metal sales	**-**	**3,628**	**365**	**3,993**	**198**	**-**	**4,191**
Third party transactions	-	475	61	**536**	198	3,457	**4,191**
Intra-segment transactions	-	3,153	304	**3,457**	-	(3,457)	**-**
Operating (loss)/profit	(123)	1,964	156	**1,997**	6	208	**2,211**
Interest income	6	-	2	**8**	5	9	**22**
Net finance (benefit)/cost	(9)	10	2	**3**	6	(11)	**(2)**
Share of profits/(losses) of associates	8	-	-	**8**	-	(2)	**6**
(Loss)/profit before taxation	(487)	1,955	155	**1,623**	1	227	**1,851**
Significant non-cash items							
Amortisation and depreciation	9	225	37	**271**	4	8	**283**
Other non-cash expenses	69	41	38	**148**	-	-	**148**
Capital expenditures	**36**	**220**	**37**	**293**	**10**	**38**	**341**
Carrying value of assets/liabilities							
Property, plant and equipment	197	6,139	696	**7,032**	467	81	**7,580**
Investments in associates	108	1	-	**109**	-	148	**257**
Net operating assets	305	1,162	205	**1,672**	150	633	**2,455**
Total assets	2,219	7,969	962	**11,150**	733	1,058	**12,941**
Total liabilities	536	1,374	144	**2,054**	260	552	**2,866**

US Dollars million

	Corporate and other	Taimyr peninsula	Kola peninsula	Subtotal Russian Federation	North America	Europe	Total
Year ended 31 December 2006							
Metal sales	**-**	**10,046**	**980**	**11,026**	**524**	**-**	**11,550**
Third party transactions	-	1,270	148	**1,418**	524	9,608	**11,550**
Intra-segment transactions	-	8,776	832	**9,608**	-	(9,608)	**-**
Operating (loss)/profit	(406)	6,137	564	**6,295**	3	732	**7,030**
Interest income	43	4	3	**50**	11	13	**74**
Net finance cost/(benefit)	11	22	5	**38**	11	(28)	**21**
Share of profits/(losses) of associates	5	-	-	**5**	-	(38)	**(33)**
(Loss)/profit before income tax	(643)	6,119	562	**6,038**	2	737	**6,777**
Significant non-cash items							
Amortisation and depreciation	18	470	77	**565**	8	17	**590**
Other non-cash expense	96	139	9	**244**	(4)	2	**242**
Capital expenditures	**77**	**572**	**79**	**728**	**28**	**40**	**796**
Carrying value of assets/liabilities							
Property, plant and equipment	327	6,531	722	**7,580**	474	80	**8,134**
Investments in associates	85	1	10	**96**	-	112	**208**
Net operating assets	1,119	1,129	233	**2,481**	177	1,296	**3,954**
Total assets	4,245	8,528	1,079	**13,852**	754	1,673	**16,279**
Total liabilities	414	1,814	166	**2,394**	241	508	**3,143**

US Dollars million

7. METAL SALES

	Total	Nickel	Copper	Palladium	Platinum	Gold
Six months ended 30 June 2007						
By origin						
Russian Federation						
Taimyr Peninsula	**6,038**	3,989	1,097	536	376	40
Kola Peninsula	**815**	743	65	1	5	1
Europe	**478**	454	11	13	-	-
United States of America	**257**	11	1	110	131	4
Australia	**57**	57	-	-	-	-
	7,645	**5,254**	**1,174**	**660**	**512**	**45**
By destination						
Europe	**4,922**	3,601	882	239	189	11
Asia	**1,194**	981	-	121	92	-
North America	**972**	510	1	280	167	14
Russian Federation	**508**	113	291	20	64	20
Australia	**43**	43	-	-	-	-
South America	**6**	6	-	-	-	-
	7,645	**5,254**	**1,174**	**660**	**512**	**45**
Six months ended 30 June 2006						
By origin						
Russian Federation						
Taimyr Peninsula	**3,628**	1,745	1,025	462	360	36
Kola Peninsula	**365**	281	70	9	4	1
United States of America	**198**	-	-	88	110	-
	4,191	**2,026**	**1,095**	**559**	**474**	**37**
By destination						
Europe	**2,539**	1,294	841	159	220	25
Asia	**644**	455	-	144	45	-
North America	**684**	253	7	256	168	-
Russian Federation	**324**	24	247	-	41	12
	4,191	**2,026**	**1,095**	**559**	**474**	**37**
Year ended 31 December 2006						
By origin						
Russian Federation						
Taimyr Peninsula	**10,046**	5,398	2,699	1,018	841	90
Kola Peninsula	**980**	814	139	15	9	3
United States of America	**524**	16	3	232	266	7
	11,550	**6,228**	**2,841**	**1,265**	**1,116**	**100**
By destination						
Europe	**6,846**	3,939	2,016	341	506	44
Asia	**1,903**	1,497	-	309	97	-
North America	**1,820**	690	84	613	412	21
Russian Federation	**981**	102	741	2	101	35
	11,550	**6,228**	**2,841**	**1,265**	**1,116**	**100**

US Dollars million

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006

8. COST OF METAL SALES

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Cash operating costs			
On-mine and concentrating costs (refer to note 9)	802	710	1,454
Smelting costs (refer to note 10)	524	408	915
Treatment and refining costs (refer to note 11)	586	219	453
Other costs (refer to note 12)	344	193	388
Sales of by-products	(395)	(271)	(672)
Total cash operating costs	**1,861**	**1,259**	**2,538**
Amortisation and depreciation of operating assets (refer to note 13)	273	270	568
(Increase)/decrease in metal inventories	(329)	(154)	52
Total	**1,805**	**1,375**	**3,158**

9. ON-MINE AND CONCENTRATING COSTS

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Labour	380	318	648
Consumables and spares	256	233	464
Repair and maintenance	53	48	109
Insurance	23	30	51
Utilities	22	16	31
Tailing pile maintenance and relocation	14	16	35
Transportation	12	10	35
Rent expenses	8	4	17
Sundry on-mine and concentrating costs	34	35	64
Total (refer to note 8)	**802**	**710**	**1,454**

10. SMELTING COSTS

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Platinum group scrap metals purchased	160	114	268
Labour	152	114	245
Consumables and spares	117	112	223
Insurance	35	24	70
Repairs and maintenance	23	17	45
Utilities	15	15	28
External tolling	9	-	-
Transportation	5	5	13
Rent expenses	3	1	7
Non-ferrous scrap metal purchased	-	4	5
Sundry smelting costs	5	2	11
Total (refer to note 8)	**524**	**408**	**915**

US Dollars million

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006

11. TREATMENT AND REFINING COSTS

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Purchase of concentrate	303	-	-
Labour	104	80	167
Consumables and spares	80	73	146
Platinum group metals toll refining cost	44	40	77
Utilities	21	8	18
Repairs and maintenance	13	5	14
Insurance	9	8	17
Transportation	2	2	5
Rent expenses	1	1	3
Sundry treatment and refining costs	9	2	6
Total (refer to note 8)	**586**	**219**	**453**

12. OTHER COSTS

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Cost of refined metals purchased from third parties	98	28	28
Exploration expenses	82	18	49
Tax on mining and pollution levies	78	62	127
Transportation	73	61	143
Other	13	24	41
Total (refer to note 8)	**344**	**193**	**388**

13. AMORTISATION AND DEPRECIATION OF OPERATING ASSETS

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Mining and concentrating	168	160	338
Smelting	71	79	165
Treatment and refining	27	24	51
Other	7	7	14
Total (refer to note 8)	**273**	**270**	**568**

US Dollars million

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Export customs duties	289	182	484
Salaries	161	113	240
Advertising	44	33	70
Taxes other than mining and income taxes and pollution levies	43	41	82
Transportation expenses	21	19	30
Consulting and other professional services	16	11	29
Depreciation	14	9	19
External research and development	12	10	20
Commission paid	10	7	12
Repairs and maintenance	8	4	12
Legal and audit services	7	9	21
Insurance	6	6	10
Other	37	28	61
Total	**668**	**472**	**1,090**

15. OTHER NET OPERATING EXPENSES

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Donations	73	32	68
Maintenance of social sphere facilities	30	15	78
Foreign exchange loss, net	18	18	33
Change in allowance for doubtful debts	18	50	5
Loss on disposal of property, plant and equipment	14	17	21
Change in provision for impairment of property, plant and equipment (refer to note 19)	12	(2)	87
Change in allowance for value added tax recoverable	5	13	9
Change in provision for tax penalties	(4)	8	19
Excess of interest in net assets acquired over consideration paid on increase of Group's share in a subsidiary (refer to note 5)	(9)	-	-
Operating profit of non-mining entities	(27)	(12)	(28)
Other	18	(6)	(20)
Total	**148**	**133**	**272**

US Dollars million

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006

16. NET FINANCE COST/(BENEFIT)

Interest expense on borrowings	43	34	60
Unwinding of discount on decommissioning obligations (refer to note 32)	10	9	19
Interest expense on pension obligations (refer to note 31)	4	4	7
Foreign exchange gain on revaluation of borrowings, net	(5)	(49)	(65)
Total	**52**	**(2)**	**21**

17. NET INCOME/(LOSS) FROM INVESTMENTS

Interest income on bank deposits and loans advanced	62	22	74
Income on disposal of investments in associates	6	-	117
Dividends income on available-for-sale investments	4	6	6
Loss on disposal of shares of Gold Fields Limited	-	(317)	(317)
Change in allowance for promissory notes and loans advanced	(5)	(79)	(83)
Other	1	-	4
Total	**68**	**(368)**	**(199)**

18. INCOME TAX

Current tax expense	**1,266**	**602**	**1,893**
Deferred tax benefit	-	(125)	(88)
Total	**1,266**	**477**	**1,805**

A reconciliation of theoretical income tax, calculated at the rate effective in the Russian Federation of 24%, the primary location of the Group's production entities, to the amount of actual income tax expense recorded in the income statement is as follows:

Profit before income tax from continuing operations	**5,074**	**1,851**	**6,777**
Profit before income tax from a discontinued operation (refer to note 43)	-	1,005	1,005
Profit before income tax from continuing and discontinued operations	**5,074**	**2,856**	**7,782**

US Dollars million

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Theoretical income tax at 24%	1,218	685	1,868
Impact of specific tax rates	(52)	(231)	(291)
Tax effect of permanent differences	62	43	171
Permanent difference on impairment of investments	1	29	29
Taxable losses of subsidiaries not carried forward	-	2	2
Utilisation of previously unrecognised deferred tax asset	(6)	-	-
Change in valuation allowance	43	(39)	38
Income tax at effective rate of 25% (30 June 2006: 17%; 31 December 2006: 23%)	**1,266**	**489**	**1,817**
Less: Income tax attributable to a discontinued operation (refer to note 43)	-	(12)	(12)
Income tax expense attributable to continuing operations	**1,266**	**477**	**1,805**

The corporate income tax rates in other countries where the Group has a significant taxable presence vary from 0% to 39%.

Deferred income tax

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Net liability at beginning of the period	**881**	**543**	**543**
Recognised in the income statement	-	(125)	(88)
Change in deferred tax liability arising on revaluation of available-for-sale investments	171	128	304
Change in deferred tax liability due to acquisition of subsidiaries	1,663	-	57
Change in deferred tax liability due to disposal of subsidiaries (refer to note 37)	(14)	-	-
Change in deferred tax liability arising on hedging reserve	(5)	-	-
Effect of translation to presentation currency	17	34	65
Net liability at end of the period	**2,713**	**580**	**881**

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

US Dollars million

	30 June 2007	30 June 2006	31 December 2006
Property, plant and equipment	2,357	614	662
Accrued operating expenses	(39)	(55)	(41)
Valuation of receivables	(3)	(21)	(2)
Unrealised profit on intra-group transactions	(75)	(61)	(86)
Inventory valuation	41	59	59
Valuation of investments	427	51	307
Loss carried forward on disposal of investments	(82)	(78)	(80)
Income tax loss carried forward	(33)	(11)	(9)
Valuation allowance for deferred tax asset	145	97	100
Other	(25)	(15)	(29)
Total	**2,713**	**580**	**881**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The analysis of the deferred tax balances (after offset) as they are recorded in the consolidated balance sheet is presented below:

	30 June 2007	30 June 2006	31 December 2006
Deferred tax liabilities	2,739	592	881
Deferred tax assets	(26)	(12)	-
Net deferred tax liabilities	**2,713**	**580**	**881**

The unutilised tax losses of the North American operations at 30 June 2007, which are available for offset against future taxable income earned in the United States of America, amounted to USD 304 million (30 June 2006: USD 305 million; 31 December 2006: USD 297 million), have not been recognised as a deferred tax asset.

At 30 June 2007 the Group does not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 3,685 million (30 June 2006: USD 1,786 million; 31 December 2006: USD 2,531 million), because it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

US Dollars million

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Construction-in-progress	Total
Cost					
Balance at 31 December 2005	**4,955**	**2,670**	**150**	**1,314**	**9,089**
Additions	-	-	-	324	**324**
Transfers from capital construction-in-progress	35	211	3	(249)	**-**
Decommissioning asset raised (refer to note 32)	(7)	-	-	-	**(7)**
Disposals	(8)	(40)	(1)	(2)	**(51)**
Effect of translation to presentation currency	281	176	10	78	**545**
Balance at 30 June 2006	**5,256**	**3,017**	**162**	**1,465**	**9,900**
Additions	-	-	-	445	**445**
Transfers from capital construction-in-progress	212	115	4	(331)	**-**
Acquired on acquisition of subsidiaries	200	107	-	8	**315**
Decommissioning asset raised (refer to note 32)	16	-	-	-	**16**
Disposals	(21)	(41)	(1)	-	**(63)**
Effect of translation to presentation currency	147	80	4	48	**279**
Balance at 31 December 2006	**5,810**	**3,278**	**169**	**1,635**	**10,892**
Additions	-	-	-	326	**326**
Transfers from capital construction-in-progress	52	154	3	(209)	**-**
Acquired on acquisition of subsidiaries	6,759	277	91	375	**7,502**
Disposed of on disposal of subsidiaries (refer to note 37)	(79)	(2)	-	(4)	**(85)**
Disposals	(19)	(51)	(44)	(6)	**(120)**
Effect of translation to presentation currency	101	68	1	34	**204**
Balance at 30 June 2007	**12,624**	**3,724**	**220**	**2,151**	**18,719**

US Dollars million

	Buildings, structures and utilities	Machinery, equipment and transport	Other	Construction-in-progress	Total
Accumulated depreciation and impairment					
Balance at 31 December 2005	**(998)**	**(817)**	**(26)**	**(103)**	**(1,944)**
Charge for the period	(150)	(122)	(5)	-	**(277)**
Eliminated on disposals	4	21	-	-	**25**
Reversal of an impairment loss (refer to note 15)	-	-	-	2	**2**
Effect of translation to presentation currency	(64)	(53)	(2)	(7)	**(126)**
Balance at 30 June 2006	**(1,208)**	**(971)**	**(33)**	**(108)**	**(2,320)**
Charge for the period	(156)	(140)	(6)	-	**(302)**
Eliminated on disposals	4	17	2	-	**23**
Impairment (refer to note 15)	(92)	(8)	-	11	**(89)**
Effect of translation to presentation currency	(37)	(31)	-	(2)	**(70)**
Balance at 31 December 2006	**(1,489)**	**(1,133)**	**(37)**	**(99)**	**(2,758)**
Charge for the period	(133)	(153)	(7)	-	**(293)**
Disposed of on disposal of subsidiaries (refer to note 37)	11	1	-	-	**12**
Eliminated on disposals	6	26	6	-	**38**
Impairment (refer to note 15)	-	-	-	(12)	**(12)**
Effect of translation to presentation currency	(36)	(23)	(1)	(2)	**(62)**
Balance at 30 June 2007	**(1,641)**	**(1,282)**	**(39)**	**(113)**	**(3,075)**
Carrying value					
30 June 2007	**10,983**	**2,442**	**181**	**2,038**	**15,644**
30 June 2006	**4,048**	**2,046**	**129**	**1,357**	**7,580**
31 December 2006	**4,321**	**2,145**	**132**	**1,536**	**8,134**

Included in property, plant and equipment at 30 June 2007 are non-mining assets with carrying value of USD 1,314 million (30 June 2006: USD 435 million; 31 December 2006: USD 1,237 million).

US Dollars million

20. GOODWILL

	30 June 2007	30 June 2006	31 December 2006
Balance at beginning of the period	**25**	**14**	**14**
Acquired on acquisition of subsidiaries (refer to note 5)	-	-	10
Effect of translation to presentation currency	1	1	1
Balance at end of the period	**26**	**15**	**25**

21. INTANGIBLE ASSETS

	Software	Licences and patents	Other	Total
Cost				
Balance at 31 December 2005	**25**	**6**	**8**	**39**
Additions	12	1	4	**17**
Effect of translation to presentation currency	1	-	-	**1**
Balance at 30 June 2006	**38**	**7**	**12**	**57**
Additions	7	-	3	**10**
Disposals	(1)	-	-	**(1)**
Effect of translation to presentation currency	2	-	1	**3**
Balance at 31 December 2006	**46**	**7**	**16**	**69**
Acquired on acquisition of subsidiaries (refer to note 5)	-	6	-	**6**
Additions	6	1	8	**15**
Effect of translation to presentation currency	1	-	1	**2**
Balance at 30 June 2007	**53**	**14**	**25**	**92**
Accumulated amortisation and impairment				
Balance at 31 December 2005	**(3)**	**(2)**	**(4)**	**(9)**
Charge for the period	(3)	(2)	(1)	**(6)**
Balance at 30 June 2006	**(6)**	**(4)**	**(5)**	**(15)**
Charge for the period	(3)	(2)	-	**(5)**
Effect of translation to presentation currency	-	-	(1)	**(1)**
Balance at 31 December 2006	**(9)**	**(6)**	**(6)**	**(21)**
Charge for the period	(6)	(1)	(3)	**(10)**
Effect of translation to presentation currency	(1)	-	-	**(1)**
Balance at 30 June 2007	**(16)**	**(7)**	**(9)**	**(32)**
Carrying value				
30 June 2007	**37**	**7**	**16**	**60**
30 June 2006	**32**	**3**	**7**	**42**
31 December 2006	**37**	**1**	**10**	**48**

US Dollars million

22. INVESTMENTS IN ASSOCIATES

	30 June 2007	30 June 2006	31 December 2006
Balance at beginning of the period	**208**	**95**	**95**
Acquired during the period	3,348	150	151
Acquired on acquisition of subsidiaries (refer to note 5)	59	-	-
Disposed of during the period	(1)	-	(39)
Change in classification due to increase in shareholding	733	-	-
Reclassify to investment in subsidiaries due to increase in shareholding	(197)	-	-
Share of profits of associates	34	6	3
Dividends accrued	(4)	-	-
Impairment of investments in associates	-	-	(36)
Reclassified from investments held for sale	-	-	56
Reclassified to investments available-for-sale	(3)	-	(35)
Effect of translation to presentation currency	32	6	13
Balance at end of the period	**4,209**	**257**	**208**

Details of the Group's major associates are as follows:

Name of associate	Market value	Carrying value of investment	Total assets	Total liabilities	Sales	Profit/ (loss)
Six months ended 30 June 2007						
OJSC "OGK-3"	3,806	3,899	8,645	327	579	37
Smart Hydrogen Incorporated	n/a	112	222	-	-	-
Nkomati Nickel Mine	n/a	59	143	16	-	26
OJSC "TGK-14"	87	43	222	68	99	1
OJSC "Krasnoyarskenergo"	161	33	172	48	120	6
OJSC "Norilskgazprom"	n/a	33	140	26	74	12
OJSC "Kolenergo"	44	15	104	48	53	(1)
Other	n/a	15	58	1	167	(4)
		4,209	**9,706**	**534**	**1,092**	**77**
Six months ended 30 June 2006						
Smart Hydrogen Incorporated	n/a	148	299	3	-	(4)
OJSC "Krasnoyarskenergo"	79	28	284	37	116	12
OJSC "Norilskgazprom"	n/a	31	142	38	64	14
OJSC "Krasnoyarskaya generatsiya"	n/a	42	582	89	185	8
Other	n/a	8	114	29	308	(4)
		257	**1,421**	**196**	**673**	**26**
Year ended 31 December 2006						
Smart Hydrogen Incorporated	n/a	112	224	-	-	(76)
OJSC "Krasnoyarskenergo"	164	30	143	31	225	6
OJSC "Norilskgazprom"	n/a	30	140	36	122	16
OJSC "Kolenergo"	51	15	85	27	100	-
Other	n/a	21	226	106	972	(20)
		208	**818**	**200**	**1,419**	**(74)**

Smart Hydrogen Incorporated is a joint venture formed in April 2006 by the Group and Interros Holding Company, a party related by means of common ownership and control. The Group owns 50% of Smart Hydrogen Incorporated, BVI. Through this entity in June 2006 the principal investors acquired a 35% stake in Plug Power Incorporated, a US designer of environmentally clean and reliable energy products.

At 31 December 2006 management reviewed the carrying value of the Group's investment in Smart Hydrogen Incorporated, BVI and impairment of carrying amount of investment was identified. Accordingly, the carrying amount was reduced to the recoverable amount and an impairment loss of USD 36 million was recognised in the income statement.

In October 2005 and March 2006 as a part of reorganisation of OJSC "Krasnoyarskenergo" the Group became a shareholder in OJSC "Krasnoyarskaya generatsiya" and OJSC "Krasnoyarskiye magistralniye seti". In November 2006 the Group sold its share in OJSC "Krasnoyarskaya generatsiya" for a cash consideration of USD 156 million (refer to note 38).

On 9 December 2005 the Board of Directors of the Company approved a decision to sell its investment in OJSC "Kolenergo". At 31 December 2005 this investment was classified as held for sale and included in current investments in securities. In September 2006 management has changed its plan to sell this investment. Accordingly, the Group ceased to classify investment in OJSC "Kolenergo" as held for sale, and adjusted its carrying value as if this asset had not been classified as held for sale.

In November 2006 as a part of the reorganisation of RAO "UES of Russia" the Group's investments in OJSC "Kolskaya generiruyuschaya kompania" and OJSC "Apatitskaya TEC" were exchanged for 208,928 million shares of OJSC "Territorial Generation Company № 1" ("TGK-1").

In May 2007 the Group's investment in OJSC "Murmanskaya TEC" was exchanged for 6,743 shares of TGK-1. Investment in TGK-1 is classified as investment in securities available-for-sale (refer to note 23).

On 30 January 2007 the Group acquired 215,412 million ordinary shares, or 27.8%, of the issued share capital of OJSC "Territorial Generation Company № 14" ("TGK-14") for a cash consideration of USD 44 million.

On 1 March 2007 as part of acquisition of nickel business of OM Group Incorporated the Group acquired 20% of share capital of MPI Nickel Proprietary Limited. On 28 June 2007 an additional 80% of share capital of MPI Nickel Proprietary Limited held by LionOre Mining International Limited was acquired by the Group through acquisition of LionOre (refer to note 5).

On 26 March 2007 the Group acquired 17,958 million ordinary shares of OJSC "Third Generation Company of the Wholesale Electricity Market" ("OGK-3") (refer to note 23) for a cash consideration of USD 3,119 million. After completion of the transaction the Group owned 46.9% of OGK-3.

At 28 June 2007 as part of acquisition of LionOre Mining International Limited (refer to note 5) the Group acquired 50% of share capital of Nkomati Nickel Mine, a South African mining company.

US Dollars million

23. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	30 June 2007	30 June 2007	31 December 2006
Non-current			
Securities available-for-sale	2,456	1,107	2,331
Long-term deposits	47	5	268
Long-term loans advanced	21	31	4
Long-term accounts receivable	14	7	9
Advance for acquisition of shares of OJSC “Taimyrenergo”	-	18	-
Other	1	2	3
Total non-current	**2,539**	**1,170**	**2,615**
Current			
Short-term deposits	286	-	-
Securities available-for-sale	40	55	35
Securities held for trading	32	6	22
Short-term loans advanced	31	11	45
Investments held for sale	-	60	-
Other	1	1	2
Total current	**390**	**133**	**104**

Non-current securities available-for-sale consisted of shares of the following companies:

	30 June 2007	30 June 2007	31 December 2006
RAO “UES of Russia”	1,962	1,019	1,580
OJSC “TGK-1” (refer to note 22)	320	-	79
OJSC “Polyus Gold”	79	83	95
Talvivaara Mining Company Lmited	55	-	-
Breakaway Resources Limited	26	-	-
OJSC “OGK-3”	-	-	572
Other	14	5	5
Total	**2,456**	**1,107**	**2,331**

Interest rates on long-term deposits held in banks vary from 6.1% to 7.4% (30 June 2006: 3.5% to 5.2%; 31 December 2006: 6.1% to 7.4%).

Interest rates on short-term deposits held in banks vary from 6.9% to 8.5%.

At 30 June 2006 long-term loans advanced included a loan to OJSC “Norilskgazprom” in the amount of USD 25 million at interest rate of 10.4%, repayable in 2007. At 30 June 2007 and 31 December 2006 this loan in the amounts of USD 14 million and USD 21 million, respectively, at interest rate of 6.4%, was included in short-term loans advanced.

Current securities available-for-sale mostly comprised U.S. federal agency notes, commercial papers and bonds.

US Dollars million

24. TAXES

	30 June 2007	30 June 2006	31 December 2006
Taxes receivable			
Value added tax recoverable	648	608	592
Custom duties	70	33	55
Income tax	38	27	27
Other taxes	4	24	10
	760	**692**	**684**
Less: Allowance for value added tax recoverable	(31)	(56)	(38)
Total	**729**	**636**	**646**
Less: Non-current portion	(50)	(118)	(44)
Current taxes receivable	**679**	**518**	**602**
Taxes payable			
Income tax	250	100	244
Provision for tax fines and penalties	49	41	52
Value added tax	32	31	29
Property tax	25	22	25
Unified social tax	22	18	12
Tax on mining	14	13	16
Other	20	17	15
Total	**412**	**242**	**393**

25. INVENTORIES

	30 June 2007	30 June 2006	31 December 2006
Refined metals			
Joint products at net production cost	749	556	361
By-products at net realisable value	273	86	135
Work-in-process at net production cost	387	287	273
Total metal inventories	**1,409**	**929**	**769**
Stores and materials at cost	**854**	**657**	**732**
Less: Allowance for obsolete and slow-moving items	(28)	(53)	(30)
Net stores and materials	**826**	**604**	**702**
Total inventories	**2,235**	**1,533**	**1,471**

26. TRADE AND OTHER RECEIVABLES

	30 June 2007	30 June 2006	31 December 2006
Trade receivables	812	343	611
Advances to suppliers	175	86	62
Prepaid insurance	42	30	97
Other receivables	295	167	157
	1,324	**626**	**927**
Less: Allowance for doubtful debts	(75)	(124)	(77)
Total	**1,249**	**502**	**850**

US Dollars million

27. CASH AND CASH EQUIVALENTS

		30 June 2007	30 June 2006	31 December 2006
Current accounts	- RUR	222	165	185
	- foreign currencies	6,388	254	263
Bank deposits	- RUR	21	28	15
	- foreign currencies	873	561	1,618
Restricted cash		6	8	5
Other cash and cash equivalents		63	45	92
Total		**7,573**	**1,061**	**2,178**

28. SHARE CAPITAL

Authorised, issued and fully paid capital

	30 June 2007	30 June 2006	31 December 2006
30 June 2007: 190,627,747 ordinary shares at par value of RUR 1 each	8	-	-
30 June 2006: 190,627,747 ordinary shares at par value of RUR 1 each	-	8	-
31 December 2006: 190,627,747 ordinary shares at par value of RUR 1 each	-	-	8
Total	**8**	**8**	**8**

Treasury shares

	30 June 2007	30 June 2006	31 December 2006
30 June 2007: 9,209,834 ordinary shares	(999)	-	-
30 June 2006: 1,920,826 ordinary shares	-	-	-
31 December 2006: 9,209,834 ordinary shares	-	-	(999)
Total	**(999)**	**-**	**(999)**

On 27 March 2006 23,278,137 treasury shares were cancelled by the Company.

On 28 December 2006 7,498,950 ordinary shares were bought back from shareholders at RUR 3,510 per share for a total consideration of USD 999 million.

	30 June 2007	30 June 2006	31 December 2006
Number of ordinary shares in issue at end of the period	181,417,913	188,830,733	181,417,913
Weighted average number of ordinary shares in issue during the period	181,417,913	188,750,738	188,767,177

US Dollars million

29. OTHER RESERVES

	Investments revaluation reserve	Hedging reserve	Translation reserve	Total
Balance at 31 December 2005	**690**	**-**	**748**	**1,438**
Cancellation of treasury shares	-	-	(15)	**(15)**
Increase in fair value of available-for-sale investments	365	-	-	**365**
Realised gain on disposal of available-for-sale investments	(613)	-	(7)	**(620)**
Net assets distributed to shareholders on disposal of Polyus Group	-	-	(103)	**(103)**
Loss on cash flow hedge	-	(46)	-	**(46)**
Translation of foreign operations	-	-	(18)	**(18)**
Effect of translation to presentation currency	-	-	739	**739**
Balance at 30 June 2006	**442**	**(46)**	**1,344**	**1,740**
Increase in fair value of available-for-sale investments	555	-	-	**555**
Gain on cash flow hedge	-	31	-	**31**
Translation of foreign operations	-	-	(37)	**(37)**
Effect of translation to presentation currency	-	-	273	**273**
Balance at 31 December 2006	**997**	**(15)**	**1,580**	**2,562**
Increase in fair value of available-for-sale investments	539	-	-	**539**
Transfer to retained earnings on disposal of subsidiaries	-	-	(5)	**(5)**
Loss on cash flow hedge	-	(14)	-	**(14)**
Translation of foreign operations	-	-	(9)	**(9)**
Effect of translation to presentation currency	-	-	275	**275**
Balance at 30 June 2007	**1,536**	**(29)**	**1,841**	**3,348**

US Dollars million

30. LONG-TERM BORROWINGS

	30 June 2007	30 June 2006	31 December 2006
Syndicated loan arranged by Societe Generale (Paris), net of direct expenses on issuance	3,467	-	-
A USD 3,500 million loan arranged by OJSC "MMC Norilsk Nickel" consists of two credit lines for USD 2,000 million and USD 1,500 million. The credit line in the amount of USD 2,000 is arranged for five years at LIBOR + 0.53% per annum up to 29 June 2010 and LIBOR + 0.63% up to 29 June 2012 and is secured by assignment of rights for nickel and copper supply agreements of Metal Trade Overseas S.A. and Norilsk Nickel Europe Limited, subsidiaries of the Group. The unsecured credit line in the amount of USD 1,500 million is arranged for three years at LIBOR + 0.60% per annum. Repayments commence in 2010 with final installment on 29 June 2012. The Company is obliged to comply with a number of restrictive financial and other covenants which include maintaining certain financial ratios, credit ratings and restrictions on pledging and disposal of certain assets.			
7.125% Guaranteed notes due 2009, net of direct expenses on issuance	499	499	499
On 30 September 2004 Norilsk Nickel Luxemburg S.A., a wholly owned special purpose subsidiary of the Group, issued USD 500 million 7.125% notes. The notes were issued at par value with an interest payable semi-annually in arrears on 30 March and 30 September, and mature on 30 September 2009. The notes are unconditionally and irrevocably guaranteed by OJSC "Mining and Metallurgical Company Norilsk Nickel".			
Australian corporate credit facility, arranged by ANZ Syndicate	105	-	-
Credit facility arranged by LionOre Mining International Limited., a subsidiary of the Group, secured by certain mining assets of LionOre located in Australia. Repayments commenced March 2007 and are scheduled to continue until December 2008. The interest rate vary from Bill Rate of Bank of Australia ("BBSY") + 0.61% to BBSY + 1.01% per annum. At 30 June 2007 BBSY was 6.44% per annum.			
Syndicated loan arranged by Toronto Dominion	96	96	96
A USD 250 million credit facility arranged by Stillwater Mining Company, a subsidiary of the Group, at LIBOR + 3.25% per annum. Repayments commenced in 2004, with the final installment due on 30 July 2010. Substantially all the property and assets of Stillwater Mining Company are pledged as security for this credit facility. The loan agreement requires that 50% of the company's annual excess cash flow, any proceeds from asset sales and the issuance of debt or equity securities, subject to specified exceptions, be offered to repay this loan.			
Exempt Facility Reversal Bonds Series 2000 issued through the State of Montana Investment Board	29	29	29
USD-denominated bonds with an effective interest rate of 8.57% issued on 6 July 2002 and maturing on 1 July 2020.			
Other long-term borrowings	11	6	11
	4,207	**630**	**635**
Less: Current portion repayable within one year and shown under current liabilities (refer to note 33)	(88)	(1)	(3)
Total	**4,119**	**629**	**632**

Long-term borrowings are repayable as follows:

	30 June 2007	30 June 2006	31 December 2006
Due in the second year	24	2	4
Due in the third year	2,648	2	502
Due in the fourth year	753	500	93
Due in the fifth year	661	92	-
Due thereafter	33	33	33
	4,119	**629**	**632**

US Dollars million

31. EMPLOYEE BENEFIT OBLIGATIONS

	30 June 2007	30 June 2006	31 December 2006
Defined benefit pension plans assets	37	-	-
Total assets	**37**	**-**	**-**
Accrual for annual leave	159	128	143
Wages and salaries	89	79	92
Defined contribution obligations	14	-	-
Defined benefit obligations	1	73	65
Other	23	15	16
Total obligations	**286**	**295**	**316**
Less: Non-current obligations	(11)	(65)	(57)
Current obligations	**275**	**230**	**259**

Defined benefit plans

	30 June 2007	30 June 2006	31 December 2006
Present value of defined benefit obligations	127	113	121
Fair value of plans assets	(120)	-	(11)
Fair value of obligations	7	113	110
Unrecognised actuarial losses	(44)	(40)	(45)
	(37)	**73**	**65**

Amounts recognised in the income statement were as follows:

	30 June 2007	30 June 2006	31 December 2006
Interest expense (refer to note 16)	4	4	7
Net actuarial losses recognised during the period	3	2	3
Current service costs	1	1	2
Additional cost arising from new plan members	-	3	4
Expected return on plans assets	(3)	-	-
Total	**5**	**10**	**16**

US Dollars million

Movements in the present value of the defined benefit obligations were as follows:

	Lifelong professional pension plan	Joint corporate pension plan	Mothers' rights program	Six pensions plan
Balance at 31 December 2005	**66**	**35**	**2**	**1**
Cash payments	(2)	-	(1)	(2)
Charge for the period	6	3	-	1
Actuarial loss/(gain)	4	(3)	-	-
Effect of translation to presentation currency	1	1	-	1
Balance at 30 June 2006	**75**	**36**	**1**	**1**
Cash payments	(5)	-	-	-
Charge for the period	3	3	-	-
Actuarial loss/(gain)	5	(2)	-	-
Effect of translation to presentation currency	3	1	-	-
Balance at 31 December 2006	**81**	**38**	**1**	**1**
Cash payments	-	-	-	(1)
Charge for the period	4	1	-	-
Actuarial loss/(gains)	1	(1)	(1)	-
Effect of translation to presentation currency	2	1	-	-
Balance at 30 June 2007	**88**	**39**	**-**	**-**

Movements in the fair value of plan assets were as follows:

	Lifelong professional pension plan	Joint corporate pension plan	Mothers' rights program	Six pensions plan
Balance at 30 June 2006	**-**	**-**	**-**	**-**
Contributions from the employer	-	11	-	-
Balance at 31 December 2006	**-**	**11**	**-**	**-**
Contributions from the employer	65	44	-	-
Expected return on plans assets	2	1	-	-
Cash payments	(3)	-	-	-
Balance at 30 June 2007	**64**	**56**	**-**	**-**

US Dollars million

The major categories of pension plans assets and the expected rate of return at the balance sheet dates for each category were as follows:

	Expected return		**Fair value of pension plans assets**	
	30 June 2007	**31 December 2006**	**30 June 2007**	**31 December 2006**
Equity instruments	46.7%	46.7%	31	3
Bonds	7.9%	7.9%	82	6
Promissory notes	-	6.4%	-	1
Deposits	8.7%	-	1	-
Cash	0.0%	-	2	-
Other	4.9%	4.9%	4	1
Weighted average expected rate of return	**10.4%**	**10.4%**	**120**	**11**

The overall expected rate of return is a weighted average of the expected returns of the various categories of pension plans assets held less expenses on managing the assets. Management of the Group assesses the expected returns based on historical return trends for these assets.

Key assumptions used in estimation of defined benefit obligations were as follows:

	30 June 2007	**30 June 2006**	**31 December 2006**
Discount rate	7.0%	7.0%	7.0%
Weighted average expected rate of return on pension plans assets	10.4%	-	10.4%
Pre-retirement increases to capital accounts	4.5%	4.5%	4.5%
Future salary increases	6.7%	6.7%	6.7%
Future pension increases	5.2%	5.2%	5.2%
Average life expectancy of members from the date of retirement	17 years	17 years	17 years

Defined contribution plans

Amounts recognised in the income statement
in respect of defined contribution plans:

Pension fund of the Russian Federation	99	87	181
Stillwater Mining Company savings plan	3	2	5
Corporate pension option program	19	-	-
Total	**121**	**89**	**186**

Commencing 2006 the Group's pension plans are managed by a non-state Pension Fund "Norilsk Nickel". Contributions from the Group to this Fund for the six months ended 30 June 2007 amounted to USD 126 million (30 June 2006: USD nil million; 31 December 2006: USD 11 million).

US Dollars million

32. ENVIRONMENTAL OBLIGATIONS

	30 June 2007	30 June 2006	31 December 2006
Decommissioning obligations	433	284	318
Provision for land restoration	5	4	4
Total	**438**	**288**	**322**
Less: Current portion	(26)	-	-
Non-current obligations	**412**	**288**	**322**
Balance at beginning of the period	**322**	**269**	**269**
New obligations raised (refer to note 19)	-	-	4
Change in estimate (refer to note 19)	-	(7)	5
Acquired on acquisition of subsidiaries	98	-	-
Unwinding of discount on decommissioning obligations (refer to note 16)	10	9	19
Charge to production cost	-	-	1
Effect of translation to presentation currency	8	17	24
Balance at end of the period	**438**	**288**	**322**

Key assumptions used in estimation of environmental obligations were as follows:

	30 June 2007	30 June 2006	31 December 2006
Discount rates	5.8%-7.7%	7.0%-7.7%	6.6% - 7.7%
Future expected increase of expenses	25.0%	25.0%	25.0%
Expected closure date of mines	2007-2064	2006-2070	2007-2063

Present value of expected cost to be incurred for settlement of environmental obligations was as follows:

	30 June 2007	30 June 2006	31 December 2006
Due from second to fifth year	78	54	41
Due from sixth to tenth year	45	8	10
Due from eleventh to fifteenth year	55	56	64
Due from sixteenth to twentieth year	86	71	83
Due thereafter	148	99	124
	412	**288**	**322**

US Dollars million

33. SHORT-TERM BORROWINGS

	30 June 2007	30 June 2006	31 December 2006
USD-denominated short-term borrowings at floating rates	2,100	-	-
USD-denominated short-term borrowings at fixed rates	127	-	146
Current portion of long-term borrowings (refer to note 30)	88	1	3
USD-denominated bank overdrafts at fixed rates	28	-	-
RUR-denominated short-term borrowings	25	11	9
Total	**2,368**	**12**	**158**

The interest rates on these borrowings vary as follows:

	30 June 2007	30 June 2006	31 December 2006
USD-denominated short-term borrowings at floating rates	LIBOR+0.3% to LIBOR+0.5%	-	-
USD-denominated short-term borrowings at fixed rates	5.8% to 6.2%	-	5.8% to 6.0%
USD-denominated bank overdrafts at fixed rates	6.1% to 6.2%	-	-
RUR-denominated short-term borrowings	0.0%	0.0%	0.0%

Bank overdrafts are secured by inventory with carrying value amounted to USD 51 million.

34. TRADE AND OTHER PAYABLES

	30 June 2007	30 June 2006	31 December 2006
Deferred consideration for acquisition of LionOre (refer to note 5)	5,233	-	-
Trade payables	367	179	191
Advances from customers	70	33	50
Insurance	17	20	107
Deferred consideration for acquisition of an associate	-	50	-
Other creditors	160	107	73
Total	**5,847**	**389**	**421**

35. DERIVATIVE FINANCIAL LIABILITIES

	30 June 2007	30 June 2006	31 December 2006
Cash flow hedges	16	46	15
Derivatives held for trading	79	-	-
Total	**95**	**46**	**15**
Less: Non-current portion	(82)	-	-
Current liabilities	**13**	**46**	**15**

US Dollars million

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
36. DIVIDENDS			
On 28 June 2007 the Company declared a final dividend in respect of the year ended 31 December 2006 in the amount of RUR 120 (USD 4.64) per share. This amount is net of USD 8 million due to the Group subsidiaries.	842	-	-
On 24 November 2006 the Company declared an interim dividend in respect of the year ended 31 December 2006 in the amount of RUR 56 (USD 2.11) per share. The dividend was paid to shareholders on 29 December 2006. This amount is net of USD 4 million paid to the Group subsidiaries.	-	-	399
On 29 June 2006 the Company declared a final dividend in respect of the year ended 31 December 2005 in the amount of RUR 53 (USD 1.98) per share. The dividend was paid to shareholders on 15 August 2006. This amount is net of USD 4 million paid to the Group subsidiaries.	-	373	373
Total	**842**	**373**	**772**

37. DISPOSAL OF SUBSIDIARIES

On 25 May 2007 the Group sold its interest in Vimon Investments Limited BVI, owner of 100% of the share capital of CJSC "Kraus-M", to a related party for a cash consideration of less then USD 1 million (refer to note 38). Under the terms of the sale agreement, intra-group debt of Vimon Investments Limited amounting to USD 41 million was assigned to the buyer. The carrying value of Vimon Investments Limited net assets at the date of disposal of ownership amounted to USD 18 million.

In January 2006 51.0% Group's interest in LLC "KHK "CSKA" was disposed of for a cash consideration of USD 1 million.

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Net assets disposed of			
Property, plant and equipment (refer to note 19)	73	-	-
Trade and other receivables	3	-	-
Taxes receivable	4	-	-
Borrowings	(48)	-	-
Deferred tax liabilities (refer to note 18)	(14)	-	-
Trade and other payables	-	(5)	(5)
Group's share of assets disposed of	**18**	**(5)**	**(5)**

US Dollars million

38. RELATED PARTIES

Related parties are considered to include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties.

Transactions with related parties

	Sale of goods	Purchase of goods	Purchase of services	Purchase of investments
Six months ended 30 June 2007				
Company	46	-	2	1
Subsidiaries of the Group	10	205	25	-
Total	**56**	**205**	**27**	**1**
Six months ended 30 June 2006				
Company	24	3	60	69
Subsidiaries of the Group	2	30	25	-
Total	**26**	**33**	**85**	**69**
Year ended 31 December 2006				
Company	54	12	71	70
Subsidiaries of the Group	51	154	69	-
Total	**105**	**166**	**140**	**70**

In May 2007 the Group sold an investment in a subsidiary to a related party for a cash consideration of less than USD 1 million (refer to note 37).

During the year ended 31 December 2006 the Group sold property, plant and equipment to related parties for a total cash consideration of USD 19 million.

In November 2006 the Group sold its investment in OJSC “Krasnoyarskaya generatsiya” to related parties for a cash consideration of USD 156 million (refer to note 22).

US Dollars million

Outstanding balances with related parties

	Loans and borrowings	Investments and cash	Trade receivables	Trade payables
30 June 2007				
Company	-	65	53	-
Subsidiaries of the Group	14	175	18	17
Total	**14**	**240**	**71**	**17**
30 June 2006				
Company	-	461	6	26
Subsidiaries of the Group	5	160	4	58
Total	**5**	**621**	**10**	**84**
31 December 2006				
Company	-	463	8	63
Subsidiaries of the Group	6	212	4	20
Total	**6**	**675**	**12**	**83**

All balances are unsecured and expected to be settled in cash. No guarantees have been given or received. Allowance for loan provided to a related party amounted to USD 70 million.

Compensation of key management personnel

Remuneration of key management personnel of the Group for the six months ended 30 June 2007 amounted to USD 15 million (30 June 2006: USD 5 million; 31 December 2006: USD 13 million).

39. COMMITMENTS

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2051. Future minimum lease payments due under non-cancellable operating lease agreements at 30 June 2007 are as follows:

Due in one year	22
Due in the second year	10
Due thereafter	19
Total	**51**

Intergovernmental agreement with Kingdom of Norway

In 2001 the governments of the Russian Federation and Kingdom of Norway signed an intergovernmental agreement in respect of provision of technical assistance in the reconstruction of metallurgical facilities of Pechenganickel Combine, a branch of OJSC "Kolskaya Mining and Metallurgical Company".

US Dollars million

At 30 June 2007 total investment in the reconstruction of metallurgical facilities was agreed to be USD 103 million, financed as follows:

Grants from Kingdom of Norway	31
Loan from Nordic Investment Bank	30
Contribution by the Group	42
Total	**103**

At 30 June 2007 total investment in reconstruction of metallurgical facilities of Pechenganickel Combine amounted to USD 17 million.

Long-term contract with Talvivaara

Harjavalta Nickel Oy, subsidiary of the Group, has entered into an agreement with Talvivaaran Kaivososakeyhtiö Oy ("Talvivaara") to purchase at market price all of the output of intermediate product containing nickel and cobalt. The agreement will expire in ten years after commencement of full production at Talvivaara's mines. During this period the Group should purchase at least 300,000 tons of accountable nickel.

Social commitments

The Group contributes to mandatory and voluntary social programs and maintains social assets in the locations where it has its main operating facilities. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. These contributions are recorded in the period in which they are incurred.

The Group's commitments will be funded from its own cash resources.

40. CONTINGENCIES

Litigation

Unresolved tax litigation at 30 June 2007 amounted to approximately USD 73 million (30 June 2006: USD 88 million; 31 December 2006: USD 95 million). Management believes that the risk of an unfavourable outcome to the litigation is possible.

In addition, the Group had a number of claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regards to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposures at 30 June 2007 to be approximately USD 148 million (30 June 2006: USD 125 million; 31 December 2006: USD 204 million).

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment and the disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with all current existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations related to its operations. Estimates are based on management's understanding of current legal requirements and the terms of license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

41. RISK MANAGEMENT ACTIVITIES

In the normal course of its operations, the Group is exposed to commodity price, currency, interest rate, operational, credit and liquidity risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Risk management structure

The Group's treasury function is responsible for the management of currency, liquidity, interest rate and credit risk. Within the treasury function, there is an independent risk management unit, responsible for monitoring the treasury's adherence to the Group's risk management policies.

Commodity price risk is managed by the Sales Block of the Group. An independent risk management unit exists within that function to control exposures and ensure they are in line with policies set by management of the Sales Block and senior management of the Group.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market prices of the Group's joint products, i.e. nickel, copper, palladium, platinum and gold.

The Group is exposed to commodity price risk as a substantial part of its revenues is derived from long-term contracts with physical off-takers for known volumes of metals, but at prices that will be determined by reference to market prices at the delivery date.

For a certain portion of its revenues the Group manages its exposure to commodity price risk by entering into fixed price sales contracts and cap and floor arrangements for the sale of refined metal to physical off-takers.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUR, accordingly, operating profits are adversely impacted by appreciation of RUR against USD. In assessing this risk management takes into consideration changes in metal prices. Favorable changes in metal prices mitigated the adverse effect of appreciation of RUR against USD.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. Management believes that this risk is not significant as the majority of the Group's borrowings are at fixed rates.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. The Group has in place an insurance program that is aimed at reducing the following risks related to production activities:

- risk of business interruption;
- risk of damage to core production equipment used in the metallurgical process and other permanent infrastructure as a result of fire or natural disaster, as well as risk of breakages and accidents with key production equipment; and
- risk of loss or damage to domestic and export deliveries of semi-finished and finished goods and imported stores and materials.

In accordance with the statutory requirements the Group insures third party liability under claims resulting from accidents at the Group's production facilities.

Credit risk

Credit risk is the risk that customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimizes its exposure to this risk by ensuring that credit risk is spread across a number of customers.

The Group is not economically dependent on a limited number of customers for the sale of its products because of the existence of liquid commodity markets for all of its products. Metal sales to the Group's customers are presented below:

	Six months ended 30 June 2007				Year ended 31 December 2006			
	Number of customers	%	Turnover, USD million	%	Number of customers	%	Turnover, USD million	%
Largest customer	1	-	868	11	1	-	825	7
Next 9 largest customers	9	3	2,022	26	9	2	3,429	30
Total	**10**	**3**	**2,890**	**37**	**10**	**2**	**4,254**	**37**
Next 10 largest customers	10	4	1,048	14	10	3	1,940	17
Total	**20**	**7**	**3,938**	**51**	**20**	**5**	**6,194**	**54**
Remaining customers	249	93	3,707	49	349	95	5,356	46
Total	**269**	**100**	**7,645**	**100**	**369**	**100**	**11,550**	**100**

Credit is only extended to customers after completion of strict credit approval procedures, thereafter customers are monitored by reference to their financial position.

The Group has a concentration of cash and bank deposits with a related party commercial bank that at 30 June 2007 represented 3% (30 June 2006: 41%; 31 December 2006: 22%) of total cash and bank deposits balances.

The Group believes that there is no other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

US Dollars million

At 30 June 2007 the Group had financing facilities for the management of its day to day liquidity requirements available with the following banks:

	30 June 2007	30 June 2006	31 December 2006
Committed credit lines			
OJSC "Sberbank"	542	517	-
Barclays Capital, BNP Paribas (Suisse) S.A., ING Bank N.V. Dublin branch, Societe Generale, Bayerische Hypo-und Vereinsbank AG, BTMU (Europe) Ltd, Calyon, Commerzbank AG, DecaBank Deutche Luxemburg S.A., Mizucho Corporate Bank Netherlands N.V., DZ Bank AG, Intesa Bank Ireland Plc., Natexis, Sumitomo Mitsui Banking Corporation Europe Ltd., CJSC Citibank	450	-	-
Citibank N.A., Calyon, ING Bank N.V., Societe Generale, Mizucho Corporate Bank Ltd., Sumitomo Mitsui Banking Corporation Europe Ltd., West LB AG and CJSC Citibank, Bayerische Landesbank, DZ Bank AG Deutsche Zentral, Genossenschaftsbank, Frankfurt AM Main, Skandinaviska Enskilda Banken AB (Publ), BTM (Europe) Limited	400	400	400
Barclays Capital; BNP Paribas (Suisse) S.A.	-	295	-
Total committed credit lines	**1,392**	**1,212**	**400**
Uncommitted credit lines			
OJSC "Vneshtorgbank"	267	100	100
CJSC "Gazprombank"	120	-	120
CJSC "ING Bank (Eurasia)"	100	100	100
CJSC "West LB Vostok"	90	88	76
CJSC "Calyon Rusbank"	65	50	50
LLC "Deutsche bank"	54	35	37
CJSC "BNP Pariba"	50	50	50
CJSC "Natexis Bank"	50	50	50
CJSC "Drezdner bank"	50	50	50
CJSC "Societe Generale Vostok"	40	35	40
CJSC "Commerzbank (Eurasia)"	40	20	20
OJSC "Eurofinance Mosnarbank"	38	-	35
CJSC "Raiffeisenbank Austria"	30	-	-
CJSC KB "Citibank"	25	25	25
OJSC KB "MBRD"	20	20	20
OJSC "Bank Uralsib"	-	50	50
LLC "HSBC Bank (RR)"	-	5	-
Total uncommitted credit lines	**1,039**	**678**	**823**
Bank overdraft facilities			
ING (Switzerland)	100	100	100
Rosbank (Russia)	97	-	95
BNP Paribas Suisse (Switzerland)	75	150	150
Credit Suisse (Switzerland)	75	75	75
Natexis (France)	75	-	75
Banque Cantonale Vaudoise (Switzerland)	50	50	50
Sampo (Finland)	42	-	-
UBS (Switzerland)	40	-	40
Total bank overdraft facilities	**554**	**375**	**585**
Total borrowing facilities	**2,985**	**2,265**	**1,808**
Less: Outstanding letters of credit	(210)	(132)	(194)
Less: Bank overdrafts received	(28)	-	-
Less: Loans received related to the above facilities	-	-	(145)
Net facilities available	**2,747**	**2,133**	**1,469**

US Dollars million

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

At 30 June 2007 the estimated fair values of financial instruments, consisting of investments in securities, trade and other receivables, loans advanced and promissory notes, other current assets, derivative financial liabilities and trade and other payables approximates their carrying value due to the short-term nature of these instruments. At 30 June 2007 USD 500 million of corporate bonds due in 2009 have a fair value of 106.1% or USD 531 million. The fair value of other fixed-rate debt and floating-rate debt approximates its carrying value.

43. DISCONTINUED OPERATION

On 30 September 2005 at an Extraordinary General Meeting of shareholders, the majority of shareholders of OJSC “MMC Norilsk Nickel” voted in favour of the spin-off of CJSC “Gold Mining Company Polus” and its subsidiaries (the “Polyus Group”) into a new company OJSC “Polyus Gold” by way of a single transaction which was completed on 17 March 2006.

The results of operations and net cash flows of Polyus Group were as follows:

	Period from 1 January 2006 to 17 March 2006
Metal sales	132
Cost of metal sales	(71)
Selling, general and administrative expenses	(15)
Other net operating expenses	(23)
Net finance cost	(2)
Net income from investments	984
Profit before income tax (refer to note 18)	**1,005**
Income tax (refer to note 18)	(12)
Profit for the period	**993**
Net cash used in operating activities	(56)
Net cash generated from investing activities	1,963
Net cash generated from financing activities	50

US Dollars million

The major classes of assets and liabilities of Polyus Group were as follows:

	17 March 2006
Property, plant and equipment and other non-current assets	1,164
Cash and cash equivalents	2,366
Investments in securities and other financial assets	772
Non-current liabilities	(240)
Trade and other payables	(294)
Net assets	**3,768**
Less: Shares of OJSC "Polyus Gold" received by the Group	(39)
Less: Minority interest	(31)
Net assets distributed to shareholders	**3,698**

44. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Proposed spin-off of energy assets

On 15 May 2007 the Board of Directors of OJSC "MMC Norilsk Nickel" made a decision to spin-off the Group's non-core energy assets into a separate company. The ordinary shares of the newly established company will be distributed among the existing shareholders of the Company. Energy assets engaged in power supply to the Group's production facilities in the Taimyr Peninsula, will not be subject to spin-off. The spin-off is a subject to final approval by an Extraordinary General Meeting of Shareholders to be held in December 2007 and, if approved, is expected to be completed in the first half of 2008.

Acquisition of additional shares of LionOre

In August 2007 the Group acquired an additional 46 million ordinary shares of LionOre (refer to note 5) for a cash consideration of USD 1,190 million. After completion of this transaction, the Group owns 100% of the issued share capital of LionOre.

Acquisition of additional shares of OGK-3

In August and September 2007 the Group acquired an additional 8,676 million shares of OGK-3 (refer to note 22) for a cash consideration of USD 1,548 million. After completion of this transaction, the Group owns 65.2% of the issued share capital of OGK-3.

Shares of RAO "UES of Russia"

The Group participates in restructuring of RAO "UES of Russia" through the specially created holding company for the purpose to exchange RAO "UES of Russia" shares owned by the Group into shares of other energy companies. As a part of reorganisation shares of RAO "UES of Russia" were deposited in a special account, which is managed based on the agreement between OJSC "MMC Norilsk Nickel", RAO "UES of Russia" and a depositary signed in August 2007.

US Dollars million

45. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

		Effective % held		
	Nature of business	**30 June 2007**	**30 June 2006**	**31 December 2006**
Subsidiaries by country of incorporation				
Russian Federation				
OJSC "RAO "Norilsk Nickel"	Distribution	98.9	98.9	98.9
OJSC "Taimyrgaz"	Gas extraction	98.4	98.4	98.4
OJSC "Yenisey River Shipping Company"	River shipping operations	43.9	43.9	43.9
OJSC "Arkhangelsk Sea Commercial Port"	Sea shipping operations	53.1	53.1	53.1
CJSC "NORMETIMPEX"	Distribution	100.0	100.0	100.0
OJSC "Kolskaya Mining and Metallurgical Company"	Mining	100.0	100.0	100.0
CJSC "Alykel"	Airport	100.0	100.0	100.0
LLC "Institut Gypronickel"	Science	100.0	100.0	100.0
OJSC "Norilsky Kombinat"	Lessor of equipment	98.8	98.8	98.8
OJSC "Kombinat "Severonickel"	Lessor of equipment	98.9	98.9	98.9
OJSC "Gornometallurgichesky Kombinat "Pechenganickel"	Lessor of equipment	98.9	98.9	98.9
LLC "UK "Zapolyarnaya stolitsa"	Utilities	100.0	100.0	100.0
LLC "Norilsk Telecom"	Telecom services	100.0	100.0	100.0
CJSC "Taimyrskaya Toplivnaya Kompaniya"[1]	Supplier of fuel	100.0	100.0	100.0
OJSC "Norilsko-Taimyrskaya Energeticheskaya Kompaniya"[1]	Electricity utilities	100.0	51.0	51.0
LLC "Terminal"	Sea shipping operations	100.0	100.0	100.0
LLC "Norilsknickelremont"[1]	Repairs	100.0	-	100.0
LLC "Zapoliarnaya stroitelnaya companiya"[1]	Construction	100.0	100.0	100.0
LLC "Norilskyi obespechivaushyi complex"[1]	Producer of spare parts	98.8	-	98.8
LLC "Noriskgeologiya" [1]	Geological works	99.5	-	-
LLC "GRK "Bystrinskoye"	Mining	98.8	-	-
OJSC "Taimyrenergo"[2]	Lessor of equipment	98.8	-	98.8
CJSC "Kraus-M" [3]	Property holding	-	100.0	100.0

[1] Established as part of reorganisation of OJSC "MMC Norilsk Nickel".
[2] Acquired in 2006 (refer to note 5).
[3] Disposed in 2007 (refer to note 37).

US Dollars million

	Nature of business	Effective % held 30 June 2007	30 June 2006	31 December 2006
China				
Norilsk Nickel (Asia) Limited	Distribution	100.0	100.0	100.0
Great Britain				
Norimet Limited	Investment holding	100.0	100.0	100.0
Norilsk Nickel Europe Limited	Distribution	100.0	100.0	100.0
Luxembourg				
Norilsk Nickel Finance Luxembourg S.A.	Financing	100.0	100.0	100.0
Switzerland				
Norilsk Nickel Holding S.A.	Investment holding	100.0	100.0	100.0
Metal Trade Overseas S.A.	Distribution	100.0	100.0	100.0
United States of America				
Stillwater Mining Company	Mining	54.1	54.5	54.9
Norilsk Nickel USA	Distribution	100.0	100.0	100.0
Cyprus				
Norilsk Nickel (Cyprus) Limited[1]	Investment holding	100.0	-	100.0
Finland				
Norilsk Nickel Harjavalta Oy[2]	Metallurgy	100.0	-	-
Norilsk Nickel Finland Oy[2]	Investment holding	100.0	-	-
Australia				
Norilsk Nickel Cawse Pty Limited[2]	Mining	100.0	-	-
MPI Nickel Limited[2]	Mining	90.7	-	-
Norilsk Nickel Australia Pty Limited[2]	Mining	90.7	-	-
Norilsk Process Technology Pty Limited[2]	Science	90.7	-	-
Botswana				
Tati Nickel Mining Company Pty Limited[2]	Mining	77.1	-	-
The Republic of South Africa				
Norilsk Nickel Africa Pty Limited[2]	Mining	90.7	-	-
Associates by country of incorporation				
Russian Federation				
OJSC "OGK-3"[3]	Electricity utilities	46.9	-	14.6
OJSC "TGK-14"[3]	Electricity utilities	27.8	-	-
OJSC "Krasnoyarskenergo"	Electricity utilities	25.7	25.7	25.7
OJSC "Norilskgazprom"	Gas extraction	29.4	29.4	29.4
OJSC "Kolenergo"	Electricity utilities	24.9	24.9	24.9
OJSC "Krasnoyarskaya generatsiya"	Electricity utilities	-	25.5	-
British Virgin Islands				
Smart Hydrogen Inc.[1]	Holding company	50.0	50.0	50.0
The Republic of South Africa				
Nkomati Nickel Mine[3]	Mining	50.0	-	-

[1] Established in 2006.
[2] Acquired in 2007 (refer to note 5).
[3] Acquired in 2007 (refer to note 22).

EXHIBIT IV — UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS — WGC-3

Below are the unaudited consolidated interim financial statements of WGC-3 for the six months ended June 30, 2007.

WGC-3 GROUP
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)

PRICEWATERHOUSECOOPERS

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction
We have reviewed the accompanying interim consolidated financial statements of JSC "WGC-3" and its subsidiaries (the "WGC-3 Group") which comprise the consolidated balance sheet as at 30 June 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the six months then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review. Management has issued interim consolidated financial statements for the first time as of and for the period ended 30 June 2007 and hence we did not perform a review of interim financial information as of and for the period ended 30 June 2006.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the WGC-3 Group as at 30 June 2007, and its financial performance and its cash flows for the six months period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

28 September 2007

WGC-3 Group
Interim Consolidated Balance Sheet as at 30 June 2007 (unaudited)
(in thousands of Russian Roubles)

	Notes	30 June 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	18 600 314	18 392 001
Other non-current assets	7	2 491 243	595 661
Total non-current assets		**21 091 557**	**18 987 662**
Current assets			
Inventories	8	2 178 568	2 292 782
Accounts receivable and prepayments	9	2 909 130	1 172 568
Deposits	10	77 500 000	-
Loans issued		381 660	-
Current income tax prepayments		221 810	286 146
Cash		1 260 138	354 892
Total current assets		**84 451 306**	**4 106 388**
TOTAL ASSETS		**105 542 863**	**23 094 050**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	47 487 999	29 487 999
Share premium	11	63 235 272	450 818
Other reserves		(8 357 873)	(8 357 873)
Fair value reserve		33 566	25 642
Retained earnings		(5 299 142)	(6 350 801)
Total equity		**97 099 822**	**15 255 785**
Non-current liabilities			
Deferred tax liabilities	12	1 703 753	1 545 753
Pension liabilities	13	260 829	240 545
Other non-current liabilities		51 033	33 342
Total non-current liabilities		**2 015 615**	**1 819 640**
Current liabilities			
Current debt and current portion of non-current debt	14	2 909 022	3 704 008
Accounts payable and accruals	15	2 974 119	1 702 122
Provision for liabilities and charges	16	142 030	233 343
Taxes payable	17	402 255	379 152
Total current liabilities		**6 427 426**	**6 018 625**
Total liabilities		**8 443 041**	**7 838 265**
TOTAL EQUITY AND LIABILITIES		**105 542 863**	**23 094 050**

General Director — Ivan Blagodyr'

Chief Accountant — Margarita Komarova

28 September 2007

WGC-3 Group

Interim Consolidated Income Statement for the six months ended 30 June 2007 (unaudited)

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

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Revenues			
Electricity		14 505 023	9 940 812
Heat		351 905	343 018
Other		241 711	242 132
Total revenue		**15 098 639**	**10 525 962**
Operating expenses	18	(13 471 757)	(10 282 649)
Operating profit/(loss)		**1 626 882**	**243 313**
Finance income	10	1 080 764	39 758
Finance costs	19	(158 200)	(84 947)
Profit/(loss) before income tax		**2 549 446**	**198 124**
Income tax	12	(797 786)	(496 977)
Profit/(loss) for the period		**1 751 660**	**(298 853)**
Attributable to:			
Shareholders of OJSC WGC-3		**1 751 660**	**(298 853)**
Earning/(loss) per ordinary share for profit/(loss) attributable to the shareholders of OJSC WGC-3 – basic and diluted (in Russian Roubles)	20	**0.045**	**(0.011)**

General Director — Ivan Blagodyr'

Chief Accountant — Margarita Komarova

28 September 2007

WGC-3 Group

Interim Consolidated Cash Flow Statement for the six months ended 30 June 2007 (unaudited)

(in thousands of Russian Roubles)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		**2 549 446**	**198 124**
Adjustments for non-cash items:			
Depreciation	6	610 033	536 312
Provision for impairment of accounts receivable	18	59 173	81 271
Finance cost	19	158 200	84 947
Forgiveness of tax penalties		-	(134 137)
Finance income	10	(1 080 761)	(12 241)
Impairment loss reversed during the year		(355 027)	-
Other non-cash items		(138 132)	(145 318)
Operating cash flows before working capital changes and income tax paid		**1 802 932**	**608 958**
Working capital changes:			
Increase in accounts receivable and prepayments		(1 350 106)	(257 994)
Decrease in inventories		98 690	178 916
Decrease in other long term assets		(13 545)	325 871
Increase in accounts payable and accruals		499 911	(259 008)
Increase in taxes payable, other than income tax		45 848	(387 385)
Decrease in other non-current liabilities		37 976	276 938
Income tax paid in cash		(600 696)	(519 509)
Net cash generated from operating activities		**521 010**	**(33 213)**
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and other non-current assets		(2 298 992)	(144 560)
Proceeds from sale of property, plant and equipment and other non-current assets		12 074	2 831
Deposited to banks	10	(77 500 000)	-
Loans issued		(381 660)	-
Interest received		705 200	12 241
Net cash used in investing activities		**(79 463 378)**	**(129 488)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase from short-term borrowings		2 663 491	2 057 365
Repayment of debt		(3 458 477)	(1 530 198)
Interest paid		(141 770)	(85 331)
Dividends paid to shareholders of OJSC WGC-3		(13)	(240 282)
Dividend paid to minority interest shareholders		(70)	(13 845)
Share issuance		80 784 453	-
Net cash generated from financing activities		**79 847 614**	**187 709**
Net increase in cash		**905 246**	**25 008**
Cash at the beginning of the period		**354 892**	**117 625**
Cash at the end of the period		**1 260 138**	**142 633**

General Director — Ivan Blagodyr'

Chief Accountant — Margarita Komarova

28 September 2007

WGC-3 Group

Interim Consolidated Statement of Changes in Equity for the six months ended 30 June 2007

(in thousands of Russian Roubles)

	Attributable to the shareholders of OJSC WGC-3							
	Share capital	Share Premium	Other reserves	Retained earnings	Fair value reserve	Total	Minority interest	Total equity
At 1 January 2006	**27 608 088**	**450 818**	**(8 357 873)**	**(9 485 548)**	**-**	**10 215 485**	**618 475**	**10 833 960**
Profit/(loss) for the period	-	-	-	(298 853)	-	(298 853)	-	(298 853)
Payment of share capital (Note 11)	-	-	-	-	-		-	-
Transactions with minorities (Note 11)	1 879 911	-	-	(1 261 436)	-	618 475	(618 475)	-
Dividends (Note 11)	-	-	-	(4 530)	-	(4 530)	-	(4 530)
At 30 June 2006	**29 487 999**	**450 818**	**(8 357 873)**	**(11 050 367)**	**-**	**10 530 577**	**-**	**10 530 577**
At 1 January 2007	**29 487 999**	**450 818**	**(8 357 873)**	**(6 350 801)**	**25 642**	**15 255 785**	**-**	**15 255 785**
Profit for the period	-	-	-	1 751 660	-	1 751 660	-	1 751 660
Payment of share capital (Note 11)	18 000 000	62 784 454				80 784 454		80 784 454
Available-for-sale investments:								
Change in fair value of available-for-sale investments	-	-	-	-	10 427	10 427	-	10 427
Deferred tax on change in fair value of available-for-sale investments	-	-	-	-	(2 503)	(2 503)	-	(2 503)
Dividend relating to 2006 (Note 11)	-	-	-	(700 001)	-	(700 001)	-	(700 001)
At 30 June 2007	**47 487 999**	**63 235 272**	**(8 357 873)**	**5 299 142**	**33 566**	**97 099 822**	**-**	**97 099 822**

General Director Ivan Blagodyr'

Chief Accountant Margarita Komarova

28 September 2007

(in thousands of Russian Roubles)

Note 1. The Group and its operations

Open Joint-Stock Company WGC-3 (OJSC "WGC-3", or the "Company") was established on 23 November 2004 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

Branches. The WGC-3 Group (the "Group") operates 6 power plants and its principal activity is electricity and heat generation. The Group consisted of OJSC WGC-3 and its subsidiaries. The Group's principal subsidiaries as at 31 March 2005 were six State-District Power Plants (the "SDPP"):

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

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

Starting from 1 April, 2006 the Company has six power generating stations, incorporated as production branches.

Subsidiaries. The Company has 13 subsidiaries which are service companies and operate in the regions where power plants are situated. All subsidiaries are 99.9-100% controlled and their income is mainly generated by intra-group operations.

Principal shareholders. Company has no ultimate parent as at 30 June 2007. As at 30 June 2007 the Company's principal shareholders are the Group "MMC "Norilsk Nickel" (46.62% of shares) and the RAO UES of Russia (37.08% of shares). The rest of shares are held by individual and nominee holders (16.30% of shares) (see Note 11).

The Company is registered by the District Inspectorate of the RF Ministry of Taxation of Republic of Buryatiya. The Company's office is located at bld. 165, bld. 1, Mozhayskoye Highway., Moscow, 121596, Russia.

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

Relations with the state and current regulation. As at 30 June 2007 the Russian Federation owned 52.68 % of RAO UES of Russia (54.99% of the ordinary shares issued), which in its turn owned 37.08% of OJSC WGC-3. The Russian government was the ultimate controlling party of the Company until March 2007. As at 30 June 2007 RAO UES of Russia, the shareholder of the Company, is recognized in Financial Statements as related party (see Note 5).

As at 31 December 2006 the Russian Federation owned 52.68% of RAO UES of Russia (54.99% of the ordinary shares issued), which in its turn owned 59.72 % of OJSC WGC-3.

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

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales. Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

As described in Notes 2, 21 and 22, the government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the RAO UES of Russia can raise the capital required to maintain and expand current capacity.

- The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities" and Federal Law No. 36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".

- In June 2003 the government issued Resolution No. 1254-r "On formation of generation companies of the wholesale electricity market" which approved composition of wholesale generating companies of the wholesale electricity market, including a list of the six power plants to be contributed into the Group.

- In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity Market (FOREM): regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers will be able to sell electricity generated with the use of facilities and equipment accounting for 15.00% of the working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity market during the transition period, has been holding electricity bidding in the free trading sector. The Group participates in this free trading scheme. According to the laws underlying the electric utilities reform, subsequently free trading would be extended over the whole volume of trading.

- As at 1 September 2006 a new liberalized model of the wholesale and retail electricity (power) markets has been launched according to the Russian Government's Resolution No. 529 "On Improvement of the Procedure for Functioning of Wholesale Electricity (Power) Market" and No. 530 "On Rules for the Functioning of Retail Electricity Markets". Under the new wholesale market model, the existing electricity and power purchase-and-sale relations in the regulated market sector are to be replaced by a regulated bilateral contract system. From 1 September 2006 regulated contracts covered all volumes of electricity and power produced and consumed. From 2007 the volumes of electricity (power) traded in the wholesale market at regulated prices will substantially reduce. The pace of reduction will be set annually by the Russian Federation Government according to socio-economic development forecasts. In 2007 up to 95.00% of the forecasted production volumes will be traded at regulated prices. The period from 2006 to approximately 2013 is a transition period. After that it will become possible to launch a fully competitive wholesale market. The new market model implies two ways of electricity trading: at free prices, being free bilateral contracts and a day – ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and supply volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers a day before the electricity is actually supplied. The competitive selection is performed by the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market". If there are deviations from the day-ahead forecast, participants are obliged to sell excess amounts or buy missing ones in the balancing market. As a whole, the day-ahead market replaces the free trade sector that was previously operating. Consumption and production planning held by System operator CDU UES is based on the results of bidding.

- As at 29 May 2003, the Board of Directors of RAO UES of Russia approved a "Concept of RAO UES of Russia strategy for the period from 2003 through 2008". In February 2006 the Board of Directors approved an Appendix to the Concept of RAO UES Strategy: "Generating companies of the Wholesale Electricity Market (WGCs)". This document provides a detailed description of the major changes that are planned to take place in respect of wholesale generation companies during the electric utilities reform program. In accordance with this Concept, RAO UES of Russia was developing the first stage of its own reorganization which assumes a spin-off of 2-3 generating companies (including OJSC WGC-3) with proportional distribution of shares of the separated companies between the shareholders of RAO UES of Russia. It also assumed a disposal of 40.29% of OJSC WGC-3 to take its holding from 59.70% to 19.41%.

- As at 2 March 2007, the Board of Directors of RAO UES has approved the basic structure for the second (final) phase of the Company's reorganisation which assumes that in 2007-2008 the Company will complete the restructuring of RAO UES assets and spin off all companies which will comprise the ultimate sector structure, following which RAO UES will cease its activity. The Board of Directors of RAO UES considered and approved a plan that envisages that the Group or successor entities raise funds for future capital expenditures by selling existing shares in the share capital of all the WGCs and TGCs, except for OJSC Federal Hydrogenation HydroWGC, WGC-5 and TGC-5, in the amount not exceeding the effective share of the Russian Federation in RAO UES.

Note 2. Financial condition

At 30 June 2007, the Group's current assets exceeded its current liabilities by RR 78 023 880 thousand (at 31 December 2006: current liabilities exceeded its current assets by RR 1 912 237 thousand). The reason for exceeding of current assets as at 30 June 2007 is effect of additional shares issued sale at market price which is above par value of shares (see Note 11).

As discussed above the Group is affected by government policy through the control of tariffs and other factors. The FST does not always permit tariff increases in excess of increases in the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude additional costs recognized under an IFRS basis of accounting.

However, the growing demand for electricity and capacity together with increasing free trading sector of the wholesale electricity market result in a higher rate of revenue growth during the six months ended 30 June 2006 to date. Management considered recent favorable changes in operation of the Russian electricity market. According to new liberalized model of the wholesale and retail electricity (power) markets (see also Note1) the share of free market activity in all operations of the Group increased in the reporting period and it will increase in near future. These assumptions were used in determining the need for impairment of property, plant and equipment reversal at 31 December 2006 (see Note 6).

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

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

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

Note 3. Basis of preparation

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

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

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

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

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

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

New accounting developments. These interim consolidated financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2006, except for those policies which were changed to comply with the new or amended standards and interpretation that are in force for the year beginning on 1 January 2007.

These new or amended standards and interpretations that are in force for the periods beginning on 1 January 2007 and their impact on the current period or any prior period is described below:

- IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006. This amendment did not have a material effect on the Group's financial statements;

- IFRIC 11, "IFRS 2 - Group and Treasury share transactions ", effective for annual periods beginning on or after 1 March 2007. This amendment did not have a material effect on the Group's financial statements;

- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. IAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007.

The following new Standards and Interpretations are not yet effective or the Company has not early adopted them and they have not been applied in preparing these interim consolidated financial statements:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;

- Amendment to IAS 23 "Borrowing Cost" effective for 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 recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale;

- Amendment to IAS 1 “Presentation of Financial Statements” (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

- IFRIC 13 "Customer Loyalty Programs", which is effective for annual periods beginning on or after 1 January 2008;

- IFRIC 12, "Service concession agreements", effective for annual periods beginning on or after 1 January 2008;

- IFRIC 14 IAS 19 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”, which is effective for annual periods beginning on or after 1 January 2008.

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

Going concern. The interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments should the Group be unable to continue as a going concern.

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

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

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

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

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

Note 4. Summary of significant accounting policies

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

A) Subsidiaries

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

B) Transactions eliminated on consolidation

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

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

As at 30 June 2007, 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 25.8162: USD 1.00 (31 December 2006: RR 26.3311: USD 1.00), between the RR and EURO RR 34.7150: EURO 1.00 (31 December 2006: RR 34.6965: EURO 1.00).

Financial assets. The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale . The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

(b) Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(c) Deposits and loans issued. Deposits and loans issued are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Deposits include those with original maturity of more than two months. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Deposits and loans issued are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method

(d) Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

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

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

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

(in thousands of Russian Roubles)

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

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

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

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	4-63	25 -50
Electricity distribution	19-30	30
Heating networks	4-22	25
Other	8	10

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

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

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents. Balances restricted from being exchanged or used to settle liability for at least twelve months after the balance sheet date are included in non-current assets.

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

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

There are also some transition rules applied for output and input VAT incurred before 1 January 2006 and which were not settled as at 1 January 2006. Generally, according to the rules these output and input VAT will be settled during 2006-2007 but not later than the first tax period of year 2008.

Since 1 January 2006 VAT related to sales is payable to tax authorities upon dispatch of goods and provision of services, input VAT is reclaimable against sales VAT upon purchase of goods and services on accrual basis.

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

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

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

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

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

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

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

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

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

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

The Group also operates defined benefit plans. In respect of some of these plans the Group has contract with non-governmental pension fund, the other plans are operated by the Group without engaging pension funds. The liability recognized in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustment for unrecognized actuarial gains and losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related pension liabilities.

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

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

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

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

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

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

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

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

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

Seasonality. Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

(in thousands of Russian Roubles)

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

Note 5. Related Parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the six months ended 30 June 2007 and during the six months ended 30 June 2006 or had significant balances outstanding at 30 June 2007 and at 31 December 2006 are detailed below.

Starting from 26 March 2007 major shareholders of the Group are RAO UES of Russia and Group "MMC "Norilsk Nickel". None of mentioned companies have control over the group, but are related parties due to significant influence over WGC-3

Transactions with Group RAO UES Russia

The Group has the following revenues to the related parties:

	Period ended 30 June 2007	**Period ended 30 June 2006**
Electricity	7 557 260	5 902 140
Other	1 608	208

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

	30 June 2007	**31 December 2006**
Accounts receivable, gross	964 275	570 937
Provision for impairment of accounts receivable	43 834	0
Accounts payable	576 242	17 588

State-controlled entities

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

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

	Period ended 30 June 2006	**Period ended 30 June 2006**
Electricity and heat sales	60 519	161 895
Other sales	15 564	16 189
Purchases of fuel	3 702 203	3 207 644
Interest on credit	103 818	58 969
Interest received	937 359	1

(in thousands of Russian Roubles)

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

	30 June 2007	31 December 2006
Accounts receivable and prepayments	741 884	732 342
Provision for impairment of accounts receivable	454 538	323 154
Accounts payable and accruals	334 557	41 983
Current debt	573 260	0

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

Transactions with key management and close family members

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

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors for the period ended 30 June 2007 was RR 132 384 thousand (period ended 30 June 2006 - RR 20 087 thousand).

Note 6. Property, plant and equipment

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2006	**29 472 943**	**3 845 767**	**923 522**	**1 978 677**	**6 585 373**	**42 806 282**
Additions	1 453	135	-	393 685	106 458	501 731
Transfer	21 433	14 484	-	(99 617)	63 700	-
Disposals	(5 086)	(2 188)	-	(28 797)	(32 294)	(68 365)
Closing balance as at 30 June 2007	**29 490 743**	**3 858 198**	**923 522**	**2 243 948**	**6 723 237**	**43 239 648**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2006	**(15 355 385)**	**(2 798 203)**	**(663 402)**	**(130 928)**	**(5 466 363)**	**(24 414 281)**
Charge for the period	(416 559)	(36 060)	(10 984)	-	(146 430)	(610 033)
Impairment transferred from CIP	(2 442)	(632)	-	3 430	(356)	-
Disposals	1 740	946	-	-	27 267	29 953
Accumulated depreciation and impairment reversal	54 048	110 249	36 061	-	154 669	355 027
Closing balance as at 30 June 2007	**(15 718 598)**	**(2 723 700)**	**(638 325)**	**(127 498)**	**(5 431 213)**	**(24 639 334)**
Net book value as at 30 June 2007	**13 772 145**	**1 134 498**	**285 197**	**2 116 450**	**1 292 024**	**18 600 314**
Net book value as at 31 December 2006	**14 117 558**	**1 047 564**	**260 120**	**1 847 749**	**1 119 010**	**18 392 001**

(in thousands of Russian Roubles)

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2005	**29 034 800**	**3 768 419**	**866 936**	**2 038 502**	**6 466 371**	**42 175 029**
Additions	13 785	13	49 830	146 893	24 768	235 289
Transfer	43 919	129	-	(54 661)	10 613	-
Disposals	(39 721)	(3 141)	-	(476 351)	(86 928)	(606 141)
Closing balance as at 30 June 2006	**29 052 783**	**3 765 420**	**916 766**	**1 654 383**	**6 414 824**	**41 804 177**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2005	**(20 510 038)**	**(3 196 542)**	**(690 359)**	**(138 123)**	**(5 367 679)**	**(29 902 741)**
Charge for the period	(274 345)	(28 999)	(15 179)	-	(217 789)	(536 312)
Impairment transferred from CIP	(49)	-	-	49	-	-
Disposals	26 832	2 824	-	-	80 383	110 039
Closing balance as at 30 June 2006	**(20 757 600)**	**(3 222 717)**	**(705 538)**	**(138 074)**	**(5 505 085)**	**(30 329 014)**
Net book value as at 30 June 2006	**8 295 183**	**542 703**	**211 228**	**1 516 309**	**909 739**	**11 475 162**
Net book value as at 31 December 2005	**8 524 762**	**571 877**	**176 576**	**1 900 380**	**1 098 692**	**12 272 288**

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

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The Group has the right to purchase this land (except for the land at Moscow) upon application to the state registration body or to formalize the right for rent after the right expiry date, which is 1 January 2008.

Impairment

The provision included in accumulated depreciation balance as at 30 June 2007, 31 December 2006 and 30 June 2006 was RR 4 277 752 thousand, RR 4 836 185 thousand and RR 11 664 997 thousand, accordingly.

Management has concluded that at 31 December 2006 there were indications for reversing previously recognized impairment losses based on significant changes with a favorable effect on the Group that have occurred or are expected to occur in the near future in the market and economic environment in which the Group operates. Such changes include:

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

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

1. Electricity tariffs in the regulated sector will be increased by 19.00%, 20.00%, 22.30% for the years ended 31 December 2008, 2009 and 2010, respectively;
2. Heat tariffs will be increased by 17.00%, 18.20%, 18.40% for the years ended 31 December 2008, 2009 and 2010, respectively;
3. Gas price will be increased by 25.00%, 27.70%, 27.70% for the years ended 31 December 2008, 2009 and 2010, respectively;
4. Growth of gas prices and other operating costs will be accounted for by the Regional Tariff Service in the course of establishing regulated electricity and heat tariffs on a “cost-plus” basis;
5. Inflation rate will not exceed 7.00% year;
6. Increase of major variable cost (except for fuel) will not exceed the inflation rate;
7. The pre-tax discount rate used to determine assets value in use is equal to 13.13% until 2009 year and 14.02% after 2009 year.

Gas price, heat tariffs and electricity tariffs (in the regulated sector) approved by respective regulators for the year ended 31 December 2007 indicates increases of 15.00%, 15.00% and 16.50%, respectively in comparison with the year ended 31 December 2006.

Consequently, in 2006 the Group has recorded a reversal of the previously recognized impairment loss in the amount of RR 6 400 million. A respective gain together with a corresponding deferred tax expense of RR 1 536 million were recognized in the statement of operations for the year ended 31 December 2006.

In 2006 management’s assessment indicated that the fair value of property, plant and equipment would not be lower than its net book value for all the generating units, except for Pechorskaya SDPP. In respect of Pechorskaya SDPP, management believes that this power plant will be unable to generate positive cash flow from the operations of its assets for the foreseeable future due to low installed capacity, a large portion of fixed costs, and limitations of the distribution market. As a consequence, in 2006 the Group recognized an impairment loss of RR 50 million in respect of the property, plant and equipment of Pechorskaya SDPP with a corresponding deferred tax benefit of RR 12 million in the statement of operations for the year ended 31 December 2006. The effect of Pechorskaya SDPP impairment considerations partly offset the above reversal of previously recognized impairment, resulting in pre-tax impairment reversal gain of RR 6 350 million.

During the six months ended 30 June 2007 the Group recognised the disposal loss of 2 million in respect of certain non-operating fixed assets and construction in progress (in six months ended 30 June 2006 recognised the disposal loss : RR 22 million).

(in thousands of Russian Roubles)

Operating leases

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

Non-cancelable operating lease rentals are payable as follows:

	30 June 2007	31 December 2006
not later than one year	26 218	35 379
later than one year and not later than five years	54 207	122 025
later than five years	7 817	18 691
Total	**88 242**	**176 095**

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. Lease payments are reviewed regularly to reflect market rentals.

Note 7. Other non-current assets

	30 June 2007	31 December 2006
Advances for Property, plant and equipment	2 302 044	332 757
Long-term available for sale investments	153 124	142 696
Long-term receivables	33 885	116 519
Long-term Value added tax	1 669	1 607
Other non-current assets	521	2 082
Total	**2 491 243**	**595 661**

Note 8. Inventories

	30 June 2007	31 December 2006
Fuel supplies	1 390 320	1 625 529
Materials and supplies	318 963	232 410
Other inventories	469 285	434 843
Total	**2 178 568**	**2 292 782**

The above inventory balances are recorded net of an obsolescence provision of RR 176 281 thousand and RR 183 538 thousand as at 30 June 2007 and 31 December 2006, respectively.

Note 9. Accounts receivable and prepayments

	30 June 2007	31 December 2006
Trade receivables (net of provision for impairment of accounts receivable of RR 300 761 thousand as at 30 June 2007 and RR 562 451 thousand as at 31 December 2006)	1 350 513	657 994
Advances to suppliers (net of provision for impairment of advances to suppliers of RR 71 289 thousand as at 30 June 2007 and RR 71 447 thousand as at 31 December 2006)	272 810	240 344
Value added tax recoverable	72 735	71 572
Other receivables (net of provision for impairment of other receivables of RR 391 975 thousand as at 30 June 2007 and RR 410 238 thousand as at 31 December 2006)	1 213 072	202 658
Total	**2 909 130**	**1 172 568**

(in thousands of Russian Roubles)

The provision for impairment of accounts receivable was calculated based on analysis of collectibility. The movement of the provision is shown in the table below.

	6 months ended 30 June 2007	6 months ended 30 June 2006
As at 1 January	1 044 136	1 387 879
Reversal of provision	(353 157)	(991 228)
Accrued provision	73 046	436 289
As at 30 June	**764 025**	**832 940**

As of 30 June 2007, trade receivables of 31 282 (31 December 2006: 31 282) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	30 June 2007	31 December 2006
Up to 6 months	-	-
more than 6 months	31 282	31 282
Total	**31 282**	**31 282**

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

Note 10. Deposits

Name of bank	Currency	Deposit interest rate, %	30 June 2007	31 December 2006
Gazprombank	RR	6.70-6.80	32 500 000	-
VTB Bank	RR	6.50	30 000 000	-
Alfa-bank	RR	5.25-6.00	15 000 000	-
Total			**77 500 000**	**-**

As at 30 June 2007 cash collected by Group from the additional public offering (see Note 11) was included in deposits in the amount of RR 77 500 million. In accordance with the CJSC “Gazprombank “, OJSC “VTB Bank” and OJSC “Alfa-bank “contracts the Group is required not to demand a refund all or part of deposits prior to maturity date. Deposit periods are from three to six months.
For the six months ended 30 June 2007 interest income on these deposits amounted RR 869 671 thousand.

Note 11. Equity

Share capital *(Number of shares unless otherwise stated)*	Ordinary shares 30 June 2007	Ordinary shares 31 December 2006
Issued shares	47 487 999 252	29 487 999 252
Par value (in RR)	1.00	1.00

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

Cash contributions amounted to RR 20 500 thousand, of which RR 5 500 thousand were paid in the year ended 31 December 2004 and RR 15 000 thousand – in the year ended 31 December 2005.

Ordinary shares for total amount of RR 27 587 588 thousand were paid in the year ended 31 December 2005 in kind of shares in the Company’s subsidiaries, where values determined by independent appraisers were equal to RR 28 038 406 thousand. Share premium of RR 450 818 thousand equaled to difference between the appraisers' value of the contributions to the share capital and nominal value of the shares issued.

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

On March 10, 2007 the Board of Directors of OJSK WGC-3 has approved the offering price of ordinary registered share of OJSK WGC-3 in amount of RR 4.54. Shareholders of OJSK WGC-3 bought 163 656 899 ordinary registered shares at the above price taking advantage of the preemptive right. During public offering the Group "MMC "Norilsk Nickel" has acquired 17 836 343 101 of ordinary registered shares. Thus, the stake of the Group "MMC "Norilsk Nickel" in share capital of OJSK WGC-3 increased to 46.62%. OJSK WGC-3 raised RR 81 720 000 000 from the additional public offering.

As a result of the above the stake of RAO UES of Russia has decreased from 59.68% to 37.10%. OJSK WGC-3 as at 30 June 2007 is no longer controlled by RAO UES of Russia.

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

Transactions with minorities. In December 2005, the Company exchanged its unpaid shares to the minority shareholders' shares in the Company's subsidiaries. Because of application of predecessor accounting, IFRS carrying value of the contributed assets were RR 10 403 761 thousand, of which RR 2 257 490 thousand were attributable to minority interest. The difference of RR 8 146 271 thousand between the nominal value of share capital paid, the IFRS carrying value of the contributed assets and the minority interest has been recorded as a merger reserve within equity attributable to the Company's shareholders.

In the year ended 31 December 2006 additional ordinary shares for RR 1 879 911 thousand were issued in order to finalize conversion of the Company's subsidiaries shares into shares of OJSC WGC-3.

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

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

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

In the year ended 31 December 2006 the Company declared additional dividends for the year ended 31 December 2005 of RR 0.0132895 per share for the total to RR 4 530 thousand.

On 8 May 2007 the Annual General Meeting has approved the proposal to pay dividends in respect of the year ended 31 December 2006 in the amount of RR 0.023738 per ordinary share. The dividends in the amount of RR 700,001 thousand will be paid by the Company in the year ended 31 December 2007. These dividends were recognized in these consolidated financial statements.

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

(in thousands of Russian Roubles)

Note 12. Income tax

Income tax charge	Period ended 30 June 2007	Period ended 30 June 2006
Current income tax charge	(642 289)	(378 037)
Deferred income tax (charge)/benefit	(155 497)	(118 940)
Total income tax charge	**(797 786)**	**(496 977)**

During the period ended 30 June 2007 the Group entities were subject to a 24.00% income tax rate on taxable profits.

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

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

	Period ended 30 June 2007	Period ended 30 June 2006
Profit / (loss) before tax	**2 549 446**	**198 124**
Theoretical tax (charge)/benefit at the statutory tax rate of 24%	(611 865)	(47 550)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of changes in WEM imbalance	(37 200)	(77 185)
Effect of changes in provisions for liabilities and charges	21 915	40 023
Effect of changes in pensions liabilities	(4 868)	(33 984)
Non-deductible loss (written-off assets)	(1 398)	(63 467)
Tax interest and penalties forgiven	-	(89 126)
Other non-deductible and non-taxable items, net	(164 370)	(225 688)
Total income tax charge	**(797 786)**	**(496 977)**

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

Deferred tax liabilities

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	30 June 2007
Property, plant and equipment	(1 913 793)	(66 675)	-	(1 980 468)
Accounts payable	(9 423)	6 046	-	(3 377)
Other	(12 912)	-	(2 503)	(15 415)
Total	**(1 936 128)**	**(60 629)**	**(2 503)**	**(1 999 260)**

(in thousands of Russian Roubles)

Deferred tax assets

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the Statement of Changes in Equity	30 June 2007
Accounts receivable including provision for impairment	181 760	47 272	-	229 032
Accounts payable	147 667	(147 667)	-	-
Inventories	60 948	3 930	-	64 878
Other	-	1 597	-	1 597
Total	**390 375**	**(94 868)**	**-**	**295 507**
Net deferred tax liabilities	**(1 545 753)**	**(155 497)**	**(2 503)**	**(1 703 753)**

Deferred tax liabilities

	31 December 2005	Movement for the period recognized in the income statement	30 June 2006
Property, plant and equipment	(777 151)	382 829	(394 322)
Accounts payable	-	(42 139)	(42 139)
Other	(345)	(4 335)	(4 680)
Total	**(777 496)**	**336 355**	**(441 141)**

Deferred tax assets

	31 December 2005	Movement for the period recognized in the income statement	30 June 2006
Property, plant and equipment	388 503	(388 503)	-
Accounts receivable including provision for impairment	183 829	(172 148)	11 681
Accounts payable	21 561	8 480	30 041
Inventories	255	62 768	63 023
Other	1 884	34 108	35 992
Total	**596 032**	**(455 295)**	**140 737**
Net deferred tax liabilities	**(181 464)**	**(118 940)**	**(300 404)**

Note 13. Pension liabilities

The tables bellow provide information about the benefit obligation, plan assets and actuarial estimations used for the period ended 30 June 2007 and for the period ended 30 June 2006.

Amounts recognized in the Consolidated Balance Sheet:

	30 June 2007	31 December 2006
Defined benefit obligations	**414 765**	**416 721**
Fair value of plan assets	-	-
Funded status	414 765	416 721
Unrecognized net actuarial gain/(loss)	(102 740)	(126 603)
Unrecognized past service cost	(51 196)	(49 573)
Net liability in balance sheet	**260 829**	**240 545**

(in thousands of Russian Roubles)

Amounts recognized in the Consolidated Statement of Operations:

	Period ended 30 June 2007	Period ended 30 June 2006
Current service cost	13 877	2 836
Interest cost	13 968	4 551
Recognized actuarial (gain)/loss	-	-
Recognized past service cost	3 861	-
Settlement (gain)/loss	3 226	2 423
Other	-	148 673
Total	**34 932**	**158 483**

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

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

	Period ended 30 June 2007	Period ended 30 June 2006
Benefit obligations at the beginning of the period	416 721	136 673
Current service cost	13 877	2 836
Interest cost	13 968	4 551
Actuarial loss/(gain)	(20 002)	105 279
Past service cost	4 849	17 654
Benefits paid	(14 648)	(14 799)
Other	-	148 673
Benefit obligations at the end of the period	**414 765**	**400 867**

Principal actuarial estimations are as follows:

	30 June 2007	31 December 2006
Discount rate	6.60	6.60
Salary increase	9.20	9.20
Pension increase (for "qualified pension")	6.60	6.60
Pension increase (for other benefits)	5.00	5.00
Inflation	5.00	5.00

Reconciliation of the balance sheet:

	30 June 2007	31 December 2006
Net liability at start of period	240 545	98 947
Net expense recognised in the income statement	34 932	168 087
Employer contributions	(14 648)	(26 489)
Net liability at the end of the period	**260 829**	**240 545**

(in thousands of Russian Roubles)

Experience adjustments:

	Period ended 30 June 2007	Period ended 30 June 2006
Present value of defined benefit obligations (DBO)	414 765	400 867
Fair value of plan assets		-
(Surplus)/deficit in plan	414 765	400 867
Gains/(losses) arising of experience adjustments on plan liabilities	(20 002)	(42 821)
Gains/(losses) arising of experience adjustments on plan assets		-

Sensitivity of Defined Benefit Obligation to changes in assumptions:

	Increase	effect on DBO 2007
Discount	-1.00%	+11.00%
Salary growth	+1.00%	+ 8.00%

Note 14. Current debt

Name of creditor	Currency	Effective interest rate, %	30 June 2007	31 December 2006
Corporate bonds	RR	6.75-7.00	1 750 000	3 000 000
Alfa-bank	RR	7-11.20	585 000	700 000
Gazprombank	RR	7.00-8.00	573 260	-
Ukhtabank	RR	12.00	-	4 008
Other	RR	13.00	762	-
Total			**2 909 022**	**3 704 008**

On October 24, 2006 the Board of Directors approved the issuance of non-convertible interest bearing bonds. A notional quantity of 3,000,000 of such bonds were issued on December 15, 2006 at par. Each individual bond has a face value of RR 1000 and was issued for a 5 year term. Interest on the bonds is payable every 6 months. The interest rate is set at the discretion of the board of directors of the company at least 10 days in advance of the coupon period. The initial coupon rate was set at 7.00% per annum. The second coupon rate was set at 6.75% per annum. Holders of the bonds can demand repayment at each coupon date.

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

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

Short term loans issued to the Group were unsecured as at 30 June 2007 and at 31 December 2006.

The carrying amounts of current debt approximate their fair value.

(in thousands of Russian Roubles)

Note 15. Accounts payable and accruals

	30 June 2007	31 December 2006
Accrued liabilities and other payables	700 971	736 957
Advances from customers	878 884	41 278
Trade payables	692 718	922 259
Dividends payable	701 546	1 628
Total	**2 974 119**	**1 702 122**

Note 16. Provision for liabilities and charges

Movements in provision for liability and charges are as follows:

	Note	Tax Risks	Legal claims	Total
Carrying amount at 31 December 2006		**164 761**	**68 582**	**233 343**
Additions charged to profit or loss		(861)	(32 501)	(33 362)
Reversal of provision		(57 951)		(57 951)
Carrying amount at 30 June 2007		**105 949**	**36 081**	**142 030**

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

Tax risks. Management assessed, based on their interpretation of the relevant tax legislation, that it is probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, Group created provisions for the associated not assessed taxes and the related penalties and interest. The balance at 30 June 2007 is expected to be either fully utilised or released within one year (at 31 December 2006: within one year).

Legal claims. Provision for legal claims relates to the claims brought against the Group by fuel suppliers and services providers. The balance at 30 June 2007 is expected to be utilised within a year (31 December 2006: by the end of 2007). In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts.

Note 17. Taxes payable

	30 June 2007	31 December 2006
Water usage tax	145 397	157 346
Value added tax	96 700	39 221
Employee taxes	31 662	26 130
Property tax	55 251	84 885
Land tax	5 367	12 985
Income tax	19 947	15 380
Fines and interest	69	16 929
Other taxes	47 862	26 276
Total	**402 255**	**379 152**

Starting from 1 January 2006 VAT is payable to tax authorities on accrual basis, while VAT originated prior to 1 January 2006 is payable to tax authorities as far as cash receipt from customers or appropriate accounts receivable write-off but not later than 1 January 2008.

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinance rate of the Central Bank of the Russian Federation. As at 30 June 2007 and 31 December 2006 the refinance rate was 10.00 and 11.00 % respectively. Interest does not accrue on tax fines and interest.

(in thousands of Russian Roubles)

Note 18. Operating expenses

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Fuel		(5 999 017)	(6 020 624)
Purchased electricity		(3 197 604)	(12 870)
Employee benefits		(1 672 465)	(1 401 363)
Depreciation	6	(610 033)	(536 312)
Taxes other than income tax		(472 685)	(500 422)
Repairs and maintenance		(445 387)	(413 316)
Transmission fees		(224 409)	(159 451)
Transportation of gas		(219 588)	(120 952)
Raw materials and supplies		(156 116)	(211 230)
Consulting, legal and audit services		(123 941)	(46 884)
Insurance cost		(74 623)	(54 620)
Security services		(58 424)	(38 727)
Impairment of accounts receivable		(59 173)	(81 271)
Rent		(45 681)	(46 225)
Transportation services		(32 399)	(12 345)
(Loss)/gain on disposal of material assets		(15 524)	4 005
Telecommunication services		(26 883)	(10 778)
Water usage expenses		(24 321)	(8 873)
Profit/(loss) on disposal of fixed assets		(22 105)	(148 051)
Accumulated depreciation and impairment reversal		355 027	
Charity expenses		(15 034)	(16 623)
Social overhead costs		(9 355)	(8 574)
Fire protection		(5 888)	(442)
Writing off of non-core assets		(986)	(3 352)
Loss related to restructuring process		(390)	(7 595)
Reverse of write down/(Write-down) of inventories		7 404	(165 291)
Change in provision for liabilities and charges	16	91 313	166 764
Other expenses		(413 470)	(427 226)
Total operating expenses		**(13 471 757)**	**(10 282 649)**

Employee benefits expenses comprise the following:

	Six months ended 30 June 2007	Six months ended 30 June 2006
Salaries and wages, payroll taxes	(1 566 545)	(1 193 773)
Financial aid to employees and pensioners	(64 246)	(43 260)
Non-governmental pension fund expenses	(41 674)	(164 330)
Employee benefits	**(1 672 465)**	**(1 401 363)**

Note 19. Finance costs

	Six months ended 30 June 2007	Six months ended 30 June 2006
Interest expense	(140 533)	(78 007)
Other	(17 667)	(6 940)
Total finance cost	**(158 200)**	**(84 947)**

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

	Six months ended 30 June 2007	Six months ended 30 June 2006
Profit/(loss) attributable to the shareholders of OJSC WGC-3 (thousands of RR)	1 751 660	(298 853)
Weighed average number of ordinary shares issued (thousands of shares)	38 787 999	28 067 622
Earning/(loss) per ordinary share for profit/(loss) attributable to the shareholders of OJSC WGC-3 – basic and diluted (in thousands of RR)	**0.045**	**(0.011)**

Note 21. Commitments

Sales commitments. The Group's entities sell electricity on the two wholesale market sectors: free trading sector and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

The Group has entered into a number of annual electricity sales agreements with CJSC Center for Financial Settlements, CJSC INTER RAO UES, retail companies and large industrial customers.

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

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 3 175 721 thousand at 30 June 2007 (at 31 December 2006: RR 1 781 256 thousand).

Note 22. Contingencies

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

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

Legal proceedings. The Group entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding and not provided for which, upon final disposition, will have a material adverse effect on the financial position of the Group.

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

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

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

As at 30 June 2007 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 23. Financial instruments and financial risks

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

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

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

Credit risk is managed on a Group basis. For wholesale customers there is no independent rating and therefore Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

(in thousands of Russian Roubles)

The table below shows the balance of the ten major counterparties at the balance sheet date:

Narrative	Rating	30 June 2007	31 December 2006
Accounts receivable			
OAO Arkhangelskaya energy distribution company	BBB	339,128	-
OAO Komienergo energy distribution company	BBB	74,296	84
OAO Mosenergosbyt	BBB	26,455	-
OAO Krasnoyarskaya energy distribution company	BBB	64,576	-
ZAO Center of financial estimation	BBB	203,405	239,796
OAO Kolskaya energy distribution company	BBB	55,614	-
OAO InterRAO	BBB	55,614	40
OAO Omskaya energy distribution company	BBB	45,108	-
OAO Rusenergosbyt	BBB	26,539	-
OAO Chuvashskaya energy distribution company	BBB	24,809	-
OAO Dagestanskaya energy distribution company	BBB	81	35,374
OAO Novosibirskenergo	BBB	-	18,878
OAO Ulyanovskenergo	BBB	8,531	24,465
OAO Nurenergo	BBB	43,834	9,917
Total accounts receivable		**943,418**	**390,507**
Loans issued			
OAO Silovye Mashiny	BBB	380,000	-
OAO Torgovo-stroitelniy bank	BBB	1,660	1,660
Total loans issued		**381,660**	**1,660**
Deposits			
Alfa-bank	B	15,000,000	-
VTB	A-2	30,000,000	-
Gazprombank	A-3	32,500,000	-
Total deposits		**77,500,000**	-

Interest rate risk. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term borrowings; this information is disclosed in Note 14. The Group has no other material interest-bearing assets.

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

Liquidity risk. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 30 June 2007				
Debt and borrowings	2 909 022	-	-	-
Trade and other payables	3 376 374	51 094	11 382	481
At 31 December 2006				
Debt and borrowings	3 704 008	-	-	-
Trade and other payables	2 081 274	37 076	39 127	-

(in thousands of Russian Roubles)

Fair values. Management believes that the fair value of its financial assets and liabilities approximates their carrying amount. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables.

The Group's deposits in banks are short-term and their carrying amount approximates fair value.

The maximum exposure for each risk is limited to the fair value of each class of financial instrument.

Note 24. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 30 June 2007 and at 31 December 2006 were as follows:

	30 June 2007	**31 December 2006**
Total borrowings	2 909 022	3 704 008
Less: cash and cash equivalents	(1 260 138)	(354 892)
Less: deposits within 3 months	(15 000 000)	-
Net debt	(13 351 116)	3 349 116
Total equity	97 099 822	15 255 785
Total capital	**98 748 706**	**18 604 901**
Gearing ratio	>100%	18%

Note 25. Post balance sheet events

Acquisition of Group's shares

In accordance with the Joint-stock company Act the Group "MMC "Norilsk Nickel" sent the indispensable offer for acquisition of Company's shares at value RR 4.54 per share. At August 17, 2007 within the above mentioned offer for acquisition the Group "MMC "Norilsk Nickel", the Company's principal shareholder, bought 3 423 968 050 ordinary registered shares at value RR 4.54 per share, totaling RR 15 544 816 thousand. Thus, the stake of the Group "MMC "Norilsk Nickel" in share capital of the Company increased from 46.62 % to 53.83 %.

On September, 6, 2007 the sale of Company's ordinary shares (the stake of Russian Federation) at value RR 4.54 per share was completed. Within the framework of this transaction the stake of the Group "MMC "Norilsk Nickel" in share capital of the Company increased from 53.83 % to 64.89 % the stake of RAO UES decreased from 37.1 % to 26.2 %.

Foundation of OJSC Yuzhnouralsk Heating Retail Company

At July 07, 2007 the Board of Directors of OJSK WGC-3 has approved initially establishment as wholly owned subsidiary of OJSC Yuzhnouralsk Heating Retail Company. The stake of the Group in share capital of OJSC Yuzhnouralsk Heating Retail Company is 100 %. The core activities of the Company are maintenance and exploitation of heating networks, heat sale and heat transmission.

EXHIBIT V — PRO FORMA FINANCIAL INFORMATION — NORILSK AND ENERGOPOLYUS GROUP

The following unaudited pro forma financial information gives pro forma effect to the Spin-off, after giving effect to the pro forma adjustments described in the accompanying notes.

The unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated income statement of the Norilsk Group have each been prepared as if the Spin-off had occurred on January 1, 2006. This unadjusted pro forma consolidated financial information has been extracted from, and should be read in conjunction with, the Norilsk Group's historical audited consolidated financial statements included in Exhibit I and the Norilsk Group's historical unaudited consolidated interim financial statements included in Exhibit III.

The unaudited pro forma balance sheet of the EnergoPolyus Group has been prepared as if the Spin-off had occurred on June 30, 2007 and the unaudited pro forma income statements of the EnergoPolyus Group have been prepared as if the Spin-off had occurred at the beginning of the reported periods. This unaudited pro forma financial information has been extracted from, and should be read in conjunction with (i) the WGC-3 Group's historical audited consolidated financial statements included in Exhibit II and the WGC-3 Group's historical unaudited consolidated interim financial statements included in Exhibit IV; and (ii) the Norilsk Group's historical audited consolidated financial statements included in Exhibit I and the Norilsk Group's historical unaudited consolidated interim financial statements included in Exhibit III. No separate historical financial information of EnergoPolyus has been prepared.

The pro forma financial information is provided for illustrative purposes only and does not purport to represent what the actual results of operations or the financial position of the Norilsk Group or the EnergoPolyus Group would have been had the Spin-off occurred on the above-described dates, nor is it necessarily indicative of the operating results or financial position of the Norilsk Group or the EnergoPolyus Group for any future periods.

Norilsk

Proforma balance sheet

US Dollars million

	June 30, 2007			June 30, 2006			December 31, 2006		
	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets
ASSETS									
Non-current assets									
Property, plant and equipment	15,644	15,638	6	7,580	7,576	4	8,134	8,130	4
Goodwill	26	26	—	15	15	—	25	25	—
Intangible assets	60	60	—	42	42	—	48	48	—
Investments in associates	4,209	92	4,117	257	75	182	208	36	172
Investments in securities and other financial assets	2,539	257	2,282	1,170	151	1,019	2,615	384	2,231
Taxes receivable	50	49	1	118	117	1	44	42	2
Deferred tax assets	26	26	—	12	12	—	—	—	—
Pension plan assets	37	37	—	—	—	—	—	—	—
Total non-curent assets	**22,591**	**16,185**	**6,406**	**9,194**	**7,988**	**1,206**	**11,074**	**8,665**	**2,409**
Current assets									
Inventories	2,235	2,235	—	1,533	1,533	—	1,471	1,471	—
Trade and other receivables	1,249	1,249	—	502	502	—	850	848	2
Investments in securities and other financial assets	390	390	—	133	73	60	104	104	—
Taxes receivable	679	679	—	518	518	—	602	602	—
Cash and cash equivalents	7,573	7,570	3	1,061	1,060	1	2,178	2,176	2
Total current assets	**12,126**	**12,123**	**3**	**3,747**	**3,686**	**61**	**5,205**	**5,201**	**4**
TOTAL ASSETS	**34,717**	**28,308**	**6,409**	**12,941**	**11,674**	**1,267**	**16,279**	**13,866**	**2,413**
EQUITY AND LIABILITIES									
Capital and reserves									
Share capital	8	8	—	8	8	—	8	8	—
Share premium	611	611	—	610	610	—	611	611	—
Treasury shares	(999)	(999)	—	—	—	—	(999)	(999)	—
Other reserves	3,348	1,677	1,671	1,740	1,286	454	2,562	1,508	1,054
Retained earnings	13,540	13,502	38	7,415	7,400	15	10,635	10,615	20
Equity attributable to shareholders of the parent company	**16,508**	**14,799**	**1,709**	**9,773**	**9,304**	**469**	**12,817**	**11,743**	**1,074**
Minority interest	955	952	3	302	300	2	319	316	3
Total equity	**17,463**	**15,751**	**1,712**	**10,075**	**9,604**	**471**	**13,136**	**12,059**	**1,077**
Non-current liabilities									
Long-term borrowings	4,119	4,119	—	629	629	—	632	632	—
Employee benefit obligations	11	11	—	65	65	—	57	57	—
Environmental obligations	412	412	—	288	288	—	322	322	—
Derivative financial liabilities	82	82	—	—	—	—	—	—	—
Liabilities associated with acquisition of business from OM Group	74	74	—	—	—	—	—	—	—
Deferred tax liabilities	2,739	2,237	502	592	458	134	881	561	320
Total non-current liabilities	**7,437**	**6,935**	**502**	**1,574**	**1,440**	**134**	**1,892**	**1,572**	**320**

	June 30, 2007			June 30, 2006			December 31, 2006		
	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets
Current liabilities									
Short-term borrowings	2,368	2,368	—	12	12	—	158	158	—
Current portion of employee benefit obligations	275	275	—	230	230	—	259	259	—
Current portion of environmental obligations	26	26	—	—	—	—	—	—	—
Trade and other payables	5,847	5,847	—	389	389	—	421	421	—
Taxes payable	412	412	—	242	242	—	393	393	—
Derivative financial liabilities	13	13	—	46	46	—	15	15	—
Dividends payable	856	856	—	373	373	—	5	5	—
Liabilities associated with acquisition of business from OM Group	20	20	—	—	—	—	—	—	—
Total current liabilities	**9,817**	**9,817**	**—**	**1,292**	**1,292**	**—**	**1,251**	**1,251**	**—**
TOTAL EQUITY AND LIABILITIES	**34,717**	**32,503**	**2,214**	**12,941**	**12,336**	**605**	**16,279**	**14,882**	**1,397**

Notes and other supporting information:

1 The major classes of assets and liabilities of subsidiary to be spun off are as follows:

Name of subsidiary	Share-holding	Carrying value	Share-holding	Carrying value	Share-holding	Carrying value
LLC "National Innovation Company New Energy Projects"	74.0%		74.0%		74.0%	
Property, plant and equipment		6		4		4
Long-term investments in securities and other financial assets		—		—		—
Non-current taxes receivable		1		1		2
Trade and other receivables		—		—		2
Cash and cash equivalents		3		1		2
Net assets		**10**		**6**		**10**
Retained earnings & other reserves attributable to shareholders of the parent company		7		4		7
Minority interest		3		2		3

2 Details of the Norilsk Group associates are as follows:

Name of associate	Share-holding	Carrying value	Share-holding	Carrying value	Share-holding	Carrying value
JSC "WGC-3"	46.9%	3,899	n/a	—	n/a	—
Smart Hydrogen Inc.[5]	50.0%	112	50.0%	148	50.0%	112
OJSC "TGK-14"	27.8%	43	n/a	—	n/a	—
OJSC "Krasnoayarskenergo"	25.7%	33	25.7%	28	25.7%	30
OJSC "Kolenergo"	24.9%	15	n/a	—	24.9%	15
OJSC "Krasnoayarskiye magistralniye seti"	25.5%	8	25.5%	5	25.5%	7
OJSC "Tyvaenego-Holding"	25.5%	1	25.5%	1	25.5%	1
OJSC "Kolenergosbyt"	24.8%	—	n/a	—	24.8%	1
OJSC "Kolskie magistralniye seti"	24.8%	6	n/a	—	24.8%	6
		4,117		**182**		**172**

3 Utility Assets represented by securities available-for-sale consist of shares of the following companies:

Name of company	Share-holding	Carrying value	Share-holding	Carrying value	Share-holding	Carrying value
OJSC RAO "UES of Russia"	3.5%	1,962	3.5%	1,019	3.5%	1,580
OJSC "WGC-3"	n/a	—	n/a	—	14.6%	572
OJSC "TGK-1"	7.4%	320	n/a	—	7.2%	79
		2,282		1,019		2,231

4 On December 9, 2005 the Board of Directors of the Company approved a decision to sell its investment in OJSC "Kolenergo". Accordingly, at June 30, 2006 this investment was classified as held for sale and included in current investments in securities. The agreement with potential buyer of OJSC "Kolenergo" shares was terminated on September 5, 2006 and management decided not to market this investment for sale any longer. Accordingly Group's investment in OJSC "Kolenergo" was ceased to be classified as held for sale and was remeasured to reflect the adjustments that would have been made had this asset not been classified as held for sale. Income from associate for the year ended December 31, 2006 was recognised in profit from continuing operations as a result of reclassification of this investment from investments held for sale to investments in associates.

5 Smart Hydrogen Inc. is not included in the list of assets being spin-off. If the Spin-off is implemented as currently planned, it is expected that EnergoPolyus will acquire 49,995% shareholding in Smart Hydrogen in the future from the Norilsk Group at market price.

Proforma income statement

US Dollars million

	Six months ended June 30, 2007			Six months ended June 30, 2006			Year ended December 31, 2006		
	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets	Norilsk Group	Norilsk Group without Utility Assets	Utility Assets
Metal sales	**7,645**	**7,645**	**—**	**4,191**	**4,191**	**—**	**11,550**	**11,550**	**—**
Cost of metal sales	(1,805)	(1,805)	—	(1,375)	(1,375)	—	(3,158)	(3,158)	—
Gross profit on metal sales	**5,840**	**5,840**	**—**	**2,816**	**2,816**	**—**	**8,392**	**8,392**	**—**
Selling, general and administrative expenses	(668)	(661)	(7)	(472)	(464)	(8)	(1,090)	(1,073)	(17)
Other net operating expenses	(148)	(146)	(2)	(133)	(133)	—	(272)	(272)	—
Operating profit	**5,024**	**5,033**	**(9)**	**2,211**	**2,219**	**(8)**	**7,030**	**7,047**	**(17)**
Net finance (cost)/benefit	(52)	(52)	—	2	2	—	(21)	(21)	—
Net income/(loss) from investments	68	68	—	(368)	(368)	—	(199)	(199)	—
Share of profits/(losses) of associates	34	17	17	6	7	(1)	(33)	2	(35)
Profit before income tax	**5,074**	**5,066**	**8**	**1,851**	**1,860**	**(9)**	**6,777**	**6,829**	**(52)**
Income tax	(1,266)	(1,262)	(4)	(477)	(477)	—	(1,805)	(1,800)	(5)
Profit for the period from continuing operations	**3,808**	**3,804**	**4**	**1,374**	**1,383**	**(9)**	**4,972**	**5,029**	**(57)**
Profit for the period from discontinued operation	—	—	—	993	993	—	993	993	—
Profit for the period	**3,808**	**3,804**	**4**	**2,367**	**2,376**	**(9)**	**5,965**	**6,022**	**(57)**
Attributable to:									
Shareholders of the parent company	3,792	3,788	4	2,370	2,380	(10)	5,989	6,046	(57)
Minority interest	16	16	—	(3)	(4)	1	(24)	(24)	—
	3,808	**3,804**	**4**	**2,367**	**2,376**	**(9)**	**5,965**	**6,022**	**(57)**

EnergoPolyus Group

The following unaudited pro forma financial information of the EnergoPolyus Group has been based on the consolidated financial statements of the WGC-3 Group and consolidated financial statements of the Norilsk Group.

These financial statements as of and for the year ended December 31, 2006 and as of and for the six months ended June 30, 2007 were adjusted to illustrate the effects of the Spin-off, including:

- the acquisition by the Norilsk Group of the controlling interest in WGC-3 and acquisition of shares in some other Power Assets as described in more detail in "Spin-Off";
- the transfer of Power Assets by the Norilsk Group to the EnergoPolyus Group;
- the assuming of debt in the amount of 15 billion rubles in the EnergoPolyus Group as described in more detail in "Spin-Off".

The unaudited pro forma balance sheet illustrates effects of the transactions described above as if they had occurred on June 30, 2007. The unaudited pro forma of income statements illustrate the effects of the transactions described above as if they had occurred at the beginning of the reported periods.

The unaudited pro forma financial information was prepared based on the assumption that the EnergoPolyus Group would adopt the accounting principles applied by the Norilsk Group and described in its financial statements. They have been presented solely for illustrative purposes and do not specify what the actual consolidated EnergoPolyus Group results for the presented periods or the actual financial position of the EnergoPolyus Group as at the given date would be should the transaction referred to above have actually taken place on the adopted dates. It is not the purpose of the unaudited pro forma financial information to determine the consolidated results in any future periods.

The adjustments made in order to present the pro forma financial information, have been made based on available information and assumptions that management believes are reasonable. It was assumed, for the purpose of pro forma financial information, that the EnergoPolyus Group will use predecessor basis accounting for the contribution of assets by the Norilsk Group.

The acquisition of the controlling interest in WGC-3 by the Norilsk Group will be accounted for as a purchase in accordance with IFRS. As a result, for the purposes of preparing the consolidated financial statements of the Norilsk Group in future years, the total purchase price will be allocated to the tangible and intangible assets acquired as well as liabilities and contingent liabilities assumed based on their estimated fair values as of the date of the acquisition, with any excess of the purchase price over the identifiable net assets acquired allocated to goodwill. The same treatment will be applied by the EnergoPolyus Group as it will use the predecessor basis accounting of spun-off assets. As it was not possible to perform a purchase price allocation, and solely for the purposes of preparing the pro forma financial information below, no fair value adjustments have been made to acquired assets and liabilities (including any associated deferred tax effects), and as such, the excess of the purchase consideration over the historical amounts of the assets and liabilities of the WGC-3 Group has been allocated entirely to one line named "Provisional amount of goodwill".

No adjustments have been made to reflect the equity structure of the EnergoPolyus Group as the EnergoPolyus Group is not currently in existence.

The pro forma statements of income do not include effects of any additional amortization or depreciation that would be charged as a result of recognition of new depreciable assets or increase in value of depreciable assets as a result of a purchase price allocation process in relation to WGC-3 acquisition by the Norilsk Group. Similarly, any related deferred tax effects were not included. The pro forma financial information reflects management's best estimates. The actual consolidated financial position and results of operations of the EnergoPolyus Group may differ significantly from the pro forma amounts reflected herein because of various factors, including, without limitation, access to additional information, fair value adjustments and the tax effects thereof.

The pro forma financial information is presented in rubles which are the presentation currency of the WGC-3 Group as the major asset of the EneroPolyus Group. The Norilsk Group prepares its consolidation financial statements using rubles as functional currency and USD as presentation currency. The pro forma financial information sourced from the Norilsk Group's financial statements and accounting records is presented in rubles.

EnergoPolyus Group

Proforma balance sheet as at June 30, 2007

	OJSC EnergoPolyus	Pro forma adjustments — net assets contributed by Norilsk Group: WGC-3 Group historical net assets	WGC-3 Group consolidation and contribution	Contribution of NIK NEP historical net assets and minority interest	Contribution of other assets and liabilities	Pro Forma of EnergoPolyus Group
	(note 1)	(note 2)	(note 3)	(note 4)	(note 5)	
			thousands of RUB			
ASSETS						
Non-current assets						
Property, plant and equipment	—	18,600,314	—	156,076	—	18,756,390
Investments in associates	—	—	—	—	2,717,529	2,717,529
Available-for-sale investments	—	153,124	—	—	62,014,360	62,167,484
Provisional amount of goodwill	—	—	68,207,553	—	—	68,207,553
Other non-current assets	—	2,338,119	—	37,243	—	2,375,362
Total non-current assets	**—**	**21,091,557**	**68,207,553**	**193,319**	**64,731,889**	**154,224,318**
Current assets						
Inventories	—	2,178,568	—	208	—	2,178,776
Accounts receivable and prepayments	—	2,909,130	—	8,843	—	2,917,973
Deposits	—	77,500,000	—	—	—	77,500,000
Loans issued	—	381,660	—	—	—	381,660
Current income tax prepayments	—	221,810	—	—	—	221,810
Cash	—	1,260,138	—	81,867	—	1,342,005
Total current assets	**—**	**84,451,306**	**—**	**90,918**	**—**	**84,542,224**
TOTAL ASSETS	**—**	**105,542,863**	**68,207,553**	**284,237**	**64,731,889**	**238,766,542**
EQUITY AND LIABILITIES						
Equity (note 6)	—	—	131,468,087	195,888	49,731,889	181,395,864
Minority interest	—	—	33,839,288	68,835	—	33,908,123
Total equity	**—**	**—**	**165,307,375**	**264,723**	**49,731,889**	**215,303,987**
Non-current liabilities						
Long-term debt	—	—	—	—	15,000,000	15,000,000
Deferred tax liabilities	—	1,703,753	—	—	—	1,703,753
Pension liabilities	—	260,829	—	—	—	260,829
Other non-current liabilities	—	51,033	—	—	—	51,033
Total non-current liabilities	**—**	**2,015,615**	**—**	**—**	**15,000,000**	**17,015,615**
Current liabilities						
Current debt and current portion of non-current debt	—	2,909,022	—	—	—	2,909,022
Accounts payable and accruals	—	2,974,119	—	18,938	—	2,993,057
Provision for liabilities and charges	—	142,030	—	—	—	142,030
Taxes payable	—	402,255	—	567	—	402,822
Other current liabilities	—	—	—	9	—	9
Total current liabilities	**—**	**6,427,426**	**—**	**19,514**	**—**	**6,446,940**
Total liabilities	**—**	**8,443,041**	**—**	**19,514**	**15,000,000**	**23,462,555**
TOTAL EQUITY AND LIABILITIES	**—**	**8,443,041**	**165,307,375**	**284,237**	**64,731,889**	**238,766,542**

Explanatory notes:

1. No historical financial information of the EnergoPolyus Group was presented because at the date of this Information Statement no historical financial information of EnergoPolyus or the EnergoPolyus Group exists. An assumption was made that other than assets and liabilities brought by the contributions described in notes 2-6 the EnergoPolyus Group will not have any other assets or liabilities at the date of and the Spin-off transaction.

2. Reflects the contribution of net assets of the WGC-3 Group to the EnergoPolyus Group. The amounts relating to net assets contributed have been extracted from the historical financial information of the WGC-3 Group and have not been adjusted for any effects of a remeasurement of net assets to their fair value which would be required if the EnergoPolyus Group will use predecessor method of accounting.

3. Reflects the adjustment necessary for the consolidation of the WGC-3 Group including establishment of minority interest. The amount of RUB 131,468,087 thousands represents the value of consideration paid by the Norilsk Group for the acquisition. The amount has been extracted from accounting records of the Norilsk Group. The amount of RUB 68,207,553 thousands represents the difference between the consideration paid by the Norilsk Group and the share (65.15%) of net assets of WGC-3 controlled by the Norilsk Group as at the date of this Information Statement. The amount of RUB 33,839,288 thousands represents 34.85% minority interest in net assets of WGC-3. The value of net assets used for the calculations above is based on the historical value of net assets reflected in the WGC-3 Group financial information as at June 30, 2007. If predecessor accounting method is used, the EnergoPolyus Group will have to recognize the fair value of net assets acquired by its predecessor (i.e. the Norilsk Group) for the purpose of its consolidated financial statements. Consequently adjustments to historical values of net assets (including recognition of newly identified assets and liabilities to their fair value) will cause adjustments to the Provisional amount of goodwill and minority interest amount.

4. Reflects the contribution of NIK NEP net assets and minority interest by the Norilsk Group to the EnergoPolyus Group. Assuming that the predecessor basis accounting is used by the EnergoPolyus Group, the amounts reflected in the EnergoPolyus Group consolidated financial statements will be the continuity of the amounts recognized in the financial statements of its predecessor (being the Norilsk Group). Based on that assumption the adjustment relating to the contribution of NIK NEP net assets (and the value of equity recognized as at the result of contribution) was based on the amounts reflected in historical financial information of the Norilsk Group as at June 30, 2007.

5. Reflects the contribution of other assets by the Norilsk Group to the EnergoPolyus Group as well as the debt of a RUB 15,000,000 thousands which will be repayable by the EnergoPolyus Group to Savings Bank of the Russian Federation.

The assets contributed consist of:

— Investments in associates:

Associate	Share, %	Amount, RUB thousands
OJSC "TGK-14"	27.69%	1,105,906
OJSC "Krasnoayarskenergo"	25.70%	830,326
OJSC "Kolenergo"	24.87%	385,131
OJSC "Krasnoayarskiye magistralniye seti"	25.47%	206,967
OJSC "Tyvaenego-Holding"	25.47%	30,768
OJSC "Kolenergosbyt"	24.83%	—
OJSC "Kolskie magistralniye seti"	24.83%	158,431
Total		**2,717,529**

Investments in associates transferred are measured using the equity method of accounting. The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves which were attributable to the Norilsk Group. The amounts were extracted from the Norilsk Group accounting records as at June 30, 2007.

— Available-for-sale investments:

Available-for-sale investment	Share, %	Amount, RUB thousands
OJSC RAO "UES of Russia"	3.52%	50,642,053
OJSC "TGK-1"	7.37%	8,260,190
OJSC "OGK-5"	1.72%	2,442,692
OJSC "TGK-5"	1.63%	669,425
Total		**62,014,360**

The amounts relating to available-for-sale investments were derived from the Norilsk Group accounting records as at June 30, 2007 with exception of investments in OJSC "OGK-5" and OJSC "TGK-5". The investments in OJSC "OGK-5" and OJSC "TGK-5" which were received by the Norilsk Group in September 2007 as the result of OJSC RAO "UES of Russia"reorganization, was solely for the purpose of the proforma financial information valued at RUB 3,112,117 thousand. As all available-for-sale investments related to securities which have Stock Exchange quotation and market price they were measured at fair value by reference to their quoted market price at the financial statements date, June 30, 2007.

— Long-term debt.

The amount of RUB 15,000,000 thousands represents the debt which will be transferred to OJSC EnergoPolyus as part of Spin-off transaction. This debt will be long-term bank loans which will be received by the Norilsk Group for purchase of additional shares of Power Assets. The interest rate is assumed to be 8.5% per annum.

6. The amount of recognized equity represents the value of contributions made by the Norilsk Group to the EnergoPolyus Group measured based on the Norilsk Group carrying amounts of contributed net assets and reflects the predecessor accounting method. No allocation of such amount between share capital and other components of equity can be made on the date of this Information Statement.

EnergoPolyus Group

Proforma income statement for the six months ended June 30, 2007

	OJSC EnergoPolyus	Pro Forma adjustments: WGC-3 Group	Pro Forma adjustments: NIK NEP	Pro Forma adjustments: Profit/loss of associates	Pro Forma adjustments: Interest on debt	Pro Forma of EnergoPolyus Group
	(note 1)	(note 2)	(note 3)	(note 4)	(note 5)	
			thousands of RUB			
Revenues						
Electricity	—	14,505,023	—	—	—	14,505,023
Heat	—	351,905	—	—	—	351,905
Other	—	241,711	—	—	—	241,711
Total revenue	—	**15,098,639**	**—**	**—**	**—**	**15,098,639**
Operating expenses	—	(13,471,757)	(230,365)	—		(13,702,122)
Operating profit/(loss)	**—**	**1,626,882**	**(230,365)**	**—**	**—**	**1,396,517**
Finance income	—	1,080,764	—	—	—	1,080,764
Finance costs	—	(158,200)	—	—	(637,500)	(795,700)
Share of profits/(loss) of associates	—	—	—	27,747	—	27,747
Profit/(loss) before income tax	**—**	**2,549,446**	**(230,365)**	**27,747**	**(637,500)**	**1,706,328**
Income tax	—	(797,786)	(112)	—	—	(797,898)
Profit/(loss) for the period	**—**	**1,751,660**	**(230,477)**	**27,747**	**(637,500)**	**908,430**
Attributable to:						
Shareholders of OJSC EnergoPolyus Group	—	1,141,231	(170,553)	—	—	360,385
Minority interest	—	610,429	(59,924)	—	—	550,505

Explanatory notes:

1. OJSC EnergoPolyus as newly formed entity had no operations for the six months ended June 30, 2007.

2. Reflects the WGC-3 Group's the results for the six months ended June 30, 2007 and was extracted from the Unaudited Interim Consolidated Financial Statements of the WGC-3 Group included elsewhere in this Information Statement. No adjustments have been made for additional amortisation and depreciation that would additionally be accounted for as a result of adjusting the value of net assets from values recognised in Unaudited Interim Consolidated Financial Statements of the WGC-3 Group to fair value and the associated deferred tax effects as such information is not available at the date of this Information Statement.

3. Reflects the results of NIK NEP for the six months period ended June 30, 2007 and was prepared based on the accounting records used to consolidate NIK NEP into the Norilsk Group consolidated financial statements for the six months ended June 30, 2007.

4. Reflects the share of profits/loss of associates as follows:

Associate	Share, %	Amount, RUB thousands
OJSC "TGK-14"	27.69%	2,944
OJSC "Krasnoayarskenergo"	25.70%	40,163
OJSC "Kolenergo"	24.87%	(5,512)
OJSC "Krasnoayarskiye magistralniye seti"	25.47%	10,112
OJSC "Tyvaenego-Holding"	25.47%	3,651
OJSC "Kolenergosbyt"	24.83%	(24,079)
OJSC "Kolskie magistralniye seti"	24.83%	(2,532)
Total		**24,747**

The share of profits/loss of associates was derived from the amounts included in the Norilsk Group consolidated financial statements as of and for the six months ended June 30, 2007 except for amounts relating to investment in OJSC "TGK-14". The amount relating to investment in OJSC "TGK-14" is based on the amount recognised in the Norilsk Group consolidated financial statements adjusted for the changed share in OJSC "TGK-14" (27.69% instead of 27.81%), profit of RUB 939 thousand attributable to OJSC "TGK-14" profit for January as the investment was acquired by the Norilsk Group in the end of January 2007 and accounted for starting from February 2007. The additional profit element was calculated based on the actual profits of the OJSC "TGK-14".

5. Reflects the interest accrued on debt amount of RUB 15,000,000 thousand assuming the interest rate of 8.5% per annum throughout the period.

EnergoPolyus Group

Proforma income statement For the Year Ended December 31, 2006

		Pro Forma adjustments				
	OJSC EnergoPolyus	WGC-3 Group historical	NIK NEP historical	Profit/loss of associates	Interest on debt	Pro Forma of EnergoPolyus Group Group
	(note 1)	(note 2)	(note 3)	(note 4)	(note 5)	(note 6)
			thousands of RUB			
Revenues						
Electricity	—	22,344,941	—	—	—	22,344,941
Heat	—	509,110	—	—	—	509,110
Other	—	216,137	—	—	—	216,137
Total revenue	**—**	**23,070,188**	**—**	**—**	**—**	**23,070,188**
Operating expenses	—	(23,455,828)	(479,345)	—	—	(23,935,173)
Impairment loss reversed during the year	—	6,400,021	—	—	—	6,400,021
Impairment loss recognized during the year	—	(49,693)	—	—	—	(49,693)
Share of profits/(loss) of associates	—	—	6,508	215,336	—	221,844
Other operating income	—	221,818	—	—	—	221,818
Operating profit/(loss)	**—**	**6,186,506**	**(472,837)**	**215,336**	**—**	**5,929,570**
Finance income	—	—	—	—	—	—
Finance costs	—	(170,728)	—	—	(1,275,000)	(170,728)
Profit/(loss) before income tax	**—**	**6,015,778**	**(472,837)**	**215,336**	**(1,275,000)**	**5,758,277**
Income tax	—	(1,615,065)	9,324	—	—	(1,605,741)
Profit/(loss) for the period	**—**	**4,400,713**	**(463,513)**	**215,336**	**(1,275,000)**	**4,152,536**
Attributable to:						
Shareholders of OJSC EnergoPolyus Group	—	2,867,126	(343,000)	—	—	2,740,028
Minority interest	—	1,533,587	(120,513)	—	—	1,413,074

Explanatory notes:

1. OJSC EnergoPolyus as newly formed entity had no operations for the year ended December 31, 2006.
2. Reflects the WGC-3 Group's the results for the year ended December 31, 2006 and was extracted from the Consolidated Financial Statements of the WGC-3 Group for the year ended December 31, 2006 included elsewhere in this Information Statement. No adjustments have been made for additional amortisation and depreciation that would additionally be accounted for as a result of adjusting the value of net assets from values recognised in Unaudited Interim Consolidated Financial Statements of the WGC-3 Group to fair value and the associated deferred tax effects as such information is not available at the date of this Information Statement.
3. Reflects the results of NIK NEP for the year ended December 31, 2006 and was was prepared based on the accounting records used to consolidate NIK NEP into the Norilsk Group consolidated financial statements for the year ended December 31, 2006.
4. Reflects the share of profits/loss of associates as follows:

Associate	Share, %	Amount, RUB thousands
OJSC "TGK-14"	27.69%	65,044
OJSC "Krasnoayarskenergo"	25.70%	122,776
OJSC "Kolenergo"	24.87%	24,293
OJSC "Krasnoayarskiye magistralniye seti"	25.47%	22,091
OJSC "Tyvaenego-Holding"	25.47%	(40,793)
OJSC "Kolenergosbyt"	24.83%	11,808
OJSC "Kolskie magistralniye seti"	24.83%	10,117
Total		**215,336**

The share of profits/loss of associates was derived from the amounts included in the Norilsk Group consolidated financial statements for the year ended December 31, 2006 except for amounts relating to investment in OJSC "TGK-14". The amount relating to investment in OJSC "TGK-14" represents the profit calculated based on the actual profit of the OJSC "TGK-14" adjusted for the share in OJSC "TGK-14" for entire period (relating to the 27.69%).

5. Reflects the interest accrued on debt amount of RUB 15,000,000 thousand assuming the interest rate of 8.5% per annum throughout the period.

EXHIBIT VI — SUMMARY OF SEPARATION BALANCE SHEET

Approved by the General Shareholders' Meeting of OJSC MMC Norilsk Nickel December 14, 2007

Attachment No. 2
to the voting ballot for the Extraordinary General Shareholders' Meeting of OJSC MMC Norilsk Nickel held on December 14, 2007

SEPARATION BALANCE SHEET

14.12.2007
RUB thousands

Moscow

Item	Line Code	Norilsk Nickel as of January 1, 2007	Norilsk Nickel as of September 30, 2007	Distribution Between Reorganized and Spun-Off Companies: Norilsk Nickel	Distribution Between Reorganized and Spun-Off Companies: EnergoPolyus
1	2	3	4	5	6
Intangible assets:	110	44,911	41,763	41,763	
including: exclusive rights to inventions, industrial prototypes, models, trade marks and service marks, rights to software, data bases and other similar rights and assets	111	44,911	41,763	41,763	
establishment charges	112	—	—	—	
goodwill	113		—	—	
Fixed assets:	120	64,156,638	62,615,264	62,615,264	
land and natural resource use	121	—	100	100	
buildings, plant and equipment	122	59,661,160	58,294,179	58,294,179	
Construction in progress	130	23,581,401	28,635,335	28,635,335	
Investment in tangible assets	135	—	—	—	
Long-term financial investments:	140	137,657,649	433,387,596	243,918,345	189,469,251
investment in subsidiaries	141	68,789,587	202,480,698	69,437,626	133,043,072
investment in dependent companies	142	6,256,141	8,877,730	1,300,304	7,577,426
investment in other organizations	143	54,137,388	49,139,978	291,225	48,848,753
loans extended to organizations for terms of more than 12 months	144	1,995,662	158,284,062	158,284,062	
other long term financial investments	146	6,478,871	14,605,128	14,605,128	
Deferred tax assets	145	—	—	—	
Other capital assets	150	80,309	61,305	61,305	
TOTAL SECTION I	190	225,520,908	524,741,263	335,272,012	189,469,251
2. CURRENT ASSETS		—		—	
Inventories:	210	40,209,766	43,599,173	43,599,173	
including: raw materials and stock, etc.	211	14,631,636	14,931,055	14,931,055	
animals being raised and fattened	212	—	—	—	
work-in-process expenditure	213	16,976,432	17,183,099	17,183,099	
finished products and goods for sale	214	3,430,107	5,989,770	5,989,770	
shipped goods	215	215,365	880,644	880,644	
future expenditures	216	4,956,226	4,614,605	4,614,605	
other inventories and expenditures	217	—	—	—	
Value-added tax on purchases	220	5,053,731	5,071,662	5,071,662	
Receivables (payments due more than 12 months after reporting date):	230	3,796,869	3,620,475	3,620,475	
buyers and customers	231	1	142,821	142,821	
promissory notes	232	—	—	—	
advances extended	234	3,441,603	3,043,778	3,043,778	

Item	Line Code	Norilsk Nickel as of January 1, 2007	Norilsk Nickel as of September 30, 2007	Distribution Between Reorganized and Spun-Off Companies	
				Norilsk Nickel	EnergoPolyus
1	2	3	4	5	6
other debtors	235	355,265	433,876	433,876	
Receivables (payments due within 12 months from reporting date):	240	41,366,262	43,531,484	43,531,484	
including: trade receivables	241	29,307,969	21,886,386	21,886,386	
promissory notes	242	5,000	5,000	5,000	
receivables from equity holders (founders) for contributions to equity	244	—	—	—	
advances extended	245	1,936,018	6,301,835	6,301,835	
other debtors	246	10,117,275	15,338,263	15,338,263	
Short term financial investments:	250	42,821,813	121,113,689	121,113,689	
including: loans extended to organizations for terms of less than 12 months:	251	8,019,382	116,425,557	116,425,557	
other short term financial investments	252	34,802,431	4,688,132	4,688,132	
Cash:	260	3,602,349	5,520,669	5,520,669	
including: cash at hand	261	9,866	28,622	28,622	
current accounts	262	1,789,964	939,494	939,494	
foreign currency accounts	263	1,783,529	4,538,284	4,538,284	
other cash	264	18,990	14,269	14,269	
Other current assets	270	204,944	164,133	164,133	
TOTAL SECTION II	290	137,055,734	222,621,285	222,621,285	—
BALANCE (lines 190+290)	**300**	**362,576,642**	**747,362,548**	**557,893,297**	**189,469,251**
3. CAPITAL AND RESERVES				—	
Charter capital	410	190,628	190,628	190,628	183,129
Treasury shares	411	(26,321,315)	(26,321,315)	(26,321,315)	
Capital surplus	420	48,188,179	48,187,669	48,004,540	
Reserve capital:	430	28,594	28,594	28,594	
mandatory reserves pursuant to legislation	431	28,594	28,594	28,594	
reserves formed in accordance with foundation documents:	432	—	—	—	
Retained earnings (outstanding losses):	470	246,502,705	345,540,159	171,254,037	174,286,122
retained earnings (outstanding losses) for the reporting period	471	—	121,012,910	121,012,910	
TOTAL SECTION III	490	268,588,791	367,625,735	193,156,484	174,469,251
				—	

Item	Line Code	Norilsk Nickel as of January 1, 2007	Norilsk Nickel as of September 30, 2007	Distribution Between Reorganized and Spun-Off Companies	
				Norilsk Nickel	EnergoPolyus
1	2	3	4	5	6
4. LONG TERM LIABILITIES				—	
Loans and credits:	510	13,363,031	99,798,712	99,798,712	
including: bank loans due for repayment more than 12 months after reporting date	511	—	87,363,926	87,363,926	
loans due for repayment more than 12 months after reporting date	512	13,363,031	12,434,786	12,434,786	
Deferred tax liabilities	515	5,285,936	5,672,183	5,672,183	
Other long term liabilities	520	—	—	—	
TOTAL SECTION IV	590	18,648,967	105,470,895	105,470,895	
5. SHORT TERM LIABILITIES				—	
Loans and credits:	610	38,898,936	136,948,742	121,948,742	15,000,000
bank loans due for repayment within 12 months from reporting date	611	3,820,488	85,177,115	70,177,115	15,000,000
loans due for repayment within 12 months from reporting date	612	35,078,448	51,771,627	51,771,627	
Payables:	620	34,113,151	131,332,911	131,332,911	
trade payables	621	7,183,648	7,849,745	7,849,745	
arrears to company personnel	622	964,642	897,897	897,897	
arrears to state extra-budgetary funds	623	17,728	107,058	107,058	
arrears for taxes and levies	624	6,686,857	1,143,630	1,143,630	
other creditors	625	3,230,091	121,291,278	121,291,278	
advances received	626	325,222	43,303	43,303	
promissory notes due	627	15,704,963	—	—	
Payables to equity holders (founders) for earnings	630	130,196	155,185	155,185	
Future income	640	1,798,821	5,634,244	5,634,244	
Provision for expenditures due	650	397,780	194,836	194,836	
Other short term liabilities	660	—	—	—	
TOTAL SECTION V	690	75,338,884	274,265,918	259,265,918	15,000,000
BALANCE (lines 490+590+690)	**700**	**362,576,642**	**747,362,548**	**557,893,297**	**189,469,251**

EXPLANATORY NOTE

1. On December 14, 2007 the extraordinary general shareholders' meeting votes on the reorganization of OJSC MMC Norilsk Nickel pursuant to the Procedure and Terms of the Spin-Off.

2. The separation balance sheet is based on the basis of the interim financial statements of OJSC MMC Norilsk Nickel as of September 30, 2007.

3. Following the resolution on reorganization approved by the extraordinary general shareholders' meeting of OJSC MMC Norilsk Nickel, the shareholders of OJSC MMC Norilsk Nickel become entitled to apply for redemption of all or part of their shares if they have voted against such resolution or did not participate in voting on the reorganization.

4. The charter capital of Norilsk Nickel prior to reorganization amounts to RUB 190,627,747, and after reorganization will amount to RUB 190,627,747 unless (1) the extraordinary general shareholders' meeting of Norilsk Nickel decides to reduce the charter capital by all or part of the 7,498,950 shares held directly by OJSC MMC Norilsk Nickel as of September 30, 2007, or (2) the shareholders of Norilsk Nickel who voted against reorganization at the extraordinary general shareholders' meeting or did not participate in voting demand that all or part of their shares be redeemed and the extraordinary general shareholders' meeting of Norilsk Nickel resolves to reduce the charter capital by all or part of the redeemed shares.

5. The charter capital of OJSC EnergoPolyus, created as a result of the spin-off, is formed pursuant to Order No. 07-4/pz-n of the FSFM of Russia dated January 25, 2007 by a reduction of the capital surplus of Norilsk Nickel, from which the spin-off was effected. The charter capital of EnergoPolyus will amount to RUB 190,627,747 pursuant to the terms and conditions of the Spin-off.

6. The assets and obligations of Norilsk Nickel are transferred to OJSC EnergoPolyus as follows:

6.1. Financial investment in the shares and participatory interests in the charter capitals of the following companies:

		Number of transferred shares			**Balance sheet value, RUB**		
	Name	**Total**	**Number of preferred shares**	**Number of ordinary shares**	**Total**	**Value of preferred shares**	**Value of ordinary shares**
1	OJSC WGC-3	30,939,330,340	—	30,939,330,340	133,042,997,897.58	—	133,042,997,897.58
2	OJSC OGK-5	607,181,796	—	607,181,796	2,342,507,368.97	—	2,342,507,368.97
3	OJSC TGK-1	215,670,945,496	—	215,670,945,496	4,501,546,112.83	—	4,501,546,112.83
4	OJSC TGK-5	20,042,678,951	—	20,042,678,951	609,297,440.11	—	609,297,440.11
5	OJSC TGK-14	215,412,623,642	—	215,412,623,642	1,155,539,467.00	—	1,155,539,467.00
6	RAO UESR	1,516,370,000	500,000,000	1,016,370,000	41,395,402,880.63	12,325,655,000.00	29,069,747,880.63
7	OJSC Kolenergo	118,100,248	34,777,284	83,322,964	1,146,390,772.16	275,588,066.01	870,802,706.15
8	OJSC Krasnoyarskenergo	194,819,254	44,233,346	150,585,908	4,324,421,920.78	780,231,990.09	3,544,189,930.69
9	OJSC Kola Power Supply Company	118,100,248	34,777,284	83,322,964	94,348,027.37	6,653,868.20	87,694,159.17
10	OJSC Tyvaenergo-Holding	194,819,254	44,233,346	150,585,908	167,184,569.84	37,958,942.82	129,225,627.02
11	OJSC Kola Transmission Network Company	118,100,248	34,777,284	83,322,964	258,895,198.20	81,792,700.45	177,102,497.75
12	OJSC Krasnoyarsk Transmission Network Company	194,819,254	44,233,346	150,585,908	430,645,224.80	97,777,190.09	332,868,034.71
13	LLC National Innovation Company New Energy Projects ("NIC NEP")	—	—	—	74,000.00	—	—
	TOTAL transferred assets				**189,469,250,880.27**		

Financial investments are valued at balance sheet value as of September 30, 2007.

6.2 The following obligations of Norilsk Nickel are transferred to OJSC EnergoPolyus:

Name	Amount, RUB	Term	Interest Rate
Savings Bank of the Russian Federation credit facility	15,000,000,000	1 year	8.75% p.a.

7. Ownership of a part of the shares of WGC-3 being spun-off (0.26% or 122,083,562 shares) that were held in trust management as of September 30, 2007 passed to Norilsk Nickel on October 9, 2007 (notification of operation under custodial account No. 04-01/27163 dated October 10, 2007). The decision on the acquisition of this portion of the WGC-3 shares was adopted on September 24, 2007 at the meeting of the Board of Directors (Minutes No. GMK/30-pr-sd dated September 24, 2007).

8. In the event of any changes in the list or composition of assets between the date of the resolution on reorganization adopted by Norilsk Nickel shareholders (December 14, 2007) and the date of transfer of the assets and obligations of Norilsk Nickel set forth in paragraph 6 of this explanatory note to EnergoPolyus as a result of the reorganization by way of a merger into OJSC MRSK of Siberia (with respect to OJSC Krasnoyarskenergo and OJSC Tyvaenergo-Holding), OJSC MRSK of North-West (with respect to OJSC Kolenergo), and OJSC FSK (with respect to OJSC Kola Transmission Network Company and OJSC Krasnoyarsk Transmission Network Company) and in the event of completion of such reorganization by way of merger prior to the date of state registration of OJSC EnergoPolyus, OJSC EnergoPolyus will receive the shares of the respective successor companies — OJSC MRSK of Siberia, OJSC MRSK of North-West and OJSC FSK, respectively, at their balance sheet value.

9. In the event of any changes in the list or composition of assets between the date of the resolution on reorganization adopted by Norilsk Nickel shareholders (December 14, 2007) and the date of transfer of the assets and obligations of Norilsk Nickel set forth in paragraph 6 of this explanatory note to OJSC EnergoPolyus as a result of the sale of all or part of the assets prior to the date of state registration of OJSC EnergoPolyus, OJSC EnergoPolyus will receive the cash from the sale of the respective assets.

10. The sole successor in respect of all obligations of Norilsk Nickel, including any obligations that may be incurred by Norilsk Nickel after December 14, 2007, with the exception of any obligations transferred under this separation balance sheet, is Norilsk Nickel.

11. If the net assets value of EnergoPolyus is greater than the charter capital, the difference will be adjusted numerically in the opening balance sheet in the item "Undistributed Profit" in accordance with the requirements laid down in paragraph 39 of Order No. 44n of the Russian Ministry of Finance dated May 20, 2003. The difference will also be adjusted numerically in the balance sheet of Norilsk Nickel as of the date of state registration of EnergoPolyus by an amount in "Undistributed Profit ".

12. All rights and obligations of Norilsk Nickel under the following agreements:

    12.1. Credit Agreement entered into with Savings Bank of the Russian Federation and listed in paragraph 6.2 hereof, and the pledge agreement(s) with respect to all or part of the shares of WGC-3 and/or TGK-14 set forth in paragraph 6.1 hereof as security for performance of the obligations under this credit agreement;

    12.2. Agreement dated June 20, 2007 between RAO UESR and Norilsk Nickel on retention of Norilsk Nickel's interest in RAO UESR until the date of state registration of OJSC Intergeneration;

    12.3. Agreement No. 02-NN-NN/964-2007 dated August 22, 2007 between Norilsk Nickel, RAO UESR and LLC Depositary Corporate Technologies;

12.4. Deposit Agreement No. 053/DKT-NN-NN/966-2007 dated August 22, 2007 between Norilsk Nickel and LLC Depositary Corporate Technologies

are transferred to EnergoPolyus as successor to Norilsk Nickel with respect to the rights and obligations arising from the aforesaid agreements, including any rights and obligations that may be incurred by Norilsk Nickel after December 14, 2007 and until the date of state registration of EnergoPolyus.

General Director of Norilsk Nickel	D.S. Morozov
Chief Accountant of Norilsk Nickel	L.V. Lisitsyna

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