

OGK-6 GROUP  
COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)  
FOR THE YEAR ENDED 31 DECEMBER 2005

AUDITOR'S REPORT

To the shareholders and the Board of Directors of Open Joint Stock Company "OGK-6":

- 1 We have audited the accompanying combined and consolidated balance sheet of OJSC "OGK-6" and its subsidiaries (the "Group") as of 31 December 2005 and the related combined and consolidated statement 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 24 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative financial statements of the Group as of 31 December 2004 were not audited by us or any other auditors.
- 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 combined and consolidated 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  
15 December 2006

**OGK-6 Group**  
**Combined and Consolidated Balance Sheet as at 31 December 2005**  
(in thousands of Russian Roubles)

	Notes	31 December 2005	31 December 2004 (Unaudited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	19,511,244	19,341,865
Other non-current assets		62,860	34,140
<b>Total non-current assets</b>		<b>19,574,104</b>	<b>19,376,005</b>
<b>Current assets</b>			
Cash	6	208,099	172,237
Accounts receivable and prepayments	7	1,501,308	1,409,422
Inventories	8	1,975,540	1,917,477
Other current assets		177,963	184,983
<b>Total current assets</b>		<b>3,862,910</b>	<b>3,684,119</b>
<b>TOTAL ASSETS</b>		<b>23,437,014</b>	<b>23,060,124</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Ordinary shares (nominal value RR 23,008 million)	9	23,008,617	23,008,617
Unpaid share capital		-	(21,075)
Merger reserve		(9,575,293)	(9,575,293)
Retained earnings		(603,178)	(338,858)
<b>Total equity</b>		<b>12,830,146</b>	<b>13,073,391</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	2,476,077	2,676,757
Non-current debt	11	279,090	219,313
Restructured taxes	12	271,140	1,427,603
Pension liabilities	13	194,719	207,705
Other non-current liabilities		77,814	104,311
<b>Total non-current liabilities</b>		<b>3,298,840</b>	<b>4,635,689</b>
<b>Current liabilities</b>			
Current debt and current portion of non-current debt	14	4,805,384	2,557,861
Accounts payable and accruals	15	1,963,768	2,160,598
Current income tax liabilities		10,068	70,461
Other taxes payable	16	528,808	562,124
<b>Total current liabilities</b>		<b>7,308,028</b>	<b>5,351,044</b>
<b>Total liabilities</b>		<b>10,606,868</b>	<b>9,986,733</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>23,437,014</b>	<b>23,060,124</b>

Director General



V.M. Sanko

Deputy Director General for Finance



A.N. Selyakov

**OGK-6 Group**  
**Combined and Consolidated Income Statement for the year ended 31 December 2005**  
(in thousands of Russian Roubles, except for earnings per ordinary share information)

	Note	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Revenues	17	18,645,004	16,337,423
Operating expenses	18	(18,944,684)	(15,333,393)
Other operating income	19	860,274	265,759
Operating profit		560,595	1,269,789
Finance costs	20	(559,254)	(452,634)
Profit before tax		1,340	817,155
Total income tax benefit / (charge)	10	56,023	(640,306)
Profit for the year		57,363	176,849
Attributable to:			
Shareholders of OJSC «OGK-6»		57,363	176,849
Earnings per ordinary share for profit attributable to the shareholders of OJSC OGK-6 - basic and diluted (in Russian Roubles)	21	0.0025	0.0077

Director General



V.M. Sanko

Deputy Director General for Finance



A.N. Selyakov

OGK-6 Group  
 Combined and Consolidated Cash Flow Statement for the year ended 31 December 2005  
 (in thousands of Russian Roubles)

	Notes	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		1,340	817,155
Adjustments for non-cash items:			
Depreciation	5	2,730,771	1,828,829
Loss on disposal of property, plant and equipment		7,919	18,218
Provision for impairment of accounts receivable	18	31,666	323,257
Provision for impairment of inventories	8	44,821	3,485
Trade payables written-off		(12,526)	-
Interest expenses and effect of discounting	20	559,254	452,634
Forgiveness of tax penalties	12	(620,410)	(97,264)
<b>Operating cash flows before working capital changes and income tax paid</b>		<b>2,742,835</b>	<b>3,346,314</b>
Working capital changes:			
(Increase) / decrease in accounts receivable and prepayments		(78,555)	116,540
(Increase) / decrease in inventories		(102,884)	270,036
Increase in other current assets		(480)	(184,479)
Decrease in accounts payable and accruals		(163,955)	(395,889)
Decrease in taxes payable, other than income tax		(699,670)	(196,835)
Income tax paid in cash		(290,166)	(329,076)
<b>Net cash generated from operating activities</b>		<b>1,407,125</b>	<b>2,626,611</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment and other non-current assets		(2,877,107)	(2,643,582)
Proceeds from sale of property, plant and equipment and other non-current assets		4,577	21,000
<b>Net cash used in investing activities</b>		<b>(2,872,530)</b>	<b>(2,622,582)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from long-term borrowing		987,679	87,321
Repayment of long-term borrowing		(637,900)	(273,000)
Proceeds from short-term borrowing		10,717,323	5,504,112
Repayment of short-term borrowing		(8,767,018)	(4,699,065)
Settlement of previously unpaid capital		21,075	-
Dividend paid by the Group		(333,187)	(196,281)
Interest paid		(486,705)	(344,136)
<b>Net cash generated from financing activities</b>		<b>1,501,267</b>	<b>78,951</b>
Increase in cash and cash equivalents		35,862	82,980
Cash and cash equivalents at the beginning of the year		172,237	89,257
<b>Cash and cash equivalents at the end of the year</b>		<b>208,099</b>	<b>172,237</b>

Director General



V.M. Sanko

Deputy Director General for Finance



A.N. Selyakov

## OGK-6 Group

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

(in thousands of Russian Roubles)

	Ordinary share capital	Unpaid share capital	Merger reserve	Retained earnings	Total
At 1 January 2004 (Unaudited)	23,008,617	(21,075)	(9,575,293)	-	13,412,249
Profit for the year*	-	-	-	176,849	176,849
Dividends	-	-	-	(515,707)	(515,707)
At 31 December 2004 (Unaudited)	23,008,617	(21,075)	(9,575,293)	(338,858)	13,073,391
Profit for the year	-	-	-	57,363	57,363
Cash contribution	-	21,075	-	-	21,075
Dividends	-	-	-	(321,683)	(321,683)
At 31 December 2005	23,008,617	-	(9,575,293)	(603,178)	12,830,146

\* The amount of total recognized income for the year is equal to profit for the year.

Director General



V.M. Sanko

Deputy Director General for Finance

A.N. Selyakov

**Note 1. The Group and its operations**

Open Joint-Stock Company "The Sixth Generation Company of the Wholesale Power Market" (OJSC "OGK-6" or "Company") was established on 17 March 2006 within the framework of electricity sector restructuring according to the Resolution of the Management Board of RAO "UES of Russia" dated 16 March 2005.

OJSC "OGK-6" and its subsidiaries form the OGK-6 Group (the "Group"). All the subsidiaries are disclosed in Note 26.

The Group specializes in electricity, heat generation and sales at the established tariffs and in accordance with the dispatch plans of electricity and heat loads.

The Company's registered office is located at 49, Bolshaya Sadovaya st., Rostov-on-Don.

The Company has a Head office in Moscow (21 Mytnaya st., 115162, Moscow) which was set up following Decision No. 1 of the Board of Directors of 11.04.2005.

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

**Relations with the state and current regulation.** As at 31 December 2005 the Russian Federation owned 52.7% of the shares of OAO RAO Russian Open Joint-Stock Company for Energy and Electrification Unified Energy System of Russia (RAO "UES of Russia"). In turn, as at 31 December 2005 OAO RAO "UES of Russia" owned 100% of the OJCS "OGK-6".

The Government of Russian Federation directly affects the Groups' 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"), and with respect to its retail electricity and heat sales. Tariffs which the Group entities may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. In practice tariff setting is greatly effected by social and political factors, which entails a significant delay in decisions making on the increase of tariffs or their insufficient increase.

As a condition to the privatization in 1992, the government of Russian Federation imposed an obligation on Group entities to provide connection for the supply of electricity and heating to customers in Russian Federation.

The client base of the Group is a large number of enterprises that are controlled by or related to the state. Moreover, the state controls a number of the Group's fuel suppliers.

**Regulatory issues and sector restructuring.** The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the 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 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 four 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 (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 will be able to sell electricity generated with the use of facilities and equipment that accounts for 15 percent 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 (power) market during the transition period, has been holding electricity bidding in the free trading sector. According to the laws underlying the electric utilities reform, subsequently free trading will 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

## OGK-6 Group

### Notes to Combined and Consolidated Financial Statements for the year ended 31 December 2005

(in thousands of Russian Roubles)

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 of Russia approved a "Concept of RAO UES of Russia strategy for the period from 2003 through 2008". In February 2006 the Board of Directors approved an Appendix to the Concept of RAO UES Strategy: "Generating companies of the Wholesale Electricity Market (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 of Russia is developing the first stage of its own reorganisation which assumes a spin-off of 2-3 generating companies with proportional distribution of shares of the separated companies between the shareholders of RAO UES of Russia.

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 RR 3,445,115 (At 31 December 2004: RR 1,666,926).

The Group is affected by government policy through the control of tariffs and other factors. The RSTs do not always permit tariff increases in line with increases in the Group's costs and thus some tariffs provide insufficient coverage for all the costs of generation and distribution of the product. Moreover, these tariffs consider costs only on a Russian statutory basis and, therefore, exclude additional costs recognized under an IFRS basis of accounting. As a result, tariffs often do not allow for a consistently adequate return on investment and at the current state of affairs the tariffs do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group has also experienced difficulties raising the finance for the necessary investment in generation, transmission and distribution assets.

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

- 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 value increases in tariffs to support adequate long term investment into the Group's generation, transmission and distribution assets; and active participation in the restructuring of the electricity sector (see Note 1).

Management of the Group 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 matter.

#### 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 Group entity 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.

**Inflation accounting.** Prior to 1 January 2003 non-monetary assets acquired and non-monetary liabilities incurred or assumed have been adjusted for the changes in the general purchasing power of the RR in accordance with International Accounting Standards 29 ("IAS") ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements are prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring current unit 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 Group 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.

**Predecessor Accounting.** Transfer of business for electricity and heat generation by the parent company to the



Group is a transaction between entities under the common control. The Group accounts for such transactions using the pooling of interest method, under which the assets and liabilities transferred are accounted for at the amounts at which they were carried in the IFRS accounts of the predecessor entity (OAO RAO "UES of Russia"). Under the pooling of interest method the businesses transferred are accounted for as if they were always owned by the Group. Any difference between the carrying amount of net assets contributed and the nominal value of share capital issued is accounted for in these financial statements as an adjustment to equity.

**New accounting developments.** During the period December 2003 to September 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 ten new interpretations, one of which was subsequently withdrawn.

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

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.
- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure about the Group's financial instruments.
- 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.
- IFRS 6 "Exploration for and evaluation of mineral resources", which is effective for annual periods beginning on or after 1 January 2006. IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.
- Amendment to IAS 19 "Employee Benefits", which is effective for annual periods beginning on or after 1 January 2006. The amendment to IAS 19 introduces an additional option to recognize actuarial gains and losses arising in post-employment benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employees.
- Amendment to IAS 21 "Net Investment in a Foreign Operation", which is effective for annual periods beginning on or after 1 January 2006. This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognized in consolidated profit or loss. It also extends the definition of net investment in a foreign operation to include loans between sister companies.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions", is effective for annual periods beginning on or after 1 January 2006. The amendment allows hedge accounting for the foreign currency risk of a highly probable forecast intragroup transaction which is denominated in a currency other than the functional currency of the entities entering into that transaction if the foreign currency risk will affect consolidated profit or loss.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee contract", which is effective for annual periods beginning on or after 1 January 2006. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognizing of financial assets or result in continuing involvement accounting.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – The Fair Value Option", which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".
- IFRIC 4 "Determining whether an Arrangement Contains a Lease", which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation

Funds", which is effective for annual periods beginning on or after 1 January 2006. Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

- IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment", which is effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognized because participation in the market during the measurement period is the obligating event in accordance with IAS 37.
- IFRIC 7 "Applying the Restatement Approach under IAS 29", which is effective for periods beginning on or after 1 March 2006, that is from 1 January 2007. The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.
- IFRIC 8, Scope of IFRS 2, which is effective for periods beginning on or after 1 May 2006, that is from 1 January 2007. The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- IFRIC 9 "Reassessment of Embedded Derivatives", which is effective for annual periods beginning on or after 1 June 2006. The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contract. Only if the contract subsequently is significantly modified the entity reassesses whether to separate or not.
- IFRIC 10 "Interim Financial Reporting and Impairment" which is effective for periods beginning on or after 1 November 2006, that is from 1 January 2007. The interpretation clarifies that an entity should not reverse an impairment loss recognised in a previous interim periods in respect of goodwill or an investment in a financial asset carried at cost.

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

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

**Critical accounting estimates and assumptions.** The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and 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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

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

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

#### Note 4: Summary of significant accounting policies

**Principles of consolidation.** The Financial Statements comprise the financial statements of OJSC «OGK-6» and the financial statements of those entities whose operations are controlled by OJSC «OGK-6». Control is

presumed to exist when OJSC «OGK-6» controls directly or indirectly through subsidiaries, more than 50 percent of voting rights.

*A) Subsidiaries*

The financial statements of subsidiaries are included in the combined and consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

*B) Transactions eliminated on consolidation*

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

**Transfers of subsidiaries from parties under common control.** Transfer of businesses from parties under common control are accounted for using the pooling of interest method, under which the assets and liabilities transferred are accounted for at the amounts at which they were carried in the IFRS accounts of the predecessor entity. The businesses transferred are accounted for as if they were always owned by the Group. Any difference between the carrying amount of net assets contributed and the nominal value of share capital issued is accounted for in these financial statements as an adjustment to equity.

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

**Property, plant and equipment.** As at 31 December 2005 property, plant and equipment are stated at depreciated cost, determined in accordance with the IFRS as at the date of their transfer to the Group by the Predecessor, and adjusted taking into account further additions, disposals and depreciation charges. Deemed cost was initially determined by a third party valuation at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges.

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. 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 life as at the valuation date. The useful life, 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	10-54	20-50
Electricity distribution	5-27	25
Heating networks	11-18	20
Other	8-18	10

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

**Cash and cash equivalents.** Cash comprises cash in hand and cash on demand deposited 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.

**Mutual settlements, barter and non-cash settlements.** A portion of sales and purchases is settled by mutual settlements, barter and non-cash settlements. Non-cash settlements which are expected to be settled within 12 months are recorded as other current assets. A majority of these include "veksels" or "bills of exchange" which are negotiable debt obligations. The receivables and payables, that are expected to be settled by mutual settlements, barter or non-cash settlements, and are recorded in the combined and consolidated balance sheet, reflect management's estimate of the fair value to be received or given up in non-cash settlements.

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

**Accounts receivable and prepayments.** Accounts receivable are recorded inclusive of the value added taxes which are payable to the tax authorities upon collection of such receivables. Trade and other receivables are adjusted for provision made for impairment of these receivables. Such a provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due, according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market interest rate for similar borrowers at the date of origination of the receivables.

**Value added tax on purchases and sales.** Value added tax, related to sales, is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon the payment for purchases. Tax authorities permit the settlement of VAT on a net basis. VAT that is related to sales and purchases which have not been settled at the balance sheet date (deferred VAT), is recognized on the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where the 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 valued at the lower of net realizable value and weighed average acquisition cost. Provisions are made for potential losses on obsolete or slow-moving inventories, while taking into account their expected use and future realizable value.

**Income tax.**

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

**Deferred profit tax.** Deferred 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 or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred tax is not provided on 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.

**Accounts payable and accruals.** Accounts payable are stated inclusive of value added tax. If accounts payable are restructured and the fair value of the restructured payable differs by more than ten percent from the original liability, then the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Group at the date of the restructuring. 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 recognized initially at its' fair value. If it is significantly different from the transaction price, fair value is determined using the prevailing market interest rate for a similar instrument. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

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

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

A number of Group entities operate defined benefit plans that cover the majority of the Group's employees. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and unrecognized past service cost. The defined benefit obligations are calculated using the Projected Unit Credit Method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from changes in actuarial assumptions and exceeding the higher of 10% of the defined benefit obligations and fair value of plan assets are charged or credited to the statement of operations over the average remaining service lives of employees starting from the next reporting period.

Past service costs are amortized over vesting period of 10.5 years.

**Environmental liabilities.** Liabilities for environmental remediation are recorded when there is a present obligation,

the payment is probable and reliable estimates exist, as well as when there is a possibility of related costs emerging.

**Revenue recognition.** Revenue is recognized on the delivery of electricity, heat and on the dispatch of non-utility goods and services during the period. Revenue amounts are presented exclusive of value added tax. Revenue is based on the application of authorized tariffs for electricity sales as approved by the Regional Tariffs Authorities.

**Social expenditure.** To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognized in the income statement as incurred.

**Segment reporting.** The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in 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 of the Group by the weighted average number of ordinary shares outstanding during the reporting period.

**Interest.** Interest income and expense are recognized in the income statement for all debt instruments on an accrual basis using the effective rate of interest method. Interest income includes nominal interest and amortized discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

**Fair value measurement.** The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

## Note 5. Property, plant and equipment

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2004 (Unaudited)	28,121,589	2,201,522	156,000	1,189,575	7,043,460	38,712,146
Additions	1,652,581	-	44,949	1,158,661	56,455	2,912,646
Transfers	620,651	662	-	(1,043,031)	421,718	-
Disposals	(45,878)	(56,011)	(15,255)	(4,935)	(21,528)	(143,607)
Closing balance as at 31 December 2005	30,348,943	2,146,173	185,694	1,300,270	7,500,105	41,481,185
<b>Accumulated depreciation (including impairment)</b>						
Opening balance as at 31 December 2004 (Unaudited)	13,798,325	1,285,741	56,502	-	4,231,713	19,370,281
Charge for the period	1,811,106	77,917	22,085	-	819,663	2,730,771
Disposals	(41,946)	(52,602)	(15,255)	-	(21,308)	(131,111)
Closing balance as at 31 December 2005	15,564,485	1,311,056	63,332	-	5,030,068	21,969,941
Net book value as at 31 December 2005	14,783,458	835,117	122,362	1,300,270	2,470,037	19,511,244

Cost	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2003 (Unaudited)	26,005,001	2,223,000	156,000	781,723	6,805,277	35,971,001
Additions	1,559,618	842	-	1,231,243	100,745	2,892,448
Transfers	624,656	1,267	-	(823,391)	197,468	-
Disposals	(67,686)	(23,587)	-	-	(60,030)	(151,303)
Closing balance as at 31 December 2004 (Unaudited)	28,121,589	2,201,522	156,000	1,189,575	7,043,460	38,712,146
<b>Accumulated depreciation (including impairment)</b>						
Opening balance as at 31 December 2003 (Unaudited)	12,747,245	1,241,374	48,030	-	3,616,888	17,653,537
Charge for the period	1,088,504	67,954	8,472	-	663,698	1,828,829
Disposals	(39,425)	(23,587)	-	-	(49,073)	(112,085)
Closing balance as at 31 December 2004 (Unaudited)	13,796,325	1,285,741	56,502	-	4,231,713	19,370,281
Net book value as at 31 December 2004 (Unaudited)	14,325,264	915,781	99,498	1,189,575	2,811,748	19,341,865

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

Depreciation is charged once property, plant and equipment is available for use in the production.

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

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registration body or to formalise the right for rent. According to Russian legislation, the expiry date to this option is 1 January 2007. The Group's companies have not filed any application to exercise the purchase option.

A portion of property, plant and equipment additions has been settled through mutual settlement, barter and other non-cash transactions. Non-cash transactions in respect of property, plant and equipment are:

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Non-cash acquisitions	76,304	248,866
Non-cash proceeds from the sale of property, plant and equipment	1,104	3,439

**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.

Cost and accumulated depreciation of transferred assets including the impairment provision were accepted by the Group as at the time of assets transfer from the Predecessor, OAO RAO "UES of Russia". Management assessed the adequacy of the existing impairment provision as at 31 December 2005 and concluded that the provision amount as at the time of transfer is still appropriate, consequently no additional adjustments were recorded in the present Balance Sheet. Impairment provision that was included into the accumulated depreciation balance had the value of RR 6,682,696 as at 31 December 2005 and RR 7,423,666 as at 31 December 2004.

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

Operating land lease rentals are payable as follows:

	31 December 2005
Less than one year	115,029
Between one and five years	8,351
More than five years	682
	<b>124,062</b>

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

Operating lease rentals for other fixed assets are payable as follows:

	31 December 2005
Less than one year	14,764
Between one and five years	13,978
More than five years	-
	<b>28,742</b>

## Note 6. Cash and cash equivalents

	31 December 2005	31 December 2004 (Unaudited)
Cash at bank and in hand	177,233	145,404
Cash equivalents	30,866	26,833
<b>Total</b>	<b>208,099</b>	<b>172,237</b>

Cash equivalents include bills of exchange.

## Note 7. Accounts receivable and prepayments

	31 December 2005	31 December 2004 (Unaudited)
Trade receivables (net of provision for impairment of accounts receivable of RR 591,547 thousand as at 31 December 2005 and RR 562,383 thousand as at 31 December 2004)	501,454	479,507
Value added tax recoverable	407,954	464,985
Advances to suppliers	353,407	142,889
Other receivables (net of provision for impairment of accounts receivable of RR 270,421 thousand as at 31 December 2005 and RR 267,919 thousand as at 31 December 2004)	238,493	322,041
<b>Total</b>	<b>1,501,308</b>	<b>1,409,422</b>

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The provision for impairment of accounts receivable is calculated based on analysis of collectability.

Management determines the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 16-17 percent have been used in the estimate of present value of future cash flows. The effects of discounting are reflected in the financing costs. The Management of the Group believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates their fair value.

**Note 8. Inventories**

	31 December 2005	31 December 2004 (Unaudited)
Fuel supplies	972,770	857,256
Spare parts	696,272	741,820
Materials and supplies	270,897	286,378
Other inventories	35,601	32,023
<b>Total</b>	<b>1,975,540</b>	<b>1,917,477</b>

The above inventory balances are recorded net of provision for inventories impairment of RR 48,818 as at 31 December 2005 and of RR 41,526 as at 31 December 2004.

Inventories balances as at 31 December 2005 and 31 December 2004 include RR 529,282 and RR 1,031,100 respectively, of inventory pledged as collateral under loan agreements.

**Note 9. Equity**

Share capital	Number of shares issued	31 December 2005	31 December 2004 (Unaudited)
Ordinary shares	23,008,616,898	23,008,617	23,008,617
<b>Total</b>	<b>23,008,616,898</b>	<b>23,008,617</b>	<b>23,008,617</b>

As at 31 December 2005 number of issued ordinary shares is 23,008,616,898 with a par value of RR 1.00 each.

As at 31 December 2005, the Group did not have treasury ordinary shares.

Contributions to the Company's charter capital were effected as follows. Cash contribution amounted to RR 21,075 was paid in 2005. RR 22,987,542 were paid in kind by shares in the Company's subsidiaries, Ryazanskaya SDPP, Kirishskaya SDPP, Krasnoyarskaya SDPP and Novocherkasskaya SDPP (see Note 26), which values were determined by independent appraisers. Because of application of predecessor accounting, IFRS carrying value of the contributed assets were RR 13,433,324. The difference of RR 9,575,293 between the nominal value of share capital paid and the IFRS carrying value of the contributed assets has been recorded as a merger reserve within equity attributable to the Company's shareholders.

**Dividends.** The Company's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

A decision in respect of the payment of dividends following the Company's results for 9 months of 2005 was taken on 23 December 2005 by Board of Directors, which performs the functions of the Company Extraordinary Shareholders Meeting. The amount of declared (accrued) dividends on the issuer's shares was RR 0.01398, total amount of dividends is RR 321,683.

The dividends disclosed in the statement of equity for the year ended 31 December 2004 for total amount of RR 515,707 are attributable for dividends declared by Ryazanskaya SDPP, Kirishskaya SDPP and Novocherkasskaya SDPP before formation of OJSC OGK-6 and, such, payable directly to RAO UES.



**Note 10. Income tax****Income tax charge**

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Current income tax charge	144,657	380,408
Deferred income tax (benefit) /charge	(200,680)	259,898
<b>Total income tax (benefit) / charge</b>	<b>(56,023)</b>	<b>640,306</b>

During the year ended on 31 December 2005 most members of the Group were subject to income tax rates of 24 percent on the taxable profit.

In accordance with Russian tax legislation, tax losses in different Group companies may not be relieved against taxable profit of the other Group companies. Accordingly, income 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 (Unaudited )
Profit before tax	1,340	1,128,001
Theoretical tax charge at an average statutory tax rate of 24%	322	270,720
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of WEM imbalance and accounts receivable	245,981	410,842
Fines and penalties forgiven	(348,336)	(117,595)
Change in the tax base	(71,304)	(35,723)
Other non-deductible expenses	117,314	112,062
<b>Total income tax (benefit) / charge</b>	<b>(56,023)</b>	<b>640,306</b>

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

**Deferred tax liabilities**

	31 December 2004 (Unaudited)	Movement for the year recognized in the Income Statement	31 December 2005
Property, plant and equipment	(2,671,943)	11,017	(2,660,926)
Accounts receivable and prepayments	201,448	8,257	209,705
Other non-current liabilities	(257,144)	196,487	(60,657)
Other	50,882	(15,081)	35,801
<b>Total</b>	<b>(2,676,757)</b>	<b>200,680</b>	<b>(2,476,077)</b>

**Note 11. Non-current debt**

The line represents a RR denominated 11%-14% loan payable in 2006-2008. Inventory was pledged as collateral for this debt (see Note 8). The maturity periods of non-current debt are as follows:

	31 December 2005	31 December 2004 (Unaudited)
Due for repayment		
Between one year and two years	147,090	14,790
Between two years and three years	132,000	72,321
Between three years and four years	-	132,202
<b>Total</b>	<b>279,090</b>	<b>219,313</b>

**Note 12. Restructured taxes**

In accordance with Government Resolution No. 1002 dated 3 September 1999, the majority of Group entities had restructured taxes including penalties and fines to be repaid over a period of up to 10 years. Discounting rate of 16% has been used in the estimates of fair value of tax liabilities at the date of restructuring. The discounting of the restructured tax payable amount initially gave rise to a gain. This discount is being amortized over the period of the restructuring as an expense, RR 74,523 of such amortization is included as part of discounting effect for the year 2005 (for the year 2004: RR 106,983) (see Note 20).

In 2005, the Group fulfilled all conditions for restructuring, paying RR 528,883 (in 2004: RR 417,797). Based on the RF Government Resolutions dated 01.06.2004 (No. 259) and 24.04.2002 the remaining restructured debt for penalties and fines and in the amount of RR 1,450,180 in 2005 (in 2004: RR 338,043) (the original amount before discounting) were forgiven and written off the balance sheet. The net amount of RR 620,410 in 2005 (in 2004: RR 97,264), which represents the difference between the gain from forgiveness of restructured tax liability and the unamortized discount of RR 829,770 in 2005 (2004: RR 240,779) was recognized as other operating income in the income statement (see Note 19).

**Note 13. Pension liabilities**

The tables below provide information about the benefit obligations, plan assets and actuarial assumptions used for the years ended 31 December 2005 and 2004.

	31 December 2005	31 December 2004 (Unaudited)
Present value of funded defined benefit obligations	287,098	282,892
Less: Fair value of plan assets	(52,067)	(30,767)
Deficit in plan	235,031	252,125
Unrecognized net actuarial loss	(828)	-
Unrecognized past service cost	(39,484)	(44,420)
<b>Net liability in the balance sheet</b>	<b>194,719</b>	<b>207,705</b>

Amounts recognized in the combined and consolidated income statement:

	31 December 2005	31 December 2004 (Unaudited)
Current service cost	7,382	7,053
Interest cost	18,709	16,425
	<b>26,091</b>	<b>23,478</b>

Changes in the present value of the Group's defined benefit obligation and plan assets are as follows:

	31 December 2005	31 December 2004 (Unaudited)
Defined benefit obligations	282,892	220,835
Current service cost	7,382	7,053
Interest cost	18,709	16,425
Actuarial loss	827	-
Amendments	-	53,962
Benefits paid	(22,712)	(15,383)
<b>Defined benefit obligation</b>	<b>287,098</b>	<b>282,892</b>

**OGK-6 Group****Notes to Combined and Consolidated Financial Statements for the year ended 31 December 2005**

(in thousands of Russian Roubles)

Principal actuarial assumptions are as follows:

	31 December 2005	31 December 2004 (Unaudited)
Discount rate	6.89%	6.89%
Pension increase	7.10%	7.10%
Salary increase	2.00%	2.00%

**Note 14. Current debt and current portion of non-current debt**

This line represents short-term RR loans obtained for operating purposes, with interest rates ranging from 11% to 14%. The interest rates are the market interest rates applicable to the loans at the dates of their origination. Inventories were pledged as collateral for these debts (see Note 6).

**Note 15. Accounts payable and accruals**

	31 December 2005	31 December 2004 (Unaudited)
Trade payables	1,448,751	1,581,425
Payables to employees	125,537	96,797
Dividends payable	321,683	319,509
Other payables	87,797	162,867
<b>Total</b>	<b>1,963,768</b>	<b>2,160,598</b>

**Note 16. Other taxes payable**

	31 December 2005	31 December 2004 (Unaudited)
Value added tax	346,691	336,055
Property tax	41,906	60,422
Payroll tax	27,678	63,577
Other taxes	105,103	48,600
Current portion of taxes restructured to long-term liabilities	7,430	53,470
<b>Total</b>	<b>528,808</b>	<b>562,124</b>

**Note 17. Revenues**

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Electricity	15,600,555	13,918,841
Heating	1,624,894	1,695,832
Other	1,418,555	722,750
<b>Total</b>	<b>18,645,004</b>	<b>16,337,423</b>

In the year ended 31 December 2005 the Group derived other revenues in amount of RR 1,166,417 (2004: RR 228,104) from resale of electricity purchased on the regulated market.

## Note 18. Operating expenses

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Fuel expenses	9,872,167	7,892,540
Depreciation charge	2,730,771	1,828,829
Repairs and maintenance	1,418,834	1,490,291
Employee benefit expenses and payroll taxes	1,433,012	1,199,701
Purchased power	1,206,905	598,232
Water usage expenses	647,357	428,990
Taxes other than income tax	395,081	490,307
Provision for impairment of accounts receivable	31,666	323,257
Other materials	206,734	175,264
Insurance cost	181,347	154,381
Rent and lease payments	125,225	71,891
Consulting, legal and information services	93,018	71,590
Charity expenditure	56,157	15,574
Provision for impairment of inventories	44,821	3,485
Security cost	31,637	27,463
Other expenses	469,952	561,598
<b>Total operating expenses</b>	<b>18,944,684</b>	<b>15,333,393</b>

Employee benefits expenses comprise the following:

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Salaries and wages, payroll taxes	1,402,918	1,177,265
Financial aid to employees and pensioners	22,712	15,383
Non-governmental pension fund expenses	7,382	7,053
<b>Total</b>	<b>1,433,012</b>	<b>1,199,701</b>

## Note 19. Other operating income

Other operating income comprise fines and penalties on taxes written-off in total amount of RR 620,410 in 2005 and RR 97,264 in 2004 (see Note 12).

## Note 20. Finance costs – net

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Interest expense	496,749	362,507
Discounting effect (see Note 12)	62,505	90,127
<b>Total</b>	<b>559,254</b>	<b>452,634</b>

Subsequent to the initial recognition, the discount is amortized over the period of restructuring as an expense.

## Note 21. Earnings per share

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Weighted average number of ordinary shares issued (thousands)	23,008,617	22,987,542
Profit attributable to the shareholders of the OJSC OGK-6	57,363	176,849
Earnings per ordinary share for profit attributable to the shareholders of OJSC OGK-6 - basic and diluted (in RR)	0.0025	0.0077

**Note 22. Commitments**

**Sales commitments.** The Group's entities sell electricity (power) on the two wholesale market sectors: free trading sector and regulated trading sector.

The tariffs (prices) for the electricity (power) 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 electricity sales agreements with AO-Energos, retail companies and large industrial customers.

**Fuel commitments.** In 2006 the Group entities purchase fuel under fuel supply contracts that expired on 31 December 2005 and prolonged for 2006. Fuel supplies are mostly receive from OOO "Ryazanregiongaz", OAO "Ryazanoblغاز", OAO "Lenoblغاز", and ZAO "Peterburgregiongaz".

Coal supplies are mostly receive from ZAO "MezhRegionProm", ZAO "Trading House Ellit", OAO "SUEK", OOO "Rostovuglesbyt", and OOO "Ugol-ZUMK". The quantity of supplies are determined annually on the basis of fuel stocks requirements set by RAO "UES of Russia".

Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts that are adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

**Capital commitments.** Future capital expenditures for which contracts have been signed, amount to RR 560 453 and RR 716 976 on 31 December 2005 and 31 December 2004, respectively.

**Note 23. Contingencies**

**Political environment.** From time to time and in varying degrees the operations and earnings of the Group entities continue to be effected 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. Hence, the Group is exposed to those risks for which it does not have insurance.

**Legal proceedings.** Group entities are bound to certain legal proceedings arising in the ordinary course of business. In the managements' opinion, 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 Group.

**Tax contingency.** Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management' 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.

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 regulations in the Russian Federation is evolving and the enforcement posture of the government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under the environmental regulations.

Potential liabilities might arise as a result of changes in the legislation and regulations 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 collectability of receivables. The Group does not have a risk policy to hedge its financial exposures.

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

The cash that has been deposited in the financial institutions, had no more than minimal exposure to the default risk

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at the time of account opening.

**Interest rate risk.** The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Group is only exposed to fair value interest rate risk as the largest part of its borrowings are at fixed interest rates. The Group has no material interest-bearing assets

**Fair values.** Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

**Note 25. Related parties**

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.

**Parent**

RAO UES of Russia owns 100% of the ordinary voting shares of OJSC «OGK-6» and has effective control over the Group's operations. The amount of dividends payable to Parent at 31 December 2005 was RR 321,683 (at 31 December 2004: RR 319,509) (see Note 15).

**Transactions with management and close family members**

Compensation is paid to members of the Management Board of OJSC «OGK-6» 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 the results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors of OJSC «OGK-6». Optional bonuses, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution, are also payable to members of the Management Board.

Key management received the following remuneration during 2005 and 2004:

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Employee benefit expenses	29,288	-
Payroll taxes	3,014	-
<b>Total</b>	<b>32,302</b>	<b>-</b>

For the year ended 31 December 2004 – no comparative information; in 2004 all the Group's subsidiaries were governed by RAO UES directly.

**Transactions with the Parent's subsidiaries**

Transactions with the Parent's subsidiaries were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Sales of electricity and heat	13,390,003	12,472,212
Purchased power	455,483	365,702

Balances with the Parent's subsidiaries at the end of the period were as follows:

	31 December 2005	31 December 2004 (Unaudited)
Accounts receivable and prepayments	713,768	294,640
Accounts payable and accruals	15,825	26

Provision for impairment of accounts receivable recognized as at 31 December 2005 was RR 365,113 (2004: RR 365,113).

**State-controlled entities.**

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

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

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Fuel purchase	7,170,620	5,511,969
Interest paid	267,848	222,726

	31 December 2005	31 December 2004 (Unaudited)
Accounts receivable and prepayments	291,062	332,192
Accounts payable and accruals	729,602	784,060
Current and non-current debt	2,373,017	1,139,401

**Note 26. Subsidiaries**

The following are the significant subsidiary enterprises which have been consolidated into the Financial Statements:

Name	Ownership, %
	100 % – 1 share
OAO "Ryazan SDPP"	100 %
Subsidiaries of OAO "Ryazan SDPP":	100 %
OAO "Novomichurinsk Energy Repair Entity"	100 %
OAO "Novomichurinsk Motor Transport Enterprise"	100 %
OAO "Repair of Engineer Communications"	100 %
OAO "Energoremstroy"	100 %
OAO "Kirishi SDPP",	100 % – 1 share
Subsidiaries of OAO "Kirishi SDPP":	100 %
OAO "Kirishi Repair Complex"	100 % - 1 share
OAO "Krasnoyarsk SDPP-2",	100 % - 1 share
OAO "Novocherkassk SDPP",	100 % - 1 share
Subsidiary of OAO "Novocherkassk SDPP":	100 %
OAO "Novocherkassk Energy Repair Entity"	100 %

OAO RAO "UES of Russia" has 1 share of each of the following companies: OAO "Ryazan SDPP", OAO "Kirishi SDPP", OAO "Krasnoyarsk SDPP-2", and OAO "Novocherkassk SDPP-2". All subsidiaries of the Company are incorporated and operate in the Russian Federation.

**Note 27. Post balance sheet events**

On 17 March 2006, an extraordinary general shareholders' meetings of OAO "SDPP-24", OAO "Kirishi SDPP", OAO "Krasnoyarsk SDPP-2", OAO "Novocherkassk SDPP", OAO "Ryazan SDPP", OAO "Cherepovetz SDPP" made a decision on reorganization in the form of merger with Company and a merger agreement was approved.

On 26 February 2006, the Board of Directors of the Company approved the Resolution on additional issue of shares by private offering among OAO RAO "UES of Russia", shareholders of OAO "SDPP-24" and shareholders of OAO "Cherepovetz SDPP". In accordance with the resolution the additional shares were paid with the shares of OAO "SDPP-24" and "Cherepovetz SDPP", property plant and equipment of OAO "Kirishi SDPP", and the rights of demand to OAO "Ryazan SDPP", which resulted from the investments made by OAO RAO "UES of Russia" in sweet gas plant of OAO "Ryazan SDPP".

On 6 April 2006, the RF Federal Agency on the financial markets registered the additional issue of shares being privately placed among the shareholders of OAO SDPP-24 and OAO Cherepovetsk SDPP.

On 11 May 2006, the Board of Directors of RAO UES Rossii, acting as the annual shareholders meeting of OAO WGC-6, made a decision to pay dividends in cash on the Company's common shares for the 1 Q 2006 in the amount of RR 0,01765935 per an ordinary share within 60 days after the respective decision.

On 20 June 2006, the RF Federal Agency on the financial markets registered the report on the results of the additional issue of the shares of OAO WGC -6, being privately placed. The placement included 2 776 435 233 common registered uncertified share with the par value of RR 1.

On 12 July 2006, amendments to the Company Charter, related to increase of its charter capital and incorporation of its branches were registered. The charter capital amounted to RR 25 785 052 131, the authorized shares amounted to 1 319 732 567.

On 24 August 2006, the RF Federal Agency on the financial markets registered six additional issues of the Company shares, being placed by means of converting registered ordinary shares of OAO SDPP-24, OAO

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KiSDPP», OAO Ryazan SDPP, OAO Novochoerkassk SDPP, OAO KSDPP-2, OAO Cherepovetz SDPP, being merged into OAO WGC-6, into additional registered ordinary shares of the Company.

On 27 September 2006, an extraordinary general shareholders' meeting of OAO WGC –6 made a decision to pay dividends in cash on the Company's common shares for the six months of 2006 in the amount of RR 0,00886215 per an ordinary share within 60 days after the respective decision.

On 29 September 2006, OAO SDPP-24, OAO KiSDPP», OAO Ryazan SDPP, OAO Novochoerkassk SDPP, OAO KSDPP-2, OAO Cherepovetz SDPP terminated their operations by merging into OAO WGC -6.

On 29 September 2006, registered ordinary shares of OAO SDPP-24, OAO KiSDPP», OAO Ryazan SDPP, OAO Novochoerkassk SDPP, OAO KSDPP-2, OAO Cherepovetz SDPP were converted to additional registered ordinary shares of OAO WGC-6, 946 009 361 registered ordinary shares with the par value of RR 1 per share were placed. The charter capital amounted to RR 26 731 061 492. After restructuring, the ownership interest of RAO UES Rossii in the Company amounted to 93,48%, that of minority shareholders –6,52%.

On 24 November 2006, amendments to the Company Charter, related to increase of its charter capital up to RR 26 731 061 492 and decrease of the number of authorized shares to 373 723 206 were registered.