RAO UES

PARENT COMPANY STAND-ALONE IFRS FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

ZAO PricewaterhouseCoopers Audit
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AUDITORS' REPORT

To the Shareholders and Board of Directors of the Russian Open Joint Stock Company for Energy and Electrification Unified System of Russia ("RAO UES")

1. We have audited the accompanying balance sheet of RAO UES (that is, RAO UES as a parent company on a stand-alone basis, hereinafter referred to as the "Company") as at 31 December 2005 and the related statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements, as set out on pages 3 to 42, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company (as a parent company on a stand-alone basis) as at 31 December 2005 and the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

4. Without qualifying our opinion, we draw your attention to Notes 1 and 5 to the accompanying financial statements. The Government of the Russian Federation has a controlling interest in the Company and Governmental economic and social policies affect the Company's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation

21 August 2006

RAO UES ("Parent company" stand-alone)
Balance Sheet as at 31 December 2005
(in millions of Russian Roubles)

	Note	31 December 2005	31 December 2004
ASSETS			
Non-current assets			
Property, plant and equipment	6	6,348	12,601
Investments in subsidiaries and associates	7	234,313	205,985
Deferred profit tax assets	14	1,234	2,537
Loans issued	8	4,188	4,266
Other non-current assets	9	32,268	34,084
Total non-current assets		**278,351**	**259,473**
Current assets			
Cash and cash equivalents	10	4,831	12,491
Accounts receivable and prepayments	11	12,946	10,385
Inventories		244	274
Loans issued	8	2,576	2,698
Other current assets	12	5,362	1,460
Total current assets		**25,959**	**27,308**
TOTAL ASSETS		**304,310**	**286,781**
EQUITY AND LIABILITIES			
Shareholders' equity	13		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		147,439	147,439
Preference shares (nominal value RR 1,038 million)		7,667	7,667
		155,106	155,106
Retained earnings and other reserves		140,576	122,948
Total equity		**295,682**	**278,054**
Non-current liabilities			
Non-current debt	15	314	218
Other non-current liabilities		469	662
Total non-current liabilities		**783**	**880**
Current liabilities			
Current debt and current portion of non-current debt	16	3,823	3,697
Accounts payable and accrued charges	17	1,716	2,350
Taxes payable	18	2,306	1,800
Total current liabilities		**7,845**	**7,847**
Total liabilities		**8,628**	**8,727**
TOTAL EQUITY AND LIABILITIES		**304,310**	**286,781**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

21 August 2006

RAO UES ("Parent company" stand-alone)
Statement of Operations for the year ended 31 December 2005
(in millions of Russian Roubles)

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Revenues			
Subscription fee		26,723	26,764
Dividend income		4,845	7,596
Exported electricity		844	6,135
Rental income		408	1,406
Other income		664	1,016
Total revenues		**33,484**	**42,917**
Operating costs			
Wages, benefits and payroll taxes	19	2,936	2,326
Consulting, legal and information services		1,280	1,341
Impairment of property, plant and equipment	6	967	1,818
Purchased power		644	4,412
Depreciation	6	532	1,422
Charity expenses		560	576
Taxes other than income tax		450	1,358
Loss on the disposal of property, plant and equipment and investments		102	544
Change in doubtful debtors expense	11	(1,545)	14
Other expenses	19	2,951	2,680
Total costs and other deductions		**8,877**	**16,491**
Income from operations		**24,607**	**26,426**
Net financing gain/(loss)	21	2,302	(4,139)
Income before profit tax		**26,909**	**22,287**
Total profit tax expense	14	(7,110)	(4,876)
Net income		**19,799**	**17,411**
Earnings per ordinary share – basic and diluted (in Russian Roubles)	20	0.45	0.40
Earnings per preference share – basic and diluted (in Russian Roubles)	20	0.62	0.58

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

21 August 2006

RAO UES ("Parent company" stand-alone)
Statement of Cash Flows for the year ended 31 December 2005
(in millions of Russian Roubles)

	Note	Year ended 31 December 2005	Year ended 31 December 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before profit tax		**26,909**	**22,287**
Adjustments to reconcile net income before profit tax to net cash provided by operations:			
Depreciation	6	532	1,422
Impairment of property, plant and equipment	6	967	1,818
Net financing (gain)/loss	21	(2,302)	4,139
(Decrease)/increase in allowance for doubtful debtors	11	(1,545)	14
Loss on disposal of property, plant and equipment and investments		102	544
Dividends receivable and received		(4,845)	(7,596)
Accrual of Share Option Plan	5	271	-
Accrual of pension liabilities	19	334	-
Loss on disposal of other assets		754	75
Operating profit before working capital changes and profits tax paid		**21,177**	**22,703**
Working capital changes:			
(Increase)/decrease in accounts receivables and prepayments, gross		(139)	3,337
Decrease in current portion of loans issued		1,895	5,206
Increase in non-current portion of loans issued		(1,038)	(4,343)
Increase in other current assets		(3,923)	(57)
(Increase)/decrease in inventories		(22)	51
Decrease in accounts payable and accrued charges		(533)	(76)
Decrease in taxes payable other than profits tax		(16)	(1,529)
Decrease in other non-current liabilities		(277)	(420)
Profit tax paid		(5,384)	(6,741)
Net cash generated by operating activities		**11,740**	**18,131**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	6	(980)	(833)
Proceeds from sales of property, plant and equipment		1,332	1,313
Purchase of investments	7	(18,694)	(11,386)
Purchase of other non-current assets		(4,073)	(10,592)
Dividends received		5,087	4,905
Interest received		847	1,618
Net cash used for investing activities		**(16,481)**	**(14,975)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of current debt		4,832	8,000
Proceeds from issuance of non-current debt		167	108
Repayment of debt		(4,718)	(9,099)
Interest paid		(492)	(671)
Dividends paid		(2,708)	(2,283)
Net cash used for financing activities		**(2,919)**	**(3,945)**
Net decrease in cash and cash equivalents		**(7,660)**	**(789)**
Cash and cash equivalents at the beginning of the year		**12,491**	**13,280**
Cash and cash equivalents at the end of the year	10	**4,831**	**12,491**

Chairman of the Management Board Chubais A.B.

Financial Director Dubinin S.K.

21 August 2006

RAO UES ("Parent company" stand-alone)
Statement of Changes in Equity for the year ended 31 December 2005
(in millions of Russian Roubles)

	Ordinary share capital	Preference share capital	Retained earnings and other reserves	Total equity
At 31 December 2003	**147,439**	**7,667**	**107,558**	**262,664**
Change in fair value of available-for-sale investments	-	-	378	378
Net income	-	-	17,411	17,411
Total recognised income for the period	-	-	17,789	17,789
Dividends (Note 13)	-	-	(2,399)	(2,399)
At 31 December 2004	**147,439**	**7,667**	**122,948**	**278,054**
Change in fair value of available-for-sale investments	-	-	316	316
Net income	-	-	19,799	19,799
Total recognised income for the period	-	-	20,115	20,115
Dividends (Note 13)	-	-	(2,758)	(2,758)
Employee share-option plan (Note 5)	-	-	271	271
At 31 December 2005	**147,439**	**7,667**	**140,576**	**295,682**

Chairman of the Management Board — Chubais A.B.

Financial Director — Dubinin S.K.

21 August 2006

Note 1: The Company and its operations

The Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (RAO UES as a parent company on a stand-alone basis, hereinafter referred to as the "Company") was created on 31 December 1992 following the privatisation of certain electricity power generation, transmission and distribution assets formerly under the control of the Ministry of Energy of the Russian Federation. Nuclear generation stations were not transferred to RAO UES.

The RAO UES Group (the "Group") consists of RAO UES (the "Company") and its related subsidiaries and associates.

The Company's principal assets are made up as follows:

Generating stations: As at 31 December 2005 one generating station is owned directly by the Company, it was leased to its subsidiary during 2005. During 2005 the assets of four generating companies were either sold to or contributed to the share capital of subsidiaries. Assets of two of those stations were leased to its subsidiaries.

Energo companies: Prior to 2005 RAO UES had ownership interests in more than 70 regional vertically integrated power companies ("Energo") responsible for the generation, distribution and sales of heat and electricity. These ownership interests range from 47 percent to 100 percent. During the sector restructuring most of the Energo companies were split into generating, distribution, transmission grid and retailing companies

As at 31 December 2005 the Company has ownership interests in more than 20 Energo companies, which has not been restructured yet.

Generating companies: The Company has ownership interests in more than 100 regional generating companies. In addition, the Company has ownership interests in a number of stand-alone hydro and thermal generating companies.

Transmission (trunk grid) and distribution companies: The Company has ownership interests in more than 90 transmission grid companies.

Retailing companies: The Company has ownership interests in more than 40 regional retailing companies.

Other: In addition, RAO UES has ownership interests in a number of other utility-related enterprises and construction companies.

Those companies are further referred to altogether as "Group companies". The ownership interest in the Company's principal subsidiaries are disclosed in Note 5.

The Company is required to organize the operation and running of the unified energy system. The Company receives subscription fees from Group companies which are used to finance either further investment in the industry or to cover expenses relating to the operation of the unified energy system.

The Company is responsible for coordinating and ensuring sufficient generation capacity in the sector. The construction of generation and distribution assets is primarily being undertaken by subsidiaries and is accounted for within advances for equity in subsidiaries and associates and joint investment activity.

At 31 December 2005 and at 31 December 2004, the number of employees of the Company was approximately 1,220 and 1,672 respectively. The significant decrease in the number of employees in 2005 was due to the on-going re-structuring process during the year and the associated transfer of employees to newly established companies.

The Company's registered office is located at bld. 3, 101 Vernadskogo prospect, 119526, Moscow, Russia.

Note 1: The Company and its operations (continued)

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

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

Relations with the State and current regulation. At 31 December 2005, the Government of Russian Federation owned 52.7 percent of RAO UES, which represents 55.0 percent of the ordinary shares issued. As discussed in Note 13, only ordinary shares have voting rights. The Group companies' customer base includes a large number of entities controlled by, or related to, the state. Furthermore, the state controls a number of the Company's and Group companies fuel and other suppliers (see Note 5).

The government of the Russian Federation directly affects the Company's operations through regulation by the Federal service on tariffs ("FST") in respect of the subscription fee. Tariffs which the Company and its Group companies may charge for sales of electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on the Group companies to provide connection for the supply of electricity and heating to customers in the Russian Federation.

As described in Note 2 and 23, the government's economic, social and other policies could have material effects on the operations of the Company.

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Company and its subsidiaries ("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 Group and its successor companies 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 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" ("Federal Law No.36-FZ"). In March 2006 changes to the Federal law No.36-FZ of 26 March 2003 were made which cancelled the moratorium on combining competitive and monopoly types of activities in the electric utility industry.
- In June 2006 the Russian Federation government issued Resolution No.355 that set the regulatory framework specifying how entities should function in the electric utility industry to satisfy their own needs as well as production needs. If followed, entities can combine competitive and monopoly types of activities in the electric utility industry.
- In October 2003, the Russian Federation government issued Resolution No. 643 "On the Rules for the Wholesale Electricity (Power) Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity (Power) Market: regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers are able to sell electricity generated with the use of facilities and equipment accounting for 15 percent of their 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 (power) market during the transition period, has been holding electricity bidding in the free trading sector in the European part of Russia and in the Urals. Starting from May 2005, the free trading sector was extended

Note 1: The Company and its operations (continued)

to Siberia, and starting from October 2005, a balancing market was put in operation. According to the laws underlying the electric utilities reform, subsequently free trading will be extended over the whole volume of trading.

- As at 29 May 2003, the Board of Directors of RAO UES approved a "Concept of RAO UES strategy for the period from 2003 through 2008" (further – the "Concept of RAO UES strategy"). In February 2006 the Board of Directors approved Appendixes to the Concept of RAO UES Strategy: "Territorial generating companies (TGCs) being created on the basis of assets of the Holding Company RAO UES" and "Generating companies of the Wholesale Electricity Market (WGCs)". These documents provide a detailed description of the major changes that are planned to take place in the Group during the electric utilities reform program.
- In October 2005 the Board of Directors of RAO UES cancelled the moratorium for disposal of core assets of the Group and determined rules on spending of proceeds from sale of property, plant and equipment and long-term investments.
- In accordance with the Concept of RAO UES strategy and considering the policies of Government of the Russian Federation in respect of the process of reform of the electricity utility industry, RAO UES is developing the first stage of reorganization, which assumes separation of 2-3 thermal generating companies (WGCs/TGCs) with proportional distribution of shares of the separated companies between shareholders of RAO UES. It is planned to discuss the reorganization of RAO UES at the meeting of RAO UES shareholders during 2006. A second stage of the reorganization of RAO UES is expected to be completed in the second half of 2008.

At this time, the impact of the industry changes on both the financial results and position of the Company cannot be readily assessed because the specific, detailed mechanisms to effect the restructuring are still being determined. Accordingly, no provision has been recognized for the effects of the restructuring process. Certain changes in the Group structure during the restructuring process are described in Note 5.

Note 2: Financial condition

The Company's subsidiaries continue to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales. Currently substantially all settlements of accounts receivable are made in cash. Despite this success, the Company and the Group companies still experience problems in obtaining settlement of old accounts receivable from earlier periods. Management has continued their collection and restructuring efforts to reduce the outstanding balances. There is legislation enabling non-payers to be cut off, but this is only possible to a certain extent due to strategic factors. Federal, municipal and other governmental organisations make up a significant proportion of the Group companies' debtor balance as at 31 December 2005.

The Company is affected by government policy through control of tariffs and other factors that directly impact its own operations and those of its principal investees, the Group companies. The FST and regional services on tariffs that control the tariffs of the local Group companies, FOREM tariffs and subscription fees, do not always permit tariff increases in line with increases of the costs and thus some tariffs are insufficient to cover all the costs of generation, distribution and transmission. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude significant additional costs under the IFRS basis of accounting. As a result, tariffs do not consistently allow for an adequate return or provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Company and the Group companies are experiencing difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

Company management has been taking the following actions in order to address the issues noted above and improve the Company's and Group companies' financial position:

- introduction of improved financial budgeting procedures;
- a strong focus on timely cash collection of current and old debtor balances;
- restructuring of liabilities for repayment over a longer period;
- discussions with strategic investors, and identification and assessment of projects requiring investment funds;

Note 2: Financial condition (continued)

- negotiations with federal and regional governments and regulators for real increases in tariffs to support adequate long term investment into Company and Group companies generation, transmission and distribution assets; and
- active participation in the restructuring of the Russian electricity utility industry (see Note 1).

Note 3: Basis of preparation

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

Statement of compliance. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They represent the results and financial position of RAO UES as a "parent company" on a stand-alone basis and, as such, subsidiaries and associates are presented as investments in the financial statements. These financial statements should be read in the conjunction with the consolidated accounts. Consolidated IFRS financial statements for the RAO UES Group are produced separately for the year ended 31 December 2005, and include the relevant financial information regarding the results and financial position of RAO UES and its subsidiaries and associates on a consolidated basis.

The Company 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.

The preparation of financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect of the impairment provision on property, plant and equipment, deferred profit taxes, allowance for doubtful debtors and fair values of financial instruments. Actual results could differ from these estimates.

Reclassifications. Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material The most significant reclassifications are the following

Statement of operations

Impairment of property plant and equipment amounted RR 1,818 million has been presented separately from depreciation of property plant and equipment. Those items have been combined together in the Statement of operations for the year ended 31 December 2004.

Loss on the disposal of property plant and equipment for the year ended 31 December 2004 have been increased by RR 172 million as result of the reclassification from Other expenses;

Statement of cash flows

Certain line items within the Operating profit before working capital changes and profits tax paid have been combined and presented as Net financing (gain)/loss. Those items have been presented separately in the Statement of operations for the year ended 31 December 2004.

Adjustment for non-cash investing activities amounted RR 1,019 million and presented within Operating profit before working capital changes and profits tax paid have been reclassified into following line items: Loss on disposal of property plant and equipment and investments, Loss on disposal of other assets and Decrease in accounts payable and accrued charges line items. As a result of reclassification to Decrease in accounts payable and accrued charges, Operating profit before working capital changes and profits tax paid has been decreased by RR 818 million.

Note 3: Basis of preparation (continued)

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble, which is RAO UES's functional currency and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million.

Accounting effect of hyperinflation. Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian rouble ("RR") in accordance with IAS 29 ("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, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29. Accordingly, 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 March 2006, the International Accounting Standards Board ("IASB") made 26 revisions to its standards and issued 7 new standards. In addition, the International Financial Reporting Interpretations Committee ("IFRIC") issued six new interpretations in 2004, one of which was subsequently withdrawn. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" ("IFRS 6") and IFRS 7 "Financial instruments: disclosures" ("IFRS 7"), 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 2005, the Company adopted all of those IFRS, which are relevant to its operations, except for IFRS 3 "Business Combinations" ("IFRS 3"), IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IAS 36 (revised 2004) "Impairment of Assets" ("IAS 36") and IAS 38 (revised 2004) "Intangible Assets" ("IAS 38"), which were early adopted by the Group in 2004.

The adoption of IAS 1 "Presentation of Financial Statements" ("IAS 1"), IAS 2 "Inventories" ("IAS 2"), IAS 8 "Policies, Changes in Accounting Estimates and Errors" ("IAS 8"), IAS 10 "Events after the Balance Sheet Date" ("IAS 10"), IAS 16 "Property, Plant and Equipment" ("IAS 16"), IAS 17 "Leases" ("IAS 17"), IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"), IAS 24 "Related Party Disclosures" ("IAS 24"), IAS 27 "Consolidated and Separate Financial Statements" ("IAS 27"), IAS 28 "Investments in Associates" ("IAS 28"), IAS 29 "'Financial Reporting in Hyperinflationary Economies" ("IAS 29"), IAS 31 "Interests in Joint Ventures" ("IAS 31"), IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32"), IAS 33 "Earnings per Share" ("IAS 33"), IAS 40 "Investment Property" ("IAS 40") (all revised 2003) and IAS 39 (revised 2004) "Financial Instruments: Recognition and Measurement" ("IAS 39"), IAS 41 "Agriculture" ("IAS 41"), IFRS 2 "Share-based Payments" ("IFRS 2") , IFRS 4 "Insurance contracts" ("IFRS 4") did not result in substantial changes to the Company's accounting policies. In summary:

The adoption of IAS 1 clarifies certain presentation requirements. The Company now classifies as current all financial liabilities for which the Company does not have an unconditional right to defer their settlements for at least twelve month after the balance sheet date. This includes loans with covenant breaches even if, after balance sheet date, and before the financial statements were issued, the lenders waived the breaches.

IAS 24 has affected the identification of related parties and some other related-party disclosures. Under IAS 24 the Company is now no longer exempt from disclosing transactions with other state-controlled entities as with parties under common Governmental control.

IAS 2, 8, 10, 16, 17, 21, 27, 28, 29, 31,32, 33, 39, 40,41, IFRS 2 and IFRS 4 had no material effect on the Company's financial position, statements of operations and of cash flows.

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these Financial Statements:

Note 3: Basis of preparation (continued)

- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- 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 Company's capital.
- Amendment to IAS 19 "Employee Amendment Benefits", which is effective for annual periods beginning on or after 1 January 2006. The amendment to IAS 19 introduces an additional option to recognise 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 employers.
- 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 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 recognised 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 – 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". The Company has not yet completed its analysis of the impact of the amendment.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions", which is effective for annual periods beginning on or after 1 January 2006. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts", 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 recognised 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 derecognition of financial assets or result in continuing involvement accounting. 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. The Company has not yet completed its analysis of the impact of the new Interpretation.
- 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. The Group has not yet completed its analysis of the impact of the new Interpretation.
- 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

Note 3: Basis of preparation (continued)

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 recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

- 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 January 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 annual periods beginning on or after 1 November 2006. The Interpretation concludes that where an entity has recognized an impairment loss in an interim period in respect of goodwill on an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements.

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

Going concern. The Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments should the Company be unable to continue as a going concern.

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

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Company's assessment of the collectibility of specific customer accounts. 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 (see Note 11).

Impairment of-assets and accounting for provisions

At each balance sheet date the Company assesses whether there is any indication that the recoverable amount of the Company's assets has declined below the carrying value. The recoverable amount is the

Note 3: Basis of preparation (continued)

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 statement of operations in the period in which the reduction is identified. If conditions change and management determines that the asset value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against property, plant and equipment, investments, other non-current assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for environmental and pension liabilities and legal proceedings. The Company records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered, and an amount can be reasonably estimated. The Company's estimates for provisions for liabilities and charges are based on currently available facts and the Company's estimates of the ultimate outcome or resolution of the liability in the future.

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

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 the IFRS financial information (see Note 23).

Useful lives of property, plant and equipment

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

Deferred tax

As at 31 December 2005 and 31 December 2004 the Company has not recognized a deferred tax liability in respect of temporary differences associated with investments in all its subsidiaries that may crystallize depending on how the RAO UES restructuring is effected in the future (see Note 14).

Exchange of non-monetary assets with parties under common control

In the course of its business the Company enters into transactions that involve exchange of non-monetary assets. Such transactions represent two categories:

(i) transfers of the property, plant and equipment by the Company in exchange for additional shares issued by its subsidiaries; and (ii) transfers of shares in subsidiaries by the Company in exchange for subsidiaries issuing additional shares to the Company.

Management views such transactions as a re-structuring of the Company's operations and believes that such transactions have limited commercial substance. Management also believes that it is not possible to measure reliably the fair value of the assets exchanged by reference to the market due to limited history of trading of such assets. Management also believes that any alternative method of assessment of fair values of exchanged assets would be impracticable. Based on the above, and in accordance with applicable guidance in IAS 16 *Property, Plant and Equipment,* no gain or losses are recognized on such transactions and the

Note 3: Basis of preparation (continued)

shares obtained by the Company as a result of the exchange transaction are carried at the carrying value of related assets given up by the Company.

The application of fair value accounting to the exchange transactions could result in significant gains or losses representing the difference between the carrying value of such assets calculated in accordance with the above policy and the assessed fair value of such assets.

Note 4: Summary of significant accounting policies

Investments in subsidiaries and associates. Investments in subsidiaries, associates and joint activities are carried at historical cost and restated for the impact of inflation until 31 December 2002. Provision is made where, in the opinion of management, there has been impairment, such that the recoverable value has fallen below the carrying amount.

Available for sale 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, or 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.

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value management makes assumptions that are based on market conditions existing at each balance sheet date.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by an enterprise. Cost of purchase includes transaction costs. The available-for-sale investments are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of these investments are included in the fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available for sale investments are included in the statement of operations in the period in which they arise.

Loans issued. Loans issued are recognised initially at the fair value of the consideration given, net of transaction costs incurred. Fair value is determined with reference to market interest rates applicable to the borrowers when the loans were issued. Loans issued by the Company are measured at amortised cost. Amortised cost is the amount at which the loan was measured at initial recognition minus principal repayments plus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write down for impairment.

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

At 31 December 2005 the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") was RR 28.78:US$ 1.00 (31 December 2004: RR 27.75:US$ 1.00) between the Russian Rouble and Euro RR 34,185: Euro 1.00 (31 December 2004: RR 37.81: Euro 1.00).

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

Property, plant and equipment. Property, plant and equipment are stated at depreciated replacement cost, based upon values determined by third party valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation until 31 December 2002.

(in millions of Russian Roubles)

Note 4: Summary of significant accounting policies (continued)

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

The amounts determined by the third party valuation represent an estimate of depreciated replacement cost. The third party valuation was performed in order to determine a basis for cost because the historical accounting records for property, plant and equipment were not readily available, in accordance with the paragraph 16 of IAS 29. Therefore, this third party valuation is not a recurring feature since it was intended to determine the initial cost basis of property, plant and equipment. The change in carrying value arising from this valuation was recorded directly to retained earnings.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

Depreciation on property, plant and equipment is calculated on straight-line basis over the estimated useful life of the asset when it is put into use. For the property, plant and equipment, which was subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on estimated remaining useful lives as at valuation date. 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 transmission	14-19	25
Electricity generation	5-35	20-50
Other	8-17	10-20

Leased assets. The Company leases certain assets to Group companies. Under the lease agreements all the risks and benefits of ownership are effectively retained by the Company, and so the leases are classified as operating leases. These assets are included in property, plant and equipment. Depreciation is calculated in accordance with the principles applicable to the respective assets. Revenue from leasing activities is recognised evenly over the lease term as revenue in the statement of operations.

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

Non-cash transactions have been excluded from the cash-flow statement, therefore investing activities, financing activities and the total of operating activities represent actual cashflows.

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 and other receivables are adjusted for an allowance made for impairment of these receivables. Such an allowance for doubtful debtors is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Value added tax on purchases and sales. Value added taxes ("VAT") related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor's balance, including VAT. The related VAT deferred liability is maintained until the debtor is settled or until the debtor is written off for tax purposes.

Note 4: Summary of significant accounting policies (continued)

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

Deferred profit taxes. Deferred profit tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred profit tax is provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred profit tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred profit

tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

Pension and post-employment benefits. The Company’s mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pension and other post-employment benefits are included in wages, benefits and payroll taxes in the statement of operations , however , separate disclosures are not provided as these costs are not material.

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

Revenue recognition. Revenue is recognised on the accrual basis. Monthly billings for subscription fees are based upon the monthly tariffs authorised and approved by the FST. Revenue figures are presented exclusive of value added taxes.

Earnings per share. Preference shares are considered to be participating shares as their dividend may not be less than that given with respect to ordinary shares. The earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting period, excluding the average number of treasury shares held by the Company. Preference shares participate in losses.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders’ equity.

Segment information. Until 2005 the Company has been organized in four main business segments:

"Transmission and system management operations" – prior to 2005 this segment comprised the Company’s operations related to the operation and maintenance of the high-voltage transmission grid and the organization and running of the unified energy system.

"Long-term investments" – this segment comprised the Company’s long-term investments including its investment in the generation and distribution companies that comprise the RAO UES Group. The revenues of the segment represented dividend income.

"Purchase and sale of electricity" – until July 2005 the Company purchased and sold electricity.

Note 4: Summary of significant accounting policies (continued)

"Generation and leasing and other" – until 2004 the Company owned seven power stations and a coal mine. During 2004 five of these power stations were leased to the Group companies under operating leases.

As described in Note 1, the Company is undergoing restructuring as a part of industry reform. As a part of this reform, all the high voltage transmission network assets and related part of the subscription fee have been transferred in FGC . The process of separation of the activities related to maintenance of the operation of high-voltage transmission grid was substantially completed in 2004.

Most of the generation stations recorded on the Company's balance sheet, and representing the "Generation and leasing and other" business segment, were contributed to the Charter Capital of newly created subsidiaries during 2005.

The Company has stopped its purchase and sale of electricity business. Since July 2005 this segment activity was transferred to ZAO INTER RAO UES.

The Company's management views the remaining operations as one single business and geographical segment, being acted as a Russian holding company for the RAO UES Group.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met at the balance sheet date: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Share-based payment transactions. The share option programme allows Company employees to acquire shares of the RAO UES. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

Note 5: Related parties

The Company controls or has significant influence over Group companies throughout the Russian Federation. These subsidiary and associate investees of the Company are its principal related parties and are listed in the tables below. Ownership and voting percentages are disclosed including indirect holding.

The Company controls a number of entities in which the Company owns less than 50 percent of the voting shares. In these circumstances, control exists on the basis of a significant shareholding combined with other factors which allow the company to exercise control, namely: RAO UES has the majority in the Board of Directors, RAO UES is the dominant owner or RAO UES has major influence over the company operations through its ownership and operation of the Unified Energy System.

Energo companies

As described in Note 1, during the sector restructuring which took place in 2005 most of the Energo companies were split into generating, distribution, transmission grid and retailing companies.

As of now all the Energo companies that are subject to the restructuring process have developed their plans for reorganization and submitted them to RAO UES. The Board of Directors of RAO UES approved the plans for reorganization of 68 of the Energo companies.

As at 1 July 2006 54 of the Energo companies of the RAO UES Group had held general meeting of shareholders at which the plans for reorganisation have been approved and the state registration had been completed for newly created companies which were split from 57 of the Energo companies.

(in millions of Russian Roubles)

Note 5: Related parties (continued)

As at 31 December 2005 the significant Energo companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
East			***Siberia***		
Amurenergo	50.6	57.8	Altayenergo	54.7	72.2
Dalenergo	49.0	65.3	Kuzbassenergo	49.0	49.0
Kamchatskenergo	49.0	49.0			
Kolymaenergo	83.7	83.7	***South***		
Lutek	56.3	56.3	Kubanenergo	49.0	49.0
Khabarovskenergo	48.5	60.2	Sulakenergo	99.2	99.2
Yakutskenergo	47.9	56.3			

Generating companies

The wholesale generating companies (WGCs) have been established as subsidiaries of RAO UES with payment for their authorized capitals being made by means of contributing to the WGC shares in the subsidiaries of RAO UES or via transfer of title to the property of RAO UES-owned power plants. Further, WGCs will comprise power plants (generating companies) separated from the Energo companies in the process of their restructuring. It is planned that the power plants will merge with and into the corresponding WGCs , which will become their parent companies.

A detailed description of the major changes that are planned to take place to the wholesale generating companies (WGCs) and the territorial generating companies (TGCs) during the restructuring process is set out in the Appendixes to the Concept of RAO UES Strategy "Generating companies of the Wholesale Electricity Market" and "Territorial generating companies being created on the basis of assets of Holding Company RAO UES" approved by the Board of Directors of RAO UES in February 2006.

As at 31 December 2005 the significant generating companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Centre					
Zagorskaya GAES	50.9	50.9	Federal hydro generating company	100.0	100.0
Mosenergo	50.9	50.9	Wholesale generating company-3	63.8	63.8
Middle Volga			***East***		
Saratovenergo	49.0	64.0	Bureyskaya GES	94.7	94.7
Territorial generating company-9	50.0	50.0	Geotherm	71.6	71.6

(in millions of Russian Roubles)

Note 5: Related parties (continued)

Name	Ownership %	Voting %	Name	Ownership %	Voting %
North-West					
Kaliningradskaya TETS-2	87.6	87.6	Peterburgskaya generating company	56.0	67.1
Karelenergogeneraciya	100.0	100.0	North-West TETS	83.2	83.2
Ural			***South***		
Sverdlovskaya generating company	49.0	65.3	Sochinskaya TETS	100.0	100.0
Chelyabinskaya generating company	49.0	58.1	Wholesale generating company-2	100.0	100.0
Surgutskaya GRES-1	100.0	100.0	Wholesale generating company-6	100.0	100.0
Surgutskaya GRES-2	100.0	100.0	Wholesale generating company-4	100.0	100.0
Tyumenskaya regional generating company	100.0	100.0	Wholesale generating company-5	90.3	90.3
Wholesale generating company-1	100.0	100.0	Permskaya generating company	49.0	64.4

Transmission (trunk grid) and distribution companies

OAO Federal Grid Company of Unified Energy System ("FGC") was established in June 2002 as a wholly-owned subsidiary of RAO UES to manage the transmission of electricity through the use of transmission assets received or earmarked for receipt from RAO UES and its subsidiaries.

OAO System Operator-Central Dispatch Unit of Unified Energy System ("SO-CDU") was established in September 2002 to perform electricity dispatch functions within the unified electricity system of the Russian Federation through the use of assets received or earmarked for receipt from RAO UES and its subsidiaries.

As at 31 December 2005 the significant transmission grid companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Federal grid company	100.0	100.0	Magistralnaya grid company	50.9	50.9
System operator CDU UES	100.0	100.0	Tomskie transmission grids	52.0	59.9

(in millions of Russian Roubles)

Note 5: Related parties (continued)

As at 31 December 2005 the significant distribution companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Centre					
Volgogradenergo	49.3	61.5	Moskovskaya city power grid company	50.9	50.9
Vologdaenergo	49.0	49.0	Moskovskaya oblastnaya power grid company	50.9	50.9
Siberia			***North-West***		
Krasnoyarskenergo	52.2	66.7	Kolenergo	49.3	65.5
			Lenenergo	56.0	63.6
			Komienergo	50.1	50.3
South			***Ural***		
Rostovenergo	48.4	62.8	Kirovenergo	48.2	63.9
Stavropolenergo	55.1	71.9	Permenergo	49.0	49.0
Middle Volga					
Samaraenergo	49.5	56.9	Ulyanovskenergo	49.0	49.0

Retailing companies

As at 31 December 2005 the significant retailing companies were:

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Centre			***Ural***		
Volgogradenergosbyt	49.3	61.6	Kirovenergosbyt	48.2	63.9
Kaluzhskaya retail company	52.3	52.3	Permskaya energy retail company	49.0	64.4
Lipeckaya energy retail company	49.0	49.0	Sverdlovenergosbyt	49.0	65.3
Mosenergosbyt	50.9	50.9	Udmurtskaya energy retail company	49.0	55.4
Belgorodskaya retail company	49.0	65.3	Chelyabenergosbyt	49.0	58.1
Voronezhskaya energy retail company	49.0	65.4	Tyumenskaya energy retail company	100.0	100.0
North-West			***South***		
Karelskaya energy retail company	100.0	100.0	Energy retail company Rostovenergo	48.4	62.8
Peterburgskaya retail company	56.0	67.1			
Middle Volga					
Chuvashskaya energy retail company	100.0	100.0			

(in millions of Russian Roubles)

Note 5: Related parties (continued)

Others

Name	Ownership %	Voting %
OAO COR UES	100.0	100.0
Energy centre	75.0	75.0
Engineering centre UES	100.0	100.0
Inter RAO UES	60.0	60.0
Power machines (associate, see Note 7)	23.8	25

The Company controls the Centre for Assistance in Restructuring the Electricity Sector, a non-commercial partnership (CARES).

Differences between ownership interest and voting interest normally represent the effect of preference shares. Typically, RAO UES does not hold any preference shares of its subsidiaries. Unless dividends have not been declared fully at the Annual shareholders' meeting, Such preference shares do not have any voting rights.

Significant balances with subsidiary and associated related parties. Subsidiaries and associates, as listed above, are carried as long-term investments at cost as disclosed in Note 7. Amounts due from these related parties included as trade receivables and other non-current assets in Note 11 and Note 9, respectively, are equal to RR 7,254 million (2004: RR 7,726 million). Certain subsidiaries provided construction services to the Company for RR 274 million (2004: RR 307 million) during the year; outstanding construction liabilities with these related parties amounted as at 31 December 2005 to RR 15 million (2004 to RR 142 million). There were no outstanding payables in respect of purchased electricity as at 31 December 2005 (31 December 2004 - RR 389 million).

Significant transactions with subsidiary and associated related parties. As shown in the Statement of Operations for the year ended 31 December 2005, substantially all revenue, with the exception of exported electricity, is received from the above subsidiary related parties, as they are the main customers in respect of subscription fees. Substantially all exported electricity is purchased from subsidiary related parties. For the year ended 31 December 2005 RR 644 million (2004: RR 4,412 million) of electricity was purchased from subsidiary related parties at prices set for FOREM by FST.

As discussed in note 22, the Company has also issued guarantees for its subsidiaries and associates.

Federal Grid Company. OAO Federal Grid Company ("FGC"), a 100 percent subsidiary of the Company, was established during 2002. During 2005 the Company sold to FGC property, plant and equipment with a carrying value of RR 926 million. The gain recognised in respect to property, plant and equipment sale was RR 1,026 million.

Wholesale generating company-5. OAO Wholesale generating company 5 ("WGC-5"), a 90.3 percent subsidiary of the Company, was established during 2004. During 2005 the Company transferred RR 402 million of construction in progress and RR 60 million of associated recoverable VAT as a contribution to the charter capital of WGC-5. During 2005 the Company sold to WGC-5 property, plant and equipment with carrying value RR 731 million. The loss recognised in respect of the property, plant and equipment sale was RR 267 million.

Rossiskiye kommunalniye sistemy. In 2004, the Company acquired promissory notes of OAO "Rossiskiye kommunalniye sistemy" (RKS) for the amount of RR 493 million bearing interest of 13 percent per annum. The promissory notes are to be repaid in 2006. As at 31 December 2005 the outstanding recoverable balance of RR 493 million is included within loans issued, see Note 8.

Federal hydro generating company. OAO Federal Hydro generating Company ("HydroWGC"), a 100 percent subsidiary of the Company, was established during 2005. In 2005, the following assets were contributed to the authorized capital of HydroWGC: shares in 15 hydropower plants and shares in OAO "Volga Hydropower Cascade Management Company" with a total value of RR 30,314 million.

(in millions of Russian Roubles)

Note 5: Related parties (continued)

Power Machines. In December 2005 RAO UES acquired 22.4 percent of the share capital of OAO Power Machines ("Power Machines"). The purchase consideration comprises cash paid of RR 2,939 million. In February 2006 pursuant to the share sales purchase agreement the Company signed a pledge agreement for 550,820,431 shares or 7.6 percent equity interest in Power Machines with EBRD as a security for credit line facility issued to Power Machines on 1 March 2004.

Wholesale generating companies. During 2005, the Board of Directors of the Company approved the details for the establishment of six thermal WGC's. During the course of 2005 a total of RR 132 million of cash contributions, RR 1,774 million of property plant and equipment transfers and RR 8,780 million of power plants' shares transfers were made to the newly established WGCs.

State-controlled entities. In the normal course of business the Company enters into transactions with other entities under Government control. Prices for natural gas, electricity and heat are based on tariffs set by FST and RST. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

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

	Year ended 31 December 2005	Year ended 31 December 2004
Export sales	844	1,748
Transmission fee	182	70
Interest expense	25	20

	31 December 2005	31 December 2004
Accounts receivable and prepayments	76	695
Accounts payable and accrued charges	115	-
Non-current and current debt	3,894	298

Tax balances are disclosed in Notes 11 and 18. Tax transactions are disclosed in the statement of operations.

Shares of RAO UES held by subsidiaries. As at 31 December 2005 450,328,437 (2004: 467,754,212) ordinary and 6,696,727 (2004: 14,965,996) preference shares of the Company are held by subsidiaries.

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

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Under the Russian legislation, fees, compensation or allowances to the members of the Board of Directors, being government employees, are transferred to the state.

(in millions of Russian Roubles)

Note 5: Related parties (continued)

Members of the Board of Directors and the Management Board of RAO UES received the following remuneration:

	Year ended 31 December 2005	Year ended 31 December 2004
Salaries and bonuses	284	709
Other	37	8
Total	**321**	**717**

Other benefits include severance benefits, medical insurance and other.

Employee share option plan. In June 2004, the Board of Directors approved a Share Option Plan for the employees of RAO UES (hereinafter – the Plan).

The Plan provides for the granting of share options to the members of the Management Board and other key employees of RAO UES (hereinafter the Plan participants).

The Plan participants will be rewarded under the plan for their work in RAO UES over the period of 3 years, starting from 25 June 2004.

As at 31 December 2004 a total of 410,417,540 ordinary shares was allocated under the Plan.

In February 2005, the Board of Directors approved a number of changes relating to the list of Plan participants and to the number of shares allocated under the Plan. Key employees from certain Group entities were included into the list.

A total of up to 418,657,600 ordinary shares (or about one per cent of the issued ordinary shares of RAO UES) may be allocated under the plan. 213,671,372 shares are allocated for granting share options to the members of the Management Board, the remainder to the other key employees of RAO UES.

Ordinary shares ultimately allocated under the Plan are allocated from treasury shares repurchased for that purpose on the open market by a special-purpose entity OOO ESOP, which is controlled by the Company. The ordinary shares held for the purpose of the Plan will have no voting rights, unless otherwise decided by the Board of Directors.

In 2004, to finance the repurchase of treasury shares the Company acquired non-interest bearing promissory notes of OOO ESOP in amount of RR 3,402 million with maturity in 2008-2011.

In the event that the restructuring of RAO UES is completed prior to the exercise date of the share options, the Plan participants will be entitled to purchase shares in successor entities or other securities, distributed among the RAO UES shareholders.

As at 31 December 2005, the number of outstanding share options was 381,436,585 (as at 31 December 2004 – 365,365,878 options). The Company granted 16,070,707 options during 2005.

(in millions of Russian Roubles)

Note 5: Related parties (continued)

The number of shares, which the Plan participants may purchase as part of implementation of the Plan, in the event that the Plan participant has terminated its employment with RAO UES before 25 June 2007, will be calculated proportionally based on the number of days worked prior to terminating the employment of RAO UES. In case of breaching certain defined provisions of the labour agreement and termination of employment at the initiative of RAO UES, the Plan participants will lose their right to purchase the shares.

The exercise price of the share option is USD 0.2934 per share, which is the weighted average price of the shares of RAO UES on RTS over the period of 25 June 2003 through 24 June 2004. For Plan participants, who joined RAO UES after 25 June 2004, the exercise price of the share option is the weighted average price of the shares of RAO UES on RTS one year before the date of the labour agreement. In addition to the exercise price, the Plan participants, who exercise their options, must reimburse part of the interest expenses paid on borrowings, which can be attracted for the purpose of purchases of the shares.

One of the vesting terms of the share options is prepayment by the members of the Management Board (in the amount of 10 percent of the share option agreement) and by other key employees (in the amount of 0.2 percent of the share option agreement). In the event that realization of the share option lapses, the prepayment will be returned to the Plan participant in full.

The Plan participant can exercise the share option at any time over the period from 25 June 2007 through 25 January 2008.

In 2004, the Company issued to the members of the Management Board non-interest bearing loans, which should be used by individuals to make prepayments under the share option agreements. The loans are issued for a period of 5 years. As at 31 December 2005 the amount of loans issued to employees amounted to RR 155 million.

As at 31 December 2005, as part of the Plan implementation the Group had purchased 418,657,600 treasury shares. Their purchase cost was RR 3,571 million.

The fair values of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

Share price	0.2770 USD
Exercise price	0.2934 USD
Expected volatility	31.00%
Option life	1,095 days
Risk-free interest rate	3.16%
Fair value at measurement date	**0.0690 USD**

The measure of volatility used in option pricing model is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. To determine volatility we used the historical volatility of the share price over the most recent period (one year before grant date). The range of exercise prices for share options outstanding as at 31 December 2005 lies between USD 0.2827 per share and USD 0.2934 per share, weighted average remaining contractual life is 757 days.

During the year ended 31 December 2005, the Company recognised an expense of RR 271 million related to the fair value of the options.

(in millions of Russian Roubles)

Note 6: Property, plant and equipment

	Electricity generation	Electricity transmission	Construction in progress	Other	Total
Gross book value					
Balance as at 31 December 2004	15,639	1,681	12,087	4,252	33,659
Additions	-	-	187	793	980
Transfers	126	1	(149)	22	-
Contributed to subsidiaries (Note 7)	(9,146)	(416)	(457)	(1,676)	(11,695)
Disposals	(1,530)	(1,037)	(3,243)	(1,279)	(7,089)
Balance as at 31 December 2005	5,089	229	8,425	2,112	15,855
Accumulated depreciation (including impairment)					
Balance as at 31 December 2004	(11,752)	(1,669)	(4,743)	(2,894)	(21,058)
Charge for the year 2005	(303)	(8)	-	(221)	(532)
Impairment charge for the year 2005	-	-	(967)	-	(967)
Transfers	-	-	2	(2)	-
Contributed to subsidiaries (Note 7)	6,787	414	21	1,196	8,418
Disposals	825	1,036	1,692	1,079	4,632
Balance as at 31 December 2005	(4,443)	(227)	(3,995)	(842)	(9,507)
Net book value as at 31 December 2004	**3,887**	**12**	**7,344**	**1,358**	**12,601**
Net book value as at 31 December 2005	**646**	**2**	**4,430**	**1,270**	**6,348**

(in millions of Russian Roubles)

Note 6: Property, plant and equipment (continued)

	Electricity generation	Electricity transmission	Construction in progress	Other	Total
Gross book value					
Balance as at 31 December 2003	39,030	4,880	16,319	6,228	66,457
Additions	64	-	747	22	833
Transfers	1,383	1,011	(3,570)	1,176	-
Net transfer to other non-current assets	-	-	-	(841)	(841)
Contributed to subsidiaries (Note 7)	(24,240)	(1,393)	(24)	(2,067)	(27,724)
Disposals	(598)	(2,817)	(1,385)	(266)	(5,066)
Balance as at 31 December 2004	15,639	1,681	12,087	4,252	33,659
Accumulated depreciation (including impairment)					
Balance as at 31 December 2003	(25,841)	(3,168)	(5,390)	(3,977)	(38,376)
Charge for the year 2004	(927)	(79)	-	(416)	(1,422)
Impairment charge for the year 2004	-	(726)	(1,092)	-	(1,818)
Transfers	(489)	(289)	1,367	(589)	-
Net transfer to other non-current assets	-	-	-	668	668
Contributed to subsidiaries (Note 7)	14,968	894	-	1,368	17,230
Disposals	537	1,699	372	52	2,660
Balance as at 31 December 2004	(11,752)	(1,669)	(4,743)	(2,894)	(21,058)
Net book value as at 31 December 2003	**13,189**	**1,712**	**10,929**	**2,251**	**28,081**
Net book value as at 31 December 2004	**3,887**	**12**	**7,344**	**1,358**	**12,601**

Operating leases. The net book value of property, plant and equipment leased by the Company to Group companies under operating leases at the end of accounting period are provided in the table below. The figure for accumulated depreciation includes impairment provisions related to rented out power stations.

	31 December 2005	31 December 2004
Gross book value	5,806	19,494
Accumulated depreciation	(5,225)	(14,777)
Net book value	**581**	**4,717**

During 2005 the Company leased out three power stations to Group companies and also the assets of a coal mine under operating leases.

(in millions of Russian Roubles)

Note 6: Property, plant and equipment (continued)

Construction in progress represents the carrying value of property, plant and equipment that has not yet been put into production, primarily representing generating stations and high voltage network under construction. When construction projects are completed the cost, together with any impairment, is transferred to other appropriate classifications of property, plant and equipment.

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

Land on which the Company carries out its activities is the property of the state and, therefore, is not included in the balance sheet.

Additions to operational property, plant and equipment principally comprise the transfer of completed projects from construction in progress. During 2004-2005 the additions to construction in progress have been settled through cash means in full amount.

During 2005 property, plant and equipment with a net book value of RR 3,277 million was exchanged for shares in the Company's subsidiaries; these are shown as contributed to subsidiaries in the table above (2004: RR 10,494 million).

Impairment. For the year ended 31 December 2005, management assessed the adequacy of the existing impairment provision and concluded that an additional impairment charge was needed due to changes in estimated future net cash flows related to certain construction in progress objects. An additional impairment provision of RR 967 million was recognized.

For the year ended 31 December 2004, an additional impairment provision of RR 1,818 million was recognized by the Company.

Note 7: Investments in subsidiaries and associates

	31 December 2005	**31 December 2004**
Investments in subsidiaries	230,963	205,581
Investments in associates	3,350	404
	234,313	**205,985**

In December 2005 the Company acquired 22.4 percent of the share capital of OAO Power Machines Group ("Power Machines"). As at the acquisition date one of the Group entities held a further 2.6 percent of the share capital of Power Machines and, consequently, the Group has built a blocking stake (25 percent plus one share). The principal activity of Power Machines is the manufacture and supply of equipment for hydro, steam, gas and nuclear power plants.

	2005	**2004**
Carrying value as at 1 January	205,985	179,756
Additions	18,759	11,400
Transfer from property, plant and equipment	3,277	10,494
Transfer from other non-current assets	6,292	5,041
Disposals	-	(14)
Impairment charge	-	(692)
Carrying value as at 31 December	**234,313**	**205,985**

As per the Presidential Decree № 1334 dated 5 November 1992, shares of most of the Company's subsidiaries and associates, except for the companies incorporated in the process of reform, can be sold by the Company, contributed to the charter capitals of the companies being established or disposed in any other way under the procedure or terms set by the Russian Federation Government.

(in millions of Russian Roubles)

Note 7: Investments in subsidiaries and associates (continued)

Incorporation and subsequent reorganization of the new subsidiaries and associates of the Company are performed in compliance with the Russian Federation legislation on electric utilities reform (see Note 1).

Additions to subsidiary and associated investments of RR 18,694 million were financed through cash transactions and RR 65 million of non-cash transactions (2004: RR 11,400 million of cash transactions).

In 2004-2005 the Company transferred most of its generation assets to charter capitals of OAO Nizhegorodskaya GES, OAO Saratovskaya GES, WGC-5, WGC-1, OAO North-West TETS, OAO Test desk of Ivanovskaya GRES and OAO SO-CDU.

The transfer from other non-current assets of RR 6,292 million (2004: RR 5,041 million) is from prepayments for equity, as described in Note 9.

For the year ended 31 December 2005, management has re-assessed the adequacy of its existing impairment provision and concluded that no additional charge or reversal is required (2004: RR 692 million of impairment charge).

Note 8: Loans issued

Short-term loans

	Currency	Effective interest rate	31 December 2005	31 December 2004
Current portion of long-term loans issued to Group companies	RR	12%-24%	1,453	2,534
Loan to RKS	RR	13%	493	-
Other loans issued	RR		630	164
			2,576	**2,698**

Long-term loans

	Currency	Effective interest rate	Due	31 December 2005	31 December 2004
Loans issued to Group companies	RR	12-24%	2005-2017	3,125	4,368
Less: current portion of loans issued to Group companies				(1,453)	(2,534)
Loan to RKS	RR	13%	2006	-	493
Loan to ESOP	RR	12-13%	2008-2011	2,408	1,856
Loans to employees	RR	14%	2009	92	79
Other loans issued	RR			16	4
				4,188	**4,266**

Maturity table

	31 December 2005	31 December 2004
Due for re-payment		
Between one and two years	399	1,557
Between two and five years	2,933	2,027
Between five and twelve years	856	682
	4,188	**4,266**

(in millions of Russian Roubles)

Note 8: Loans issued (continued)

The loans to Group companies were issued by CARES and transferred to the Company in 2001.

The loans were issued at zero or below market interest rates; they are being amortized using the market rate of interest of the respective borrowers as at the date of inception of the loans. The rates are between 20 percent to 24 percent, depending on the borrower and the timing of the relevant cash flows. The effects of discounting were reflected within monetary effects and financing items in December 2001.

Ulyanovskenergo loan issued by CARES and transferred to the Company in 2001 was refinanced during 2005. Loan issued by CARES and due in 2007 was early repaid in 2005. Gain on early repayment amounted RR 479 million has been included in net financing gain/(loss). The Company has issued new loan to Ulyanovskenergo with nominal value of RR 1,766 million, which is due in 2017. The loan were issued at zero interest rate and is being amortized using the rate of 12 percent of interest, which is the market rate of the borrower as at the date of inception of the loan. The loss on initial recognition of new loan to Ulyanovskenergo amounted RR 717 million has been included in net financing gain/(loss) (See note 21).

During the year 2005 RR 2,427 million (2004 RR 4,945 million) of the loans were repaid in accordance with the schedule of payment and imputed interest recorded as a result of amortisation of the discount on the loans amounting to RR 1,121 million (2004: RR 221 million) was included in the corresponding item within net financing gain/(loss) (Note 21).

In 2004-2005, the Company acquired non-interest bearing promissory notes of OOO ESOP in amount of RR 3,493 million with maturity 2008-2011. These promissory notes were acquired with the aim to finance the repurchase of the Company's treasury shares for the purpose of Employee share option plan (See Note 5).

These promissory notes were initially recognized in the Financial Statements at their fair value at the acquisition date. Their fair value was determined using 12-13 percent discount rate and with reference to their maturity.

The discounting effect of these promissory notes was included in Net financing gain/(loss) (See Note 21).

Loans issued to employees represent non-interest bearing loans issued to the members of Management Board as a part of Employee share option Plan (See Note 5). These loans were recognized at their fair value at the issuance date. Their fair value was determined using 14 percent discount rate.

The discounting effect of these loans issued was included in Net financing gain/(loss) (See Note 21).

As at the balance sheet date, the estimated fair value of total loans issued (including the current portion) does not significantly differ from their carrying amount.

Note 9: Other non-current assets

	31 December 2005	31 December 2004
Joint investment activity	1,013	980
Advances for equity in subsidiaries and associates	25,834	25,740
Available for sale investments	3,818	3,473
Restructured trade receivables (net of allowance for doubtful accounts of RR 910 million for 2005 and RR 1,588 million for 2004)	974	1,368
Other	629	2,523
	32,268	**34,084**

(in millions of Russian Roubles)

Note 9: Other non-current assets (continued)

Joint investment activity. The Company participates in construction projects with Group companies or third parties, each party contributing cash and assets to the project. These projects represent the construction of generation and distribution property, plant and equipment. Upon completion of these projects a legal entity is normally formed with ownership interests generally being established in proportion to the amounts contributed to the project. At this time the balance is transferred to investments.

Advances for equity in subsidiaries and associates. The Company has agreements in place with some of the Group companies under which the Company advances cash and non-cash contributions for future issues of equity in the Group companies. The number of shares to be issued will be determined at a future point in time. These advances are utilized by the Group companies to fund the construction of generation and distribution property, plant and equipment. When the equity is issued, the balance is transferred to investments.

In 2005 the Company converted RR 6,292 million (2004: RR 5,041 million) of these advances and joint investment activity into equity, which has been included in investments (see Note 7). Further advances and contributions in joint investment activity in 2005 amounted to RR 3,281 million (2004: RR 7,019 million). Contributions in 2004-2005 were made in cash.

Available for sale investments. Investments classified as available for sale mainly include investments in non-controlled entities and are stated at fair value, with any resultant gain and loss being recognized in equity.

Note 10: Cash and cash equivalents

	31 December 2005	31 December 2004
Cash at bank and in hand	1,933	937
Cash equivalents	2,880	11,232
Foreign currency accounts	18	322
	4,831	**12,491**

Cash equivalents comprise short-term investments in bank promissory notes and deposits.

Note 11: Accounts receivable and prepayments

	31 December 2005	31 December 2004
Trade receivables (net of allowance for doubtful accounts of RR 539 million for 2005 and RR 800 million for 2004)	3,939	5,636
Other receivables (net of allowance for doubtful accounts of RR 860 million for 2005 and RR 1,568 million for 2004)	4,130	1,682
Tax prepayments	2,641	1,259
Value added tax recoverable	748	1,066
Advances	1,091	502
Prepayments and accrued income	397	240
	12,946	**10,385**

(in millions of Russian Roubles)

Note 11: Accounts receivable and prepayments (continued)

Management has determined the allowances for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 12 – 19 percent have been used in the estimate of fair value of future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Company believes that it will be able to realise the net receivable amount through direct collections and other non-cash settlements.

For the year ended 31 December 2005, approximately 3.6 percent (year ended 31 December 2004: 2.4 percent) of the settlements of the Company's accounts receivable were made via non-cash settlements.

Certain trade receivables have been restructured and as a result are due to be realised more than one year from the balance sheet date (see Note 9). The loss on restructuring is included in doubtful debtors expense.

During the year 2005 RR 1,545 million of impairment related to accounts receivable has been reversed due to the repayment of accounts receivable previously impaired. RR 865 million has been repaid by non-cash settlement.

Note12: Other current assets

	31 December 2005	31 December 2004
Available for sale investment in mutual fund	3,000	-
Other	2,362	1,460
	5,362	**1,460**

Other current assets represent available for sale investments in short-term bank promissory notes and promissory notes issued by Group companies.

Note 13: Shareholders' equity

Share capital	Number of shares issued and fully paid	31 December 2005	31 December 2004
Ordinary shares	41,041,753,984	147,439	147,439
Preference shares	2,075,149,384	7,667	7,667
		155,106	**155,106**

The authorized number of ordinary and preference shares are 47,509,289,488 and 2,075,149,384 respectively, both with a nominal value per share of 0.5 Russian Roubles. The carrying amount of share capital has been adjusted to take into account the effects of hyperinflation that existed in Russian Federation until the end of 2002.

Ordinary shares and preference shares. Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10 percent of the net statutory profit of the Company. In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting. In liquidation, preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, preference shareholders then participate equally in the distribution of remaining assets with ordinary shareholders.

(in millions of Russian Roubles)

Note 13: Shareholders' equity (continued)

Dividends: The annual statutory accounts of the Company are the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit for the year. For 2005, the statutory profit for the Company, as reported in the published statutory reporting forms, was RR 20,897 million. However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would be not appropriate to disclose an amount for the distributable reserves in these Financial Statements.

A dividend was declared in 2006 in respect of the year ended 31 December 2005 of RR 0.0574 per ordinary share and RR 0.1939 per preference share.

A dividend was declared in 2005 in respect of the year ended 31 December 2004 of RR 0.0559 per ordinary share and RR 0.2233 per preference share.

Treasury shares. Treasury shares as at 31 December 2005 represent 57,809 (2004: 57,809) ordinary and 2,767 (2004: 2,767) preference shares purchased and held by the Company. The carrying value of treasury shares is less than RR 1 million, so they have not been disclosed in Statements of Changes in Equity for the year ended 31 December 2005. There were no operations with treasury shares during 2004 and 2005.

Fair value reserve for available for sale investments. The fair value reserve, relating to the changes in the fair value of available-for-sale investments, at 31 December 2005 was 2,272 RR million (31 December 2004: 1,956 RR million), and is included in retained earnings and other reserves.

Note 14: Profit tax expense

	Year ended 31 December 2005	Year ended 31 December 2004
Current profit tax expense	(5,903)	(6,712)
Deferred profit tax (expense)/benefit	(1,207)	1,836
Total profit tax expense	**(7,110)**	**(4,876)**

The Company accrues income taxes at the rate of 24 percent on taxable profits computed in accordance with the Russian tax legislation. Net income before profit tax for financial reporting purposes is reconciled to tax expenses as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Income before profit tax	26,909	22,287
Theoretical tax charge at a statutory rate of 24 percent (2004: 24 percent)	(6,458)	(5,349)
Dividend income taxed at different rate	1,163	1,739
Tax interest and penalties release	241	217
Expenses non-deductible for profit tax purposes	(1,224)	(1,078)
Effect of change in taxable base	(526)	800
Other	(306)	(1,205)
Total profit tax expense	**(7,110)**	**(4,876)**

The effect of changes in the taxable base mainly relates to certain temporary differences on property, plant and equipment which are no longer recognised due to the use of the property, plant and equipment as a means of payment for shares in newly established subsidiaries as a result of restructuring.

(in millions of Russian Roubles)

Note 14: Profit tax expense (continued)

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

		Movement for the year		
	31 December 2005	**Statement of operations**	**Shareholders' equity**	**31 December 2004**
Property, plant and equipment	215	(884)	-	1,099
LT loans issued	556	(158)	-	714
Trade receivables	440	(139)	-	579
Other non-current assets	367	(110)	-	477
Deferred profit tax asset	**1,578**	**(1,291)**		**2,869**
Tax payable	4	(184)	-	188
Accounts payable	(79)	(57)	-	(22)
Investments in subsidiaries and associates	204	204	-	-
Other non-current assets	215	(47)	96	166
Deferred profit tax liability	**344**	**(84)**	**96**	**332**
Net deferred profit tax asset	**1,234**	**(1,207)**	**(96)**	**2,537**

		Movement for the year		
	31 December 2004	**Statement of operations**	**Shareholders' equity**	**31 December 2003**
Property, plant and equipment	1,099	939	-	160
LT loans issued	714	336	-	378
Trade receivables	579	(122)	-	701
Other non-current assets	477	257	-	220
Deferred profit tax asset	**2,869**	**1,410**	**-**	**1,459**
Tax payable	188	(381)	-	569
Accounts payable	(22)	(79)	-	57
Other non-current assets	166	34	24	108
Deferred profit tax liability	**332**	**(426)**	**24**	**734**
Net deferred profit tax asset	**2,537**	**1,836**	**(24)**	**725**

(in millions of Russian Roubles)

Note 14: Profit tax expense (continued)

As at 31 December 2005 and 31 December 2004 the Company has not recognized a deferred tax liability in respect of temporary differences associated with investments in all its subsidiaries that may crystallize depending on how the RAO UES restructuring is effected in the future. The Company is able to control the timing of the reversal of these temporary differences as it intends to perform the restructuring in a manner that would substantially avoid crystallizing any additional tax liabilities and therefore it is probable that the temporary differences will not reverse in the foreseeable future. Potential deferred tax liability in respect of the temporary differences could vary from zero to RR 25 billion depending on the specific methods used to complete the RAO UES restructuring. Where management currently envisages changes triggering taxable events, the deferred tax consequence has been recognised. In the year ended 31 December 2005 an additional deferred tax liability of RR 204 million was recognised in respect of such taxable events.

Note 15: Non-current debt

	Currency	Effective interest rate	Due	31 December 2005	31 December 2004
Bonds (issued in 2002)	RR	15%	2005	-	3,000
EBRD	EURO	6.3%	2005	-	616
Other	US$	4.7%	2005-2012	397	299
				397	3,915
Less: current portion of non-current debt				(83)	(3,697)
				314	**218**

Maturity table	31 December 2005	31 December 2004
Due for re-payment		
Between one and two years	83	80
Between two and five years	231	138
	314	**218**

Bonds (issued in 2002): In October 2002 the Company issued 3,000,000 bonds with a 15 percent interest rate on a nominal value of RR 1,000. These bonds mature three years from their issue date, at nominal value. Interest was payable semi-annually from the bond placement commencement date. The fair value of the bonds did not significantly differ from the nominal value. All of the bonds were redeemed in 2005.

EBRD: In February 2002 the Company obtained a Euro 100 million loan from the European Bank for Reconstruction and Development ("EBRD"). The stated interest rate for the loan was the European Center Bank interbank rate plus 4.125 percent. The interest rate equaled 6.310 percent as at 31 December 2004 and 31 December 2005. Interest and a portion of the principal were repayable semi-annually up to the expiry of the loan in 2005.

The loan was secured by export sales of the Company, the proceeds of which were restricted for the repayment of the loan. Principal amount and interest were repaid during 2005.

Other: In September 2000 the Company obtained the loan from the International Bank of Reconstruction and Development (IBRD) per Federal Center of Project Financing (Ministry of Finance) for project of assistance to energy sector reformation financing. The interest rate for the loan is EBRD rate plus Ministry of Finance margin and commission for the obligation. The interest rate equaled to 4.7 percent as at 31 December 2005. Interest and a portion of the principal are repayable semi-annually up to the expiry of the loan in 2012.

(in millions of Russian Roubles)

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

	Currency	31 December 2005	31 December 2004
Short term debt	RR	3,740	-
Current portion of non-current debt	$US	83	3,697
		3,823	**3,697**

Short term debt, as at 31 December 2005, includes a loan from Vneshekonombank in the amount of RR 3,500 million which was obtained to finance the acquisition of 22.4 percent of the share capital of OAO Power Machines ("Power Machines") and promissory notes in amount of RR 240 million.

The current portion of long-term debt, as at 31 December 2005, contains the current element of the loan from EBRD (as at 31 December 2004: current portion of long-term debt includes mainly liability for bonds and other short-term debts in amount of RR 3,000 million and RR 616 million respectively).

Note 17: Accounts payable and accrued charges

	31 December 2005	31 December 2004
Accrued liabilities and other creditors	1,186	878
Trade payables	290	1,109
Dividends payable	220	170
Construction payables	20	193
	1,716	**2,350**

In 2005, approximately 3.2 percent (2004: 2.7 percent) of the Company's settlements of accounts payable and accrued charges were settled via non-cash settlements.

Note 18: Taxes payable

Taxes payable consists of the following:

	31 December 2005	31 December 2004
Profit tax	1,306	448
Value Added Tax	908	1,143
Fines and interest	43	11
Property tax	23	102
Other taxes	19	74
Employee taxes	7	22
	2,306	**1,800**

Included in the payable for value added tax is RR 907 million which only becomes payable to the tax authorities when the underlying receivable balance is either recovered or written off (31 December 2004: RR 709 million).

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. In 2005 the refinance rate was 13 percent until 25 December 2005 and 12 percent from 26 December 2005 (In 2004: 16 percent till 14 January 2004; 14 percent from 15 January till 14 June, 2004; 13 percent starting with 15 June 2004). Interest does not accrue on tax fines and interest.

(in millions of Russian Roubles)

Note 19: Operating costs

Wages, benefits and payroll taxes include payroll taxes of RR 341 million (2004: RR 378 million) and RR 334 million of discretionary pension charges (2004: nil).

Other expenses include:

	Year ended 31 December 2005	Year ended 31 December 2004
Loss on disposal of other assets	754	75
Rent	309	279
Business trip expenses	169	150
Research and development	136	133
Repairs and maintenance	93	57
Security	83	66
Materials	83	16
Postal services	80	74
Entertainment cost	70	129
Insurance expense	38	90
Transmission fee, export	-	408
Expenses for protection of flood areas	-	229
Other	1,136	974
	2,951	**2,680**

Note 20: Earnings per share

	Year ended 31 December 2005	Year ended 31 December 2004
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149	2,075,149
Adjusted for weighted average number of treasury shares (thousands)	(61)	(61)
Weighted average number of ordinary and preference shares outstanding (thousands)	43,116,842	43,116,842
Net income	19,799	17,411
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	0.46	0.40

(in millions of Russian Roubles)

Note 20: Earnings per share (continued)

Taking into account the effect of the unequal dividends paid in the period (refer to Note 13), and based on the weighted average numbers of preference and ordinary shares outstanding, the earnings per share for the two classes of shares were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Weighted average number of ordinary shares issued (thousands)	41,041,754	41,041,754
Adjustment for weighted average number of ordinary treasury shares (thousands)	(58)	(58)
Weighted average number of ordinary shares outstanding (thousands)	41,041,696	41,041,696
Weighted average number of preference shares issued (thousands)	2,075,149	2,075,149
Adjustment for weighted average number of preference treasury shares (thousands)	(3)	(3)
Weighted average number of preference shares outstanding (thousands)	2,075,146	2,075,146
Dividends to ordinary shares outstanding	2,295	1,925
Dividends to preference shares outstanding	463	474
Total dividends	2,758	2,399
Total Profit attributable to ordinary equity holders less dividends paid	17,041	15,012
- attributable to ordinary shareholders	16,221	14,289
- attributable to preference shareholders	820	723
Total earnings attributable to the ordinary shareholders	18,515	16,215
Total earnings attributable to the preference shareholders	1,284	1,196
Earnings per ordinary share – basic and diluted (in RR)	**0.45**	**0.40**
Earnings per preference share – basic and diluted (in RR)	**0.62**	**0.58**

The basic profit per share above is for the Company as a parent company on a stand-alone basis. The earnings per share for the Group is disclosed in the 2005 Group consolidated financial statements.

(in millions of Russian Roubles)

Note 21: Net financing gain/(loss)

	Year ended 31 December 2005	Year ended 31 December 2004
Loss on initial recognition of interest free loans issued	(942)	(4,309)
Release/(charge) of impairment of other non-current assets and investments	566	(1,605)
Interest income	530	903
Discounting effect on the restructured payable amounts	(767)	(1,585)
Income on tax interest and penalties release, net	1,003	2,213
Imputed interest income on loans issued	2,019	221
Foreign exchange (loss)/gain	(107)	23
	2,302	**(4,139)**

Loss on initial recognition of interest free loan issued. Losses amounted RR 225 million have been recognised in respect of non–interest bearing long–term promissory notes acquired from subsidiaries and held by the Company as at 31 December 2005. The discounting effect was calculated assuming 12 percent discount rate and settlement date not later than in 5 years from the reporting date. The promissory notes amounting to RR 535 million (net of discounting effect) are included in Loans issued as at 31 December 2005.

Also, as described in Note 8, loss amounted RR 717 million has been recognised during the year on initial recognition of the loan issued to Ulyanovskenergo. In 2004 a loss was recognised in respect of loans issued below market rates.

The effect of discounting will be amortized over the period of the assets' lifetime as an Imputed interest income.

Imputed interest income on loans issued. Imputed interest income is recorded as a result of the amortisation of the discount recognized in 2001-2004 on loans issued at below market interest rates. RR 1,121 million of such amortization has been included in imputed interest on loans issued for the year ended 31 December 2005 (year ended 31 December 2004: RR 221 million). These loans issued are discussed in Note 8.

As described in Note 8, gain on early repayment amounted RR 479 million has been recognised during 2005 on early repayment of loan issued to Ulyanovskenergo by CARES in 2001.

Imputed interest income also includes amortization of the discount recognized in 2004 in respect of non-interest bearing long-term promissory notes, which were received as a settlement of accounts receivable from one of the Company's debtors. RR 419 million of such amortization has been included in imputed interest on loans issued for the year ended 31 December 2005 (year ended 31 December 2004: nil). The promissory notes amounting to RR 2,435 million (net of discounting effect) are included in Other non-current assets as at 31 December 2005 (31 December 2004: RR 2,016 million).

Discounting effect on the restructured payable amounts. The discounting of the restructured payable amounts gives rise to a gain. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an expense; RR 767 million of such amortization was included in Net financing gain/(loss) for the year ended 31 December 2005 (year ended 31 December 2004: RR 1,585 million).

Note 21: Net financing gain/(loss) (continued)

Income on tax interest and penalties release In accordance with Government Resolution No. 1002 dated 3 September 1999 the Company has restructured taxes including fines and interest over a period of up to 10 years. Non-adherence to certain payment schedules could result in the gross amount of taxes payable including fines and interest becoming due on demand. Based on the contractual dates of repayment, discount rates of 21 – 25 percent have been used in the estimate of the fair value of these liabilities.

In accordance with Moscow government Resolution No.30 dated 15 January 2002, in 2002 the Company has restructured additional taxes initially due to be paid in that year. Non-adherence to certain payment schedules could result in the tax payables becoming due on demand. Based on the contractual dates of repayment, discount rates of 21 – 25 percent have been used in the estimate of the fair value of these liabilities.

Prior to 31 December 2005 the Company repaid early most of the restructured taxes payable. Consequently, in accordance with Government Resolution No 269 dated 24 April 2002 , RR 1,252 million of tax interest and penalties were written–off by tax authorities in 2005 (year ended 31 December 2004 – RR 2,213 million of tax interest and penalties were written-off).

The remaining balance of restructured taxes payable is included in Other non-current liabilities,

Note 22: Commitments

Guarantees. The Company has issued guarantees to third parties amounting to RR 16,092 million at 31 December 2005, including the guarantees issued for subsidiaries and associates of RR 16,068 million (at 31 December 2004: RR 12,077 million and RR 11,907 million, respectively).

Note 23: Contingencies

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

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

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

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. 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 does not fully cover all the aspects of the Company restructuring, there might be respective legal and tax risks.

As at 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements.

Note 23: Contingencies (continued)

Environmental matters. The Company and its 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. The Company periodically evaluates its obligations under environmental regulations.

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

Note 24: Financial instruments and financial risk factors

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

Credit risk. Financial assets which potentially subject Company to concentrations of credit risk consist principally of trade receivables and loans issued. As disclosed in Notes 5 and 8, most of the trade receivables and loans issued are due from Group companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the allowance for doubtful debtors already recorded.

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

Foreign exchange risk. The Company primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Company's purchases are denominated in Russian Roubles. The major concentration of foreign exchange risk is in relation to US$ denominated debt, as disclosed in Note 15.

Interest rate risk. The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term borrowings are fixed, these are disclosed in Note 15. The Company has no significant interest-bearing assets.

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

Note 25: Subsequent events

In July 2006 the Company conducted a tender for the sale of 100.0 percent of the shares of OAO Taimyrenergo. The winning party offered cash consideration of RR 7,290 million. The carrying value of those shares as at 31 December 2005 was RR 39 million. The results of the disposal will be reflected in the Company's income statement in 2006.

During April-May 2006 the company has concluded several agreements with WGC-6 for the acquisition of an additional 4,096,167,800 shares . The total consideration paid consisted of the shares of two Group companies with a carrying value of RR 64 million and the transfer of receivable from OAO Ryazanskaya GRES with a carrying value of RR 121 million.

In May 2006 RAO UES and the Moscow City Government concluded an agreement on cooperation in implementing of investing program to construct and modernize electric power facilities in the city of Moscow. Total anticipated investment to be contributed by the Company will be about RR 12 billion.

Note 25: Subsequent events (continued)

In June 2006 the Annual Shareholders Meeting approved the acquisition of an additional share issue of the Federal Hydro generating company ("Hydro WGC"). The total number of shares to be purchased equals 37,004,950,730 with nominal value 1 RR. Total consideration for the purchase consists of RR 20,000 million in cash, transfer of property, plant and equipment with a carrying value of RR 460 million and the transfer of shares of four hydropower plants, two generating companies and two non-core companies with a total carrying value RR 674 million.

In June 2006 the Annual Shareholders Meeting has approved acquisition of additional share issue of Federal Grid Company ("FGC"). Total consideration for the purchase consist of of RR 1,990 million in cash, transfer of property plant and equipment with a carrying value of RR 2,103 and transfer of shares held in 42 transmission companies with a total carrying value RR 512 million.

Subsequent to 31 December 2005 following an additional share issue made by WGC-5, the Company's stake in WGC-5 has changed from 90.25 % to 87.67%. Furthermore, in July 2006, the Company Board of Directors approved another additional share issue for WCG-5, after which the Company will own 75%+1 share of WGC-5. The board of Directors has also approved reorganisation plans for 2006-2007 in the course of which a new legal entity will be spun-off from the Company, which will hold 50% of WGC-5 shares. The Company plans to sell the remaining 25% + 1 shares of WCG-5 on an open auction.