OGK-1 GROUP

COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOR THE YEAR ENDED 31 DECEMBER 2005

PRICEWATERHOUSECOOPERS

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AUDITOR'S REPORT

To the shareholders and the Board of Directors of OJSC "OGK-1":

1 We have audited the accompanying combined and consolidated balance sheet of OJSC "OGK-1" and its subsidiaries (the "Group") as of 31 December 2005 and the related combined and consolidated statements of income, of cash flow and of changes in equity for the year then ended. These combined and consolidated financial statements as set out on pages 3 to 28 are the responsibility of the Group'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 combined and consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
26 October 2006

OGK-1 GROUP
Combined and Consolidated Balance Sheet as at 31 December 2005
(in thousand of Russian Roubles)

	Notes	31 December 2005	31 December 2004
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	6,002,755	6,362,006
Other non-current assets	7	150,559	126,424
Total non-current assets		**6,153,314**	**6,488,430**
Current assets			
Cash and cash equivalents	8	118,990	192,675
Accounts receivable and prepayments	9	1,031,841	422,598
Inventories	10	595,748	242,757
Other current assets	11	85,000	-
Total current assets		**1,831,579**	**858,030**
TOTAL ASSETS		**7,984,893**	**7,346,460**
EQUITY AND LIABILITIES			
Equity attributable to the shareholders of the Group			
Share capital	12		
Ordinary shares (nominal value RR 16,784 million)		16,783,508	17,252,040
Unpaid share capital		-	(517,051)
Merger reserve		(11,347,783)	(11,347,783)
Retained loss		(63,123)	(69,853)
Equity attributable to shareholders of OJSC OGK-1		**5,372,602**	**5,317,353**
Minority interest	1	0	0
Total equity		**5,372,602**	**5,317,353**
Non-current liabilities			
Deferred profit tax liabilities	13	666,709	755,873
Non-current debt	14	-	61,903
Other non-current liabilities		41,407	86,632
Total non-current liabilities		**708,116**	**904,408**
Current liabilities			
Current debt and current portion of non-current debt	15	790,071	491,803
Accounts payable and accrued charges	16	537,435	305,415
Profit tax payable		74,658	72,433
Taxes payable, other than profit tax	17	502,011	255,048
Total current liabilities		**1,904,175**	**1,124,699**
Total liabilities		**2,612,291**	**2,029,107**
TOTAL EQUITY AND LIABILITIES		**7,984,893**	**7,346,460**

General Director — Khlebnikov V.V.

Chief Accountant — Votintseva L.N.

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1057200597960 * ТЮМЕНЬ *
«ПЕРВАЯ ГЕНЕРИРУЮЩАЯ КОМПАНИЯ ОПТОВОГО РЫНКА ЭЛЕКТРОЭНЕРГИИ»

26 October 2006

The accompanying notes are an integral part of these consolidated financial statements.

OGK-1 GROUP
Combined and Consolidated Statement of Operations for the year ended 31 December 2005
(in thousand of Russian Roubles)

	Notes	Year ended 31 December 2005	Year ended 31 December 2004
Revenues	18	7,227,015	5,416,411
Operating expenses	19	(7,028,596)	(5,199,726)
Other operating income	23	-	164,000
Operating profit		**198,419**	**380,685**
Finance costs, net	20	(95,382)	(71,526)
Profit before profit tax		**103,037**	**309,159**
Total profit tax charge	13	(45,748)	(87,166)
Profit for the period		**57,289**	**221,993**
Attributable to:			
Shareholders of OJSC OGK-1		57,289	221,993
Minority interest		0	0
Earning per ordinary share for profit attributable to the shareholders of OJSC OGK-1 – basic and diluted (in Russian Roubles)	21	**0.003**	**0.013**

General Director — Khlebnikov V.V.

Chief Accountant — Votintseva L.N.

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1057200597960 * ТЮМЕНЬ *
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26 October 2006

OGK-1 GROUP
Combined and Consolidated Statement of Cash Flow for the year ended 31 December 2005
(in thousand of Russian Roubles)

	Notes	Year ended 31 December 2005	Year ended 31 December 2004
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before profit tax		**103,037**	**309,159**
Adjustments to reconcile profit before profit tax to net cash provided by operations:			
Depreciation and impairment of property plant and equipment	19	535,691	557,991
Reverse of allowance for doubtful debtors	19	(6,772)	(12,764)
Obsolete inventory provision		(7,817)	42,000
Interest expense and effect of discounting	20	106,348	149,943
Interest income	20	(38,189)	(78,417)
Effect of discounting of long-term accounts receivable	20	27,223	-
Loss on disposal of property plant and equipment	19	118,340	84,000
Loss on disposal of subsidaries	19	13,596	-
Distribution to RAO UES	3	(26,962)	(107,846)
Adjustment for other non-cash investing activities		(3,047)	(737)
Operating cash flows before working capital changes and profit tax paid		**821,448**	**943,329**
Working capital changes:			
(Increase) / decrease in accounts receivable and prepayments		(654,846)	157,234
Increase in other current assets		(85,000)	-
Increase in inventories		(349,443)	(39,920)
(Increase) / decrease in other non-current assets		(62,676)	174,322
Increase in accounts payable and accrued charges		250,974	78,751
Increase / (decrease) in taxes payable, other than profit tax		246,963	(44,616)
Increase / (decrease) in other non-current liabilities		60,089	(126,649)
Profit tax paid		(98,203)	(196,949)
Net cash generated by operating activities		**129,306**	**945,502**
CASH FLOW FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(277,950)	(324,660)
Proceeds from sales of property, plant and equipment		21,556	2,000
Proceeds from sale of subsidiaries, net of cash disposed		12,310	-
Interest received		19,977	5,474
Net cash used for investing activities		**(224,107)**	**(317,186)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		1,901,214	565,000
Proceeds from long-term borrowings		-	89,000
Repayment of debt		(1,607,409)	(926,000)
Repayment of financial lease		(79,590)	(147,000)
Interest paid		(146,318)	(112,641)
Dividends paid by the Group to shareholders of OJSC OGK-1		(95,300)	(89,000)
Proceeds from share issuance		48,519	-
Net cash generated by / (used for) financial activities		**21,116**	**(620,641)**
(Decrease) / increase in cash and cash equivalents		**(73,685)**	**7,675**
Cash and cash equivalents at the beginning of the period		**192,675**	**185,000**
Cash and cash equivalents at the end of the period		**118,990**	**192,675**

General Director Khlebnikov V.V.

Chief Accountant Votintseva L.N.

26 October 2006

The accompanying notes are an integral part of these consolidated financial statements.

Combined and Consolidated Statement of Changes in Equity for the year ended 31 December 2005

(in thousand of Russian Roubles)

	Attributable to the shareholders of OJSC OGK-1				
	Ordinary share capital	**Unpaid share capital**	**Merger reserve**	**Retained loss**	**Total**
As at 1 January 2004	**17,252,040**	**(517,051)**	**(11,347,783)**	**-**	**5,387,206**
Profit for the year	-	-	-	221,993	221,993
Distribution to RAO UES (Note 3)	-	-	-	(107,846)	(107,846)
Dividends (Note 12)	-	-	-	(184,000)	(184,000)
As at 1 January 2005	**17,252,040**	**(517,051)**	**(11,347,783)**	**(69,853)**	**5,317,353**
Payment of share capital (Note 12)	-	48,519	-	-	48,519
Cancellation of shares (Note 12)	(468,532)	468,532	-	-	-
Distribution to RAO UES (Note 3)	-	-	-	(26,962)	(26,962)
Profit for the year	-	-	-	57,289	57,289
Dividends (Note 12)	-	-	-	(23,597)	(23,597)
As at 31 December 2005	**16,783,508**	**-**	**(11,347,783)**	**(63,123)**	**5,372,602**

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПЕРВАЯ ГЕНЕРИРУЮЩАЯ КОМПАНИЯ ОПТОВОГО РЫНКА ЭЛЕКТРОЭНЕРГИИ» ОГРН 1057200597960 ТЮМЕНЬ

General Director Khlebnikov V.V.

Chief Accountant Votintseva L.N.

26 October 2006

(in thousand of Russian Roubles)

Note 1. The Group and its operations

Open Joint-Stock Company OGK-1 (OJSC "OGK-1", or the "Company") was established on 23 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

The OGK-1 Group (the "Group") operates 2 power plants (Perm SDPP and Verkhnetagil SDPP) and its principal activity is electricity and heat generation. The Group consists of OJSC OGK-1 and its subsidiaries. The Group's principal subsidiaries are:

		Ownership, %	
	Activity	**31 December 2005**	**31 December 2004**
OJSC Perm SDPP (Perm SDPP)	State-District Power Plant (SDPP)	100% less one share	100% less one share
JSC «UTT»	Transportation services	99,9	99,9
JSC «PermGRESelectroremont»	Repair services	-	100% less one share
JSC «PermGRESenergoremont»	Repair services	-	100% less one share
JSC «PermGRESstroyremont»	Repair services	100% less one share	100% less one share
JSC «PermGRESteploavtomatika»	Repair services	100% less one share	100% less one share

Due to the insignificant minority ownership, the minority interest in the equity and the profit for the period of the Group approximates to nil.

The Company's registered office is located at bld. 1, 1 Odessa Street, Tyumen, Tyumen region, the Russian Federation.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. 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. As of 31 December 2005, the Government of the Russian Federation owned 52.7 percent of RAO UES, which in its turn owned 100 percent of the voting shares in OJSC OGK-1. The Russian government is the ultimate controlling party of the Group.

The Group's customer base includes a large number of entities controlled by or related to the state. Moreover, the state controls a number of the Group's fuel and other suppliers.

The Government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy sales, and by the regional services on tariffs ("RSTs"), with respect to its retail electricity and heat sales. Tariffs which Group entities 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 discussed in Notes 2, 23 and 24, the government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which RAO UES can raise the capital required to maintain and expand current capacity.

- The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities" and Federal Law No. 36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".
- In June 2003 the government issued Resolution No. 1254-r "On formation of generation companies of the wholesale electricity market" which approved composition of wholesale generating companies of the wholesale electricity market, including a list of the six power plants to be contributed into the Group.
- In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity Market (FOREM): regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers will be able to sell electricity generated with the use of facilities and equipment accounting for 15% of the working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity market during the transition period, has been holding electricity bidding in the free trading sector. The Group participates in this free trading scheme. According to the laws underlying the electric utilities reform, subsequently free trading would be extended over the whole volume of trading.
- As part of reforming of the operation of the wholesale electricity (power) market in August 2006 the Government issued Resolution No. 529 "On the Improvement of the Operation of the Wholesale Electricity Market" which introduced changes in the Rules for the Wholesale Electricity Market during the Transition Period from 1 September 2006. Effective as of September 2006 there will be changes in pricing and abolition of limitation on sale of power in the free trading sector. Specifically, the Resolution stipulates a gradual reduction (5% to 15% per annum) of the share of electricity sales on the wholesale market at regulated prices (tariffs) and a corresponding increase of trading of electricity at free market prices.
- As at 29 May 2003, the Board of Directors of RAO UES approved a "Concept of RAO UES of Russia strategy for the period from 2003 through 2008". In February 2006 the Board of Directors approved an Appendix to the Concept of RAO UES Strategy: "Generating companies of the Wholesale Electricity Market (OGKs)". This document provides a detailed description of the major changes that are planned to take place in respect of wholesale generation companies during the electric utilities reform program. In accordance with this Concept, RAO UES is developing the first stage of its own reorganisation which assumes a spin-off of 2-3 generating companies (including OJSC OGK-1) with proportional distribution of shares of the separated companies between the shareholders of RAO UES. 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 Group cannot be readily assessed because the specific, detailed mechanisms to effect the restructuring are still being determined. Accordingly, no provision has been recognised for the effects of the restructuring process.

Note 2. Financial condition

As at 31 December 2005, the Group's current liabilities exceeded its current assets by Russian Roubles ("RR") 72,596 thousand (as at 31 December 2004 the Group's current liabilities exceeded its current assets by RR 266,668 thousand).

As discussed above, the Group is affected by government policy through control of tariffs and other factors. The RSTs have not always permitted tariff increases in line with the Group's costs and thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on Russian statutory basis and, accordingly, exclude additional costs recognized under an IFRS basis of accounting. As a result, tariffs do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. However, the growing demand for electricity and capacity, together with increasing role of the free trading sector of the wholesale electricity market, result in a higher rate of revenue growth during 2005 to date.

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

- introduction of improved financial budgeting procedures; a strong focus on timely cash collection of current and old debtor balances; restructuring of liabilities for repayment over a longer period;
- negotiations with federal and regional governments and regulators for real increases in tariffs to support adequate long term investment into the Group's generation, transmission and distribution assets.

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

Note 3. Basis of preparation

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

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

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

Predecessor Accounting. In March 2005, RAO UES transferred to the Company 99.9% of the outstanding ordinary shares of Perm SDPP. In these combined and consolidated financial statements, the Group accounted for this business combination amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the transferred entity were accounted for at the carrying value, as determined by RAO UES in its IFRS financial statements. Information in respect of the comparative period has been restated as if the business combination took place at the beginning of the earliest period presented.

In March 2005 RAO UES transferred the property, plant and equipment of a power plant (Verkhnetagil SDPP) as a contribution to the Company's charter capital. These assets were rented out by the Group to another subsidiary of RAO UES (TGK-9) until 1 October 2005 and the transfer included the rental agreement. Starting from 1 October 2005 the Company hired the personnel previously employed by TGK-9, purchased inventories from TGK-9 by 30 September 2005, and started conducting the full operational activity at this plant. This transaction was accounted for as a business combination amongst entities under common control. This combination was also accounted for under the predecessor values method as a matter of accounting policy. Prior to the transfer RAO UES had been renting the aforementioned property, plant and equipment out and accordingly recognised the related revenues and costs in its financial statements. Since the predecessor basis of accounting was used, the rental income (see Note 18) and related expenses for 2004 and the 1st quarter 2005 were carved out from RAO UES's financial statements and included in the Group's financial statements, with the net result of operations of the business being recorded as a distribution to RAO UES in the equity statement.

Accounting for the effects 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 RR in accordance with International Accounting Standards 29 ("IAS") ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that 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 indicated that hyperinflation ceased, effective from 1 January 2003 the Group no longer applied the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current as 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 October 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 Group adopted all of those IFRS, which are relevant to its operations and are in force as at 31 December 2005.

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") and IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5") did not result in substantial changes to the Group's accounting policies.

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

Unless otherwise described below, the analysis in respect of these new standards and interpretations has been carried out by the Group, and they are not expected to significantly affect the Group's financial statements.

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

- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group'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 Group's capital.
- Amendment to IAS 19 "Employee Benefits", which is Amendment 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.
- 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 Group has not yet completed its analysis of the impact of the amendment.
- 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 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 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.
- Other standards that are not expected to significantly affect the Group's financial statements:
  - IFRS 6 "Exploration for and Evaluation of Mineral Resources";
  - Amendment to IAS 21 "Net Investment in a Foreign Operation";
  - Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions";
  - IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment";
  - IFRIC 7 "Applying the Restatement Approach under IAS 29".

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 Group be unable to continue as a going concern.

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

Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see Note 9).

Provision for impairment of other assets

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

Tax contingencies

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

Useful lives of property, plant and equipment

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

Note 4. Summary of significant accounting policies

Principles of consolidation. The Financial Statements comprise the financial statements of OJSC OGK-1 and the financial statements of those entities whose operations are controlled by OJSC OGK-1. Control is presumed to exist when OJSC OGK-1 controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The minority interest has been disclosed as part of equity.

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

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

Investments. Investments intended to be held for an indefinite period of time are classified as available-for sale; these are included in other non-current assets, unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in other current assets. Management determines the appropriate categorization, current or non-current, at the time of the purchase and re-evaluates it based on maturity or the date of expected realisation at each reporting date.

Purchases and sales of investments are initially measured at fair value and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. The available-for sale investments are subsequently carried at fair value. 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.

The Group does not hold any investments for trading purposes.

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

As at 31 December 2005, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RR and the US Dollar ("USD") was RR 28.78: USD 1.00 (31 December 2004: RR 27.75: USD 1.00), between the RR and EURO RR 34.19: EURO 1.00 (31 December 2004: RR 37.81: EURO 1.00).

(in thousand of Russian Roubles)

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

Property, plant and equipment. In 2004 property, plant and equipment were recognized at the carrying value determined in accordance with the IFRS at the date of their transfer to the Company by the Predecessor.

Property, plant and equipment is stated at depreciated cost less impairment. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the 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 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 and the Group has not adopted a policy of revaluation on subsequent measurement. 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 a straight-line basis over the estimated useful life of the asset when it is available for use. For the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date. The remaining useful lifes are reviewed annually. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	**Acquired prior to 31 December 1997**	**Acquired subsequent to 31 December 1997**
Electricity and heat generation	3 – 50	20 – 50
Electricity transmission	14 – 19	25
Electricity distribution	3 – 40	25
Heating network	3 – 43	20
Other	8 – 24	10

Loan charges received for the financing of construction of property, plant and equipment are not capitalized within the cost of property, plant and equipment object during the period needed for the finalization of construction works and preparation for planned use.

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

Accounts receivable and prepayments. Accounts receivable are recorded inclusive of value added taxes 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 Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Differences in tariffs for sale of electricity through FOREM for individual sellers and tariffs for purchasers of electricity from FOREM for individual customers resulted in unallocated balances (WEM imbalance) on FOREM are written off the balance sheet. The revenues initially recognised in relation with the WEM imbalance are reversed from the statement of operations.

The deferred value added tax ("VAT") recognized in relation with the above WEM imbalance represents liabilities to budget and is reflected in the balance sheet until the specified VAT tax returns are submitted to tax authorities.

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

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

Profit tax.

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

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

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

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

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax. 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.

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

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group has also contracted with non-governmental pension fund. Group entities operate defined benefit plans, the defined benefit obligations are not significant for disclosure.

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

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

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

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

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

Seasonality. Demand for electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

Note 5. Related Parties

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

RAO UES is the sole shareholder of the OJSC OGK-1 and has absolute control over the Group's operations. Also, RAO UES granted a loan to the Group which is payable in monthly installments between 2002 and 2006. The loan was used in full for settlement of a liability to "Permregiongas", a subsidiary of JSC Gazprom, and settlement of tax liabilities (see Note 15).

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in 2005 and in 2004 or had significant balances outstanding at 31 December 2005 and at 31 December 2004 are detailed below.

RAO UES

Sales of electricity to RAO UES for the year ended 31 December 2004 were RR 132,085 thousand (2005: nil); accounts receivable from RAO UES at 31 December 2005 were RR 9,474 thousand (2004: RR 11,990 thousand).

As at 31 December 2005 the Group had a liability to RAO UES for dividends declared but not paid – in the amount of RR 23,595 thousand.

In December 2001 the Group received a loan from the Center for Assistance in Restructuring the Electricity Sector (CARES) (non-commercial partnership) in the amount of RR 1,329,314 thousand for settlement of debts to the gas suppliers (in the amount of RR 1,125,765 thousand), and for settlement of payables to the tax authorities (in the amount of RR 203,549 thousand). Subsequently CARES assigned its right of demand of the loan to RAO UES.

The fair value of the above loan at inception was estimated using discount rate of 23.1-23.2%. For the year ended 31 December 2005 RR 22,150 thousand of the discount was amortised (2004: RR 41,664 thousand).

For the year ended 31 December 2005 and 31 December 2004 interest expenses on the RAO UES loan amounted to RR 99,784 thousand and RR 50,694 thousand, respectively.

Outstanding balance of the loan (RR 65,020 thousand and RR 242,000 thousand as on 31 December 2005 and as on 31 December 2004, respectively) is disclosed as current portion of non-current debt.

On 29 December 2005 OJSC OGK-1 issued non-interest bearing note for RR 60,000 thousand and sold it to Impexbank JSC. The note is redeemable not earlier than 1 May 2006. On 30 December 2005 this note was assigned to RAO UES. This note is included in current debts.

(in thousand of Russian Roubles)

Transactions with RAO UES's subsidiaries

Transactions with subsidiaries of RAO UES were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Electricity and heating revenues	6,558,605	4,042,994
Rent	55,630	-
Management services	19,800	-
Purchased power expenses	483,051	78,635
Other expenses	337	-

Balances with other related parties were as follows:

	31 December 2005	31 December 2004
Accounts receivable, gross	194,446	43,106
Provision for impairment of accounts receivable	(10,473)	(1,023)
Accounts payable	187,980	37,746

Provision for impairment of accounts receivable recognised as an expense during the year ended 31 December 2005 was RR 9,450 thousand (2004: RR 1,023 thousand).

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

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

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

	Year ended 31 December 2005	Year ended 31 December 2004
Electricity and heating revenues	4,986	-
Fuel expenses	3,354,051	2,888,307
Interest expense	13,478	6,307
Other revenues	424	435

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

	31 December 2005	31 December 2004
Accounts receivable and prepayments, gross	62,880	73,468
Provision for impairment of accounts receivable	(58,494)	(73,468)
Accounts payable and accruals	496	776
Debt	202,000	372,805
Other non current assets	9,787	14,320

Tax balances are disclosed in the balance sheet and Notes 13 and 17. Tax transactions are disclosed in the income statement and Note 13 and 19.

Directors' compensation

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

(in thousand of Russian Roubles)

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

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and Management Board for the year ended 31 December 2005 was RR 42,459 thousand (for the year ended 31 December 2004 – RR 28,500 thousand). The Group has no other compensation programs.

Note 6. Property, plant and equipment

Cost	**Electricity and heat generation**	**Electricity distribution**	**Heating networks**	**Construction in progress**	**Other**	**Total**
Opening balance as at 31 December 2004	12,089,938	792,069	425,618	1,767,14	2,306,927	17,381,701
Additions	-	-	-	274,04	39,087	313,128
Transfers	133,467	91,126	3,974	(453,413	224,846	-
Disposals	(2,343)	(2,352	(8,881)	(200,018	(7,168)	(220,762)
Closing balance as at 31 December 2005	12,221,062	880,843	420,711	1,387,75	2,563,692	17,474,067
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2004	(6,838,14	(569,096	(361,622)	(1,362,562	(1,888,266)	(11,019,695)
Charge for the period	(384,482)	(16,244	(13,697)	-	(121,268)	(535,691)
Transfers	(104,234)	(71,167	(3,103)	354,10	(175,599)	-
Disposals	1,175	1,361	7,501	69,29	4,738	84,074
Closing balance as at 31 December 2005	(7,325,69	(655,146	(370,921)	(939,16	(2,180,395)	(11,471,312)
Net book value as at 31 December 2004	5,251,7	222,973	63,996	404,58	418,661	6,362,006
Net book value as at 31 December 2005	4,895,3	225,697	49,790	448,59	383,297	6,002,755

Cost	**Electricity and heat generation**	**Electricity distribution**	**Heating networks**	**Construction in progress**	**Other**	**Total**
Opening balance as at 31 December 2003	12,000,455	736,749	425,618	2,008,069	1,994,185	17,165,076
Additions	207	-	-	301,492	32,775	334,474
Transfers	89,365	55,791	-	(450,242)	305,086	-
Disposals	(89)	(471)	-	(92,170)	(25,119)	(117,849)
Closing balance as at 31 December 2004	12,089,938	792,069	425,618	1,767,149	2,306,927	17,381,701
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2003	(6,424,344)	(552,455)	(347,547)	(1,592,689)	(1,573,843)	(10,490,878)
Charge for the period	(413,882)	(16,934)	(14,075)	-	(113,100)	(557,991)
Transfer	-	-	-	221,275	(221,275)	-
Disposals	77	293	-	8,852	19,952	29,174
Closing balance as at 31 December 2004	(6,838,149)	(569,096)	(361,622)	(1,362,562)	(1,888,266)	(11,019,695)
Net book value as at 31 December 2003	5,576,111	184,294	78,071	415,380	420,342	6,674,198
Net book value as at 31 December 2004	5,251,789	222,973	63,996	404,587	418,661	6,362,006

(in thousand of Russian Roubles)

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

Depreciation is charged once an asset is available for service.

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

Impairment

Management has used various assumptions in the calculation of the recoverable value of property, plant and equipment. Variations in these assumptions may give rise to a significantly different amount for the impairment provision. In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions in the Russian Federation.

Based on factors set out below management believes that there was no indication of any additional impairment on the Group's principal operating assets:

- increase in electricity tariffs set for the Group for 2005 were on average 11% (heat: 13%);
- growth of gas prices set in the Government's forecast is not expected to exceed limit of 11% in 2006, which is not significantly more than expected inflation;
- demand for both electricity and heat is consistently growing from year to year.

The impairment provision included in accumulated depreciation balance as at 31 December 2005 and 31 December 2004 was RR 4,500,376 thousand and RR 4,966,623 thousand, accordingly.

Leased property, plant and equipment

The Group leased certain electricity and heat generation equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2005 the net book value of leased property, plant and equipment was RR 312,940 thousand (RR 378,265 thousand as at 31 December 2004). The leased equipment secures lease obligations.

Operating lease

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

Operating lease rentals are payable as follows:

	31 December 2005
Less than one year	52,266
Between one year and five years	164,931
After five years	1,657,301
Total	**1,874,498**

The above lease agreements are usually concluded for 49 years with prolongation right. The lease payments are subject to regular consideration for adequacy to the market conditions.

Note 7. Other non-current assets

	31 December 2005	**31 December 2004**
Non-current trade receivables (effective interest rate: 10.5%, due 2015-2026)	90,237	87,882
Other	60,322	38,542
Total	**150,559**	**126,424**

(in thousand of Russian Roubles)

Note 8. Cash and cash equivalents

	31 December 2005	31 December 2004
Cash at bank and in hand	68,533	31,907
Cash equivalents (contractual interest rate: 7%)	50,457	160,768
Total	**118,990**	**192,675**

Cash equivalents comprise short-term RR bank deposits of less for 3 months duration.

Note 9. Accounts receivable and prepayments

	31 December 2005	31 December 2004
Trade receivables (Net of allowance for doubtful debtors of RR 16,178 thousand as at 31 December 2005 and RR 17,641 thousand as at 31 December 2004)	240,793	147,170
Value added tax recoverable	124,787	84,624
Advances to suppliers and prepayments	464,829	60,661
Other receivables (net of allowance for doubtful debtors of RR 73,285 thousand as at 31 December 2005 and RR 77,331 thousand as at 31 December 2004)	201,432	130,143
Total	**1,031,841**	**422,598**

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

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 7).

Note 10. Inventory

	31 December 2005	31 December 2004
Materials and supplies	323,152	218,984
Fuel production stock	264,492	5,937
Other inventories	8,104	17,836
Total	**595,748**	**242,757**

The above inventory balances are recorded net of an obsolescence provision of RR 69,214 thousand and RR 77,031 thousand as at 31 December 2005 and 31 December 2004, respectively.

Note 11. Other current assets

	31 December 2005	31 December 2004
Bank deposits (RR nominated, contractual interest rate: 14%)	85,000	-
Total	**85,000**	**-**

Note 12. Equity

Share capital

(Number of shares unless otherwise stated)	Ordinary shares 31 December 2005	Ordinary shares 31 December 2004
Issued shares	16,783,508,450	17,252,039,909
Par value (in RR)	1.00	1.00

As at 31 December 2005 number of issued ordinary shares is 16,783,508,450 with a par value of RR 1.00 each.

(in thousand of Russian Roubles)

Contributions to the Company's charter capital were effected as follows:

- Cash contributions amounted to RR 48,519 thousand, which were paid in 2005;
- RR 13,522,714 thousand paid by ordinary shares of the OJSC Perm SDPP (509,517,572 shares with a par value of RR 1.00 each), which value was determined by independent appraisers. Because of application of predecessor accounting, IFRS carrying value of the contributed assets were RR 4,058,770 thousand;
- RR 3,680,806 thousand paid by assets of the Verkhnetagil SDPP, which value was determined by independent appraisers. Because of application of predecessor accounting, IFRS carrying value of the contributed assets were RR 1,328,436 thousand.

The difference of RR 11,347,783 thousand between the nominal value of share capital, the IFRS carrying value of the contributed assets and the minority interest has been recorded as a merger reserve within equity attributable to the Company's shareholders.

RAO UES had not paid for all shares of OJSC OGK-1 during the period required by the foundation documents. Therefore, 468,531,459 shares of OJSC OGK-1 were returned to the entity and on 21 November 2005 the Board of Directors of RAO UES has approved the reduction of share capital of OJSC OGK-1 by 468,531,459 shares.

Dividends

In accordance with Russian legislation, OJSC OGK-1 distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2005, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 26,569 thousand (2004: nil) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 2,972 thousand (2004: nil). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements**.**

A dividend was declared by OJSC OGK-1 in 2005 in respect of the nine months ended 30 September 2005 of RR 0.001406 per share for total amount of RR 23,597 thousand.

The dividends disclosed in the statement of equity for the year ended 31 December 2004 for total amount RR 184,000 thousand are attributable to dividends declared by OJSC Perm SDPP before formation of OJSC OGK-1 and, as such, payable directly to RAO UES.

Note 13. Profit tax

Profit tax charge

	Year ended 31 December 2005	Year ended 31 December 2004
Current profit tax charge	(134,912)	(189,000)
Deferred profit tax benefit	89,164	101,834
Total profit tax charge	**(45,748)**	**(87,166)**

During the year ended 31 December 2005 the Group entities were subject to a 24% income tax rate on taxable profits.

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

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

	Year ended 31 December 2005	Year ended 31 December 2004

Profit before profit tax	**103,037**	**309,158**
Theoretical profit tax charge at an average statutory tax rate of 24 percent	(24,729)	(74,198)
Tax effect of items which are not deductible or assessable for taxation purposes	(21,019)	(12,968)
Total profit tax charge	**(45,748)**	**(87,166)**

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.

Deferred profit tax liabilities

	31 December 2005	Movements for the year recognised in the statement of operations	31 December 2004
Deferred profit tax liabilities	**856,445**	**(87,190)**	**943,635**
Property, plant and equipment	856,445	(87,190)	943,635
Deferred profit tax assets	**(189,736)**	**(1,974)**	**(187,762)**
Trade receivables	(168,863)	18,899	(187,762)
Inventories	(4,475)	(4,475)	-
Other non-current assets	(16,398)	(16,398)	-
Deferred profit tax liabilities, net	**666,709**	**(89,164)**	**755,873**

	31 December 2004	Movements for the year recognised in the statement of operations	31 December 2003
Deferred profit tax liabilities	**943,635**	**(82,072)**	**1,025,707**
Property, plant and equipment	943,635	(82,072)	1,025,707
Deferred profit tax assets	**(187,762)**	**(19,762)**	**(168,000)**
Trade receivables	(187,762)	(19,762)	(168,000)
Deferred profit tax liabilities, net	**755,873**	**(101,834)**	**857,707**

Note 14. Non-current debt

	Currency	Effective interest rate	Due	31 December 2005	31 December 2004
RAO UES (Note 5)	RR	6.0%	2005-2006	10,152	45,882
RAO UES (Note 5)	RR	12.0%	2005-2006	54,868	252,128
Sberbank RF	RR	13.3%	2005	-	103,555
Alpha-Bank	RR	13.5%-14%	2005	-	66,000
Finance lease liability	RR, USD, Euro	16.5%	2005-2006	6,551	86,141
Total non-current debt		**-**	**-**	**71,571**	**553,706**
Less: current portion of non-current debt		-	-	(71,571)	(491,803)
Total				**-**	**61,903**

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

Property, plant and equipment leased under a finance lease from JSC Perm Leasing Company are pledged as collateral for Sberbank loan. The net book value of fixed assets was RR 235,228 thousand as at 31 December 2004 (nil as at 31 December 2005). The loan was fully repaid in 2005.

Leasing. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Finance lease liabilities (present value of minimum lease payments)	**31 December 2005**	**31 December 2004**
Due for repayment		
Less than one year	6,551	79,590
Between one year and five years	-	6,551
Total	**6,551**	**86,141**

Note 15. Current debt and current portion of non-current debt

	Currency	**Effective interest rate**	**31 December 2005**	**31 December 2004**
MDM-bank	RR	6.95%	41,500	-
Sberbank RF	RR	9.5%	202,000	-
Alpha-bank	RR	10%-11.33%	160,000	-
ACB Agroimpuls	RR	10.5%	55,000	-
OAO Promyshlenno-stroitelny bank	RR	10.5%	200,000	-
OAO Impexbank	RR	10.5%	60,000	-
Current portion of non-current debt:				
RAO UES			65,020	242,658
Other			6,551	249,145
Total			**790,071**	**491,803**

Note 16. Accounts payable and accrued charges

	31 December 2005	**31 December 2004**
Trade payables	220,236	70,527
Accrued liabilities and other creditors	293,602	139,528
Dividends payable	23,597	95,360
Total	**537,435**	**305,415**

Note 17. Taxes payable, other than profit tax

	31 December 2005	**31 December 2004**
Value added tax	287,741	202,655
Fines and interest	28,000	28,000
Property tax	63,315	-
Unified social tax	7,904	-
Water tax	106,465	-
Other taxes	8,586	24,393
Total	**502,011**	**255,048**

As at 31 December 2005 included in the payable for value added tax is RR 242,616 thousand of deferred VAT which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (31 December 2004: RR 162,038 thousand).

Note 18. Revenues

	Year ended 31 December 2005	Year ended 31 December 2004
Electricity	6,778,571	5,058,040
Heating	135,720	67,000
Rent	92,605	107,846
Other	220,119	183,525
Total	**7,227,015**	**5,416,411**

In the nine months ended 31 December 2005 and year ended 31 December 2004, the Group derived revenues from renting property, plant and equipment of Verhnetagil SDPP (see Note 3).

Note 19. Operating expenses

	Year ended 31 December 2005	Year ended 31 December 2004
Raw materials and consumables used, including	4,187,751	3,023,000
Fuel expenses	*4,166,383*	*2,982,000*
Other materials	*21,368*	*41,000*
Taxes other than profit tax	579,324	450,000
Employee benefit expenses and payroll taxes	500,943	370,000
Third parties services, including:	588,488	246,558
Repairs and maintenance	*385,542*	*130,000*
Consulting, legal and information expenses	*68,054*	*44,291*
Commission fees	*64,536*	*1,166*
Rent expenses	*39,610*	*59,727*
Guarding expenses	*24,574*	*7,042*
Telecommunication services	*6,172*	*4,332*
Depreciation of property, plant and equipment	535,691	557,991
Loss on disposals of property, plant and equipment	118,340	84,000
Social charges	22,478	21,454
Utilities expenses	20,520	17,000
Purchased power	13,940	78,632
Loss on disposal of subsidiaries	13,596	-
Reverse of allowance for doubtful debtors	(6,772)	(12,764)
Business trip expenses	8,514	5,794
Other expenses	445,783	358,061
Total	**7,028,596**	**5,199,726**

Note 20. Financial cost, net

	Year ended 31 December 2005	Year ended 31 December 2004
Interest expense	(106,348)	(149,943)
Interest income	38,189	78,417
Effect of discounting of long-term accounts receivable	(27,223)	-
Total	**(95,382)**	**(71,526)**

Note 21. Earnings per ordinary share for profit attributable to the shareholders of OJSC OGK-1 basic and diluted (in RR)

	Year ended 31 December 2005	Year ended 31 December 2004
Weighted average number of ordinary shares issued (thousand of shares)	16,772,608	16,734,988
Profit attributable to the shareholders of OJSC OGK-1 (thousand of RR)	57,289	221,993
Weighted average earnings per share – basic and diluted (in RR)	**0.003**	**0.013**

Note 22. Commitments

Sales commitments. The Group's entities sell electricity on the two wholesale market sectors: free trading sector and regulated trading sector. The tariffs for the electricity sold/purchased in the regulated trading sector (including the sector of deviations) are set by the Federal Service on Tariffs.

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

Fuel commitments. Group entities have numerous fuel contracts. Main gas suppliers are "Russian Gas Company" CJSC, "GASEKS" CJSC; coal suppliers are OJSC TGK-9, "Energougolnaya Compania" LLC, "Sverdlovsk Energy Servicing Company" JSC. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

Capital commitments. Future capital expenditure for which contracts have been signed amounted to RR 228,010 thousand at 31 December 2005 (at 31 December 2004: RR 285,077 thousand).

Note 23. Contingencies

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

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

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

Tax contingencies. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. 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.

During 2005 the tax authorities challenged deductibility of some depreciation and leasing charges. The Group believes that there is a possible risk that the tax authorities will challenge the deductibility of leasing charges and probable risk that the tax authorities will challenge the deductibility of depreciation charges. The amount of profit tax charge which is possible approximates RR 56 million and RR 86 million which is probable. Accordingly provision for RR 86 million has been recognised in these Financial Statements.

In 2002 – 2003 OJSC Perm SDPP was paying taxes through an agent, it was also paying for the goods, works and services using the Company's proceeds for the electricity supplied, which were deposited on the account of the agent. In 2005 the tax authorities challenged the procedure of tax payment and VAT deductions applied in the course of paying for the goods, works and services using the funds from the agent's account. In August 2006 the Company managed to defend its position in the Arbitration Court of Moscow. Nevertheless, the Group management believes, that there is a possible risk of the Appeals Court ruling being not in favor of the taxpayer, which might result in the additional taxes in the amount of RR 1,321 million. Due to the fact that the risk is considered as possible, no provision for the above tax claims was recorded.

In 2004 OJSC Perm SDPP obtained an exemption for property tax in the amount of RR 164 million. The amount is disclosed as Other operating income in the statement of operations for the year ended 31 December 2004.

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

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

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

Note 24. Financial instruments and financial risk factors

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

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

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

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to 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 14. The Group's significant interest bearing assets are disclosed in Notes 7, 8 and 11. The majority of these assets bear fixed interest and are thus exposed to fair value interest rate risk.

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

Note 25. Subsequent events

Reorganization

On 04 October 2006 the Group completed the process of merger based on Resolution of Russian Federation Government # 1254-r dated 01 September 2003 which approved the structure of Wholesale generating companies ("WGCs"). According to this Resolution OJSC OGK-1 should consist of the following generating units: Perm SDPP, Verkhnetagil SDPP, Nizhnevartovsk SDPP, Iriklinsk SDPP, Urengoy SDPP, Kashira SDPP-4.

On 23 June 2006 the Board of directors decided to increase share capital by 30,573,178 thousand of ordinary shares with a par value of RR 1.00 each. On 04 October 2006 these shares were swapped in relation to merger procedures:

- Shares OJSC Nizhnevartovsk SDPP in the amount of 9,533,802 thousand of shares with a par value of RR 1.00 each;
- Shares OJSC Urengoy SDPP in the amount of 662,884 thousand of shares with a par value of RR 1.00 each;
- Shares OJSC Iriklinsk SDPP in the amount of 10,089,974 thousand of shares with a par value of RR 1.00 each;
- Shares OJSC Perm SDPP in the amount of 25 shares with a par value of RR 1.00 each;
- Shares OJSC Kashira SDPP-4 in the amount of 10,286,518 thousand of shares with a par value of RR 1.00 each.

Management is currently reviewing allocations of fair value of the merged assets and liabilities, the total effect on net assets of the Group as at 31 December 2005 was approximate RR 12,899,000 thousand.

Dividends

On 23 June 2006 dividends were declared by OJSC OGK-1 in respect of the three months ended 31 March 2006 of RR 0.0025043 per share for total amount of RR 42,031 thousand.

On 28 September 2006 dividends were declared by OJSC OGK-1 in respect of the six months ended 30 June 2006 of RR 0.003571 per share for total amount of RR 59,934 thousand.