

OJSC MOESK

**Financial Statements for the period from
1 April 2005 until 31 December 2005**

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Independent Auditors' Report

To the management of OJSC MOESK

Report on the Financial Statements

We have audited the accompanying financial statements of OJSC MOESK (the "Company"), which comprise the balance sheets as at 1 April and 31 December 2005, and the income statement, statement of changes in equity and cash flow statement for the period from 1 April 2005 (the date of incorporation) until 31 December 2005, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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



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

Basis for Qualified Opinion

We did not observe the counting of inventories stated at 574 428 thousand Russian Roubles as at 1 April 2005 and 644 487 thousand Russian Roubles as at 31 December 2005 because we were engaged as auditors of the Company only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to inventories as at 1 April 2005 and 31 December 2005 and cost of sales, taxation, net profit and retained earnings as at and for the nine month period ended 31 December 2005.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 1 April and 31 December 2005, and its financial performance and its cash flows for period from 1 April 2005 until 31 December 2005 in accordance with International Financial Reporting Standards.

KPMG Limited

KPMG Limited

27 July 2007

	Note	2005 '000 RUR
Revenues	4	12 259 082
Operating expenses	5	(11 776 057)
Other operating income		175 474
Operating income		<u>658 499</u>
Financial income	7	75 500
Financial expenses	7	(125 033)
Income before income tax		<u>608 966</u>
Income tax expense	8	(257 120)
Net income for the period		<u>351 846</u>
Income per ordinary share for income attributable to the shareholders of OJSC MOESK – basic and diluted (in Russian Roubles)	18	<u>0,012</u>

The financial statements were approved on 27 July 2007:

President

Y.I. Trofimov



The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

	Note	31 December 2005 '000 RUR	1 April 2005 '000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	9	56 165 001	44 020 519
Other non-current assets		304 112	486 564
		56 469 113	44 507 083
Current assets			
Inventories	11	644 487	574 428
Income tax receivable		194 989	-
Trade and other receivables	12	2 763 346	1 191 006
Cash and cash equivalents	13	237 992	234 240
		3 840 814	1 999 674
Total assets		60 309 927	46 506 757
EQUITY AND LIABILITIES			
Equity			
Share capital	14	14 124 680	14 124 680
Additional paid in capital		22 453 124	22 453 124
Revaluation reserve		8 270 005	-
Retained earnings		351 846	-
Total equity		45 199 655	36 577 804
Non-current liabilities			
Loans and borrowings	15	184 638	11 071
Employee benefits	16	469 769	447 551
Deferred tax liabilities	10	9 346 708	7 056 253
		10 001 115	7 514 875
Current liabilities			
Loans and borrowings	15	1 273 450	1 546 682
Taxes payable	20	447 429	9 106
Trade and other payables	19	3 108 350	787 908
Provisions	17	279 928	70 382
		5 109 157	2 414 078
Total equity and liabilities		60 309 927	46 506 757

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

	2005 '000 RUR
OPERATING ACTIVITIES	
Income before income tax	608 966
Adjustments for:	
Depreciation	1 823 417
Gain on disposal of property, plant and equipment (note 9 (b))	(120 730)
Provisions	209 546
Deficit on revaluation of property, plant and equipment	78 647
Interest income	(75 500)
Interest expense	125 033
Bad debt provision	40 691
Other non-cash items	7 353
Operating profit before changes in working capital	2 697 423
Increase in inventories	(69 107)
Increase in trade and other receivables	(1 609 767)
Increase in trade and other payables	2 320 442
Increase in taxes payable, other than income tax	438 323
Cash flows from operations before income taxes and interest paid	3 777 314
Income taxes paid	(773 233)
Cash flows from operating activities	3 004 081
INVESTING ACTIVITIES	
Proceeds from disposal of property, plant and equipment	25 814
Acquisition of property, plant and equipment	(2 888 903)
Cash flows utilised by investing activities	(2 863 089)
FINANCING ACTIVITIES	
Proceeds from borrowings	5 267 469
Repayment of borrowings	(5 266 234)
Payment of finance lease liabilities	(47 802)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

OJSC MOESK
Statement of Cash Flows for the period from 1 April 2005 until 31 December 2005

	2005
	'000 RUR
Interest paid	<u>(90 673)</u>
Cash flows utilised by financing activities	<u>(137 240)</u>
Net increase in cash and cash equivalents	3 752
Cash and cash equivalents at beginning of period	<u>234 240</u>
Cash and cash equivalents at end of period (note 13)	<u><u>237 992</u></u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

OJSC MOESK
Statement of Changes in Equity for the period from 1 April 2005 until 31 December 2005

'000 RUR	Share capital	Additional paid in capital	Revaluation reserve	Retained earnings	Total equity
At 1 April 2005	14 124 680	22 453 124	-	-	36 577 804
Income for the period	-	-	-	351 846	351 846
Revaluation of property, plant and equipment	-	-	8 270 005	-	8 270 005
At 31 December 2005	14 124 680	22 453 124	8 270 005	351 846	45 199 655

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

1 Background

(a) Organisation and operations

Open Joint-Stock Company “Moskovskaya Ob’edinennaya Electrosetevaya Kompaniya” (before 14 September 2006 Open Joint-Stock Company “Moskovskaya Oblastnaya Electrosetevaya Kompaniya”) (the “Company”) was established on 1 April 2005 by transferring assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES, within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1 adopted by shareholders of OJSC “Mosenergo” on 29 June 2004.

The Company’s registered office is at building 27, Ordgonikidze street, Podol’sk, Moscow Region, 142100, Russian Federation.

The actual address is building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Company’s principal activity is electricity transmission by means of electrical networks located in Moscow Region and the parts of Moscow.

As at 31 December 2005 the Company includes 18 branches. The list of the branches is stated below:

- Vostochnie electrical networks;
- Ujniye electrical networks;
- Oktyabr’skie electrical networks;
- Zapadnie electrical networks;
- Severnie electrical networks;
- Noginskie electrical networks;
- Podol’skie electrical networks;
- Kolomenskie electrical networks;
- Shaturskie electrical networks;
- Kashirskie electrical networks;
- Mojayskie electrical networks;
- Dmitrovskie electrical networks;
- Volokolamskie electrical networks;
- Visokovol’tnie cable networks;
- Moskabel’set’montaj;
- Moskabel’energoremont;
- Executive office;
- Repair of electrical and technical equipment plant.

The Company business is the natural monopoly which is under pressure and supported by the Russian government. As at 31 December 2005 the Russian Federation owned 52,7% of RAO UES of Russia, which in its turn owned 50,9% of OJSC “MOESK”.

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

The government of Russian Federation directly affects the Company’s operation through the state tariffs. The state tariff regulation is set forth in the following legislation:

- Federal Law No. 41-FZ of 14 April 1995 “On the State Regulation of Electricity and Heat Tariffs in the Russian Federation”;

- Federal Law No. 35-FZ of 26 March 2003 “On the Electric Utilities”;
- Federal Law No. 36-FZ of 26 March 2003 “On the Specifics of the Functioning of Electric Utilities During the Transition Period”;
- Resolution of Russian Federation Government No. 109 of 26 February 2004 “On the Pricing related Electricity and Heat in the Russian Federation”;
- Resolution of Russian Federation Government No. 332 of 30 June 2004 “On Assertion of the Regulations about the Federal Service on Tariffs”;
- Resolution of the Government of Moscow No. 239-PP of 13 April 2004 “On Assertion of the Regulations about Regional Energy Commission of Moscow” and Resolution of the Government of Moscow No. 963-PP of 12 December 2006 “On Assertion of the Regulations about Regional Energy Commission of Moscow (with Department Rights)”;
- Resolution of the Government of Moscow Region No. 387/24 of 3 July 2003 “On the Reorganization of the Energy Commission of Moscow Region”, Resolution of the Government of Moscow Region No. 657/38 of 13 November 2003 “On the Energy Committee of Moscow Region”, Resolution of the Government of Moscow Region No. 404/24 of 27 June 2005 “On the Energy Committee of Moscow Region” and Resolution of the Government of Moscow Region No. 224/11 of 27 March 2006 “On the Forming of the Fuel and Energy Committee of Moscow Region”.

In accordance with legislation the Company’s tariffs are controlled by the Federal Service on Tariffs, the Regional Energy Commission of Moscow and the Energy Committee of Moscow Region.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. Furthermore, the tax, currency and customs legislation within the Russian Federation is a subject to varying interpretations and changes, which can occur frequently. The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial assets and liabilities property, plant and equipment are stated at fair value as at 1 April 2005. Subsequently, the financial statements are prepared on the historical cost basis except that property, plant and equipment are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Company’s functional currency and the currency in which these financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) 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 Company be unable to continue as a going concern.

(e) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgment in applying accounting policies are described in the following notes:

- Note 17 – Provisions;
- Note 24 – Contingencies.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements.

(a) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currency of the Company at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

(b) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at fair value.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

(iv) Revaluation

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

(v) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

Land and buildings - 20 to 40 years;

Transmission networks - 18 years;

Transformers and transformer substations - 13 to 16 years;

Other – 8 years.

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(d) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(f) Impairment

The carrying amounts of the assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses in respect of revalued property, plant and equipment are recognised in the same way as revaluations – see accounting policy 3(b)(iv); other impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Company's loans and receivables, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(h) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(i) Employee benefits

(i) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on government bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

In calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(ii) Long-term service benefits

The Company's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at balance sheet date on government bonds that have maturity dates approximating the terms of the Company's obligations.

(iii) State pension fund

The Company makes contributions for the benefit of employees to State pension fund of Russian Federation. The contributions are expensed as incurred.

(j) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Trade and other payables

Trade and other payables are stated at cost.

(l) Income tax

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences are not provided for initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Revenues

Revenue from electricity transmission is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, consideration is probable and the amount can be estimated reliably. The tariffs for energy transmission are approved by Federal Tariff Agency or Regional Energy commission.

Where the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Company.

(n) Financial expenses

Financial expenses comprise interest expense on borrowings.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of financial expenses.

(o) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Company's contributions to social programs benefit the community at large and are not restricted to the Company's employees, they are recognised in the income statement as incurred.

(p) Segment reporting

The Company operates predominantly in a single geographical area and industry, the transmission of electric power in Moscow and Moscow region.

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.
- Amendment to IAS 19 *Employee Benefits – Actuarial Gains and Losses, Company Plans and Disclosures*, which is effective for annual periods beginning on or after 1 January 2006. The amendment includes an option for actuarial gains and losses to be recognised in full as they arise, outside of the income statement in a statement of recognised income and expense.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.
- 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.
- IFRS 8 *Operating Segments*, which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.
- IAS 23 *Borrowing Costs*, which is effective for annual periods beginning on or after 1 January 2009. The new Standard eliminates the option of immediately expensing borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

4 Revenues

	2005 '000 RUR
Electricity transmission	11 375 343
Other revenues	883 739
	12 259 082

5 Operating expenses

	2005 '000 RUR
Electricity transmission	(3 548 137)
Employee benefits	(2 214 560)
Depreciation	(1 823 417)
Repairs and maintenance	(1 786 165)
Raw materials and supplies	(658 655)
Insurance	(311 059)
Consulting, legal, audit services including professional training	(253 655)
Provision for legal claims and unused vacation	(209 546)
Taxes other than income tax	(128 464)
Security services	(126 471)
Telecommunication services	(116 765)
Rent	(111 502)
Deficit on revaluation of property plant and equipment	(78 647)
Other expenses	(409 014)
	(11 776 057)

6 Total personnel costs

	2005 '000 RUR
Salaries and wages	(1 774 525)
Contribution to state pension fund	(327 474)
Financial aid to employees and pensioners	(71 485)
Expense in respect of post employment benefits (see Note 16)	(32 201)
Expense in respect of long-term employee benefits provided	(8 875)
	(2 214 560)

The average number of employees during 2005 was 10 172.

7 Financial income and expense

	2005
	'000 RUR
Financial income	
Interest income	75 500
	75 500
Financial expense	
Interest expense	(86 184)
Interest on employee benefits obligation, net	(23 496)
Interest on finance lease	(15 353)
	(125 033)

8 Income tax expense

	2005
	'000 RUR
Current tax expense	(578 246)
Deferred tax benefit	321 126
	(257 120)

The Company's applicable tax rate is the corporate income tax rate of 24%.

Reconciliation of effective tax rate:

	2005
	'000 RUR
Income before tax	608 966
Income expense at applicable tax rate	(146 152)
Tax effect of items which are not deductible or assessable for taxation purposes:	
Other non-deductible and non-taxable items, net	(110 968)
	(257 120)

9 Property, plant and equipment

'000 RUR	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Constructi on in progress	Total
<i>Revalued amount</i>						
At 1 April 2005	7 866 974	27 698 129	2 062 718	1 942 571	4 450 127	44 020 519
Additions	306 353	626 338	168 659	667 891	1 584 577	3 353 818
Disposals	(29 418)	(125 336)	(6 615)	(27 264)	(4 747)	(193 380)
Transfers	701 989	1 435 219	226 163	1 508 859	(3 872 230)	-
Revaluation	2 498 247	7 519 744	411 659	(78 647)	451 936	10 802 939
At 31 December 2005	<u>11 344 145</u>	<u>37 154 094</u>	<u>2 862 584</u>	<u>4 013 410</u>	<u>2 609 663</u>	<u>57 983 896</u>
<i>Depreciation</i>						
At 1 April 2005	-	-	-	-	-	-
Depreciation charge	(250 018)	(1 163 482)	(126 146)	(283 771)	-	(1 823 417)
Disposals	436	2 555	192	1 339	-	4 522
At 31 December 2005	<u>(249 582)</u>	<u>(1 160 927)</u>	<u>(125 954)</u>	<u>(282 432)</u>	<u>-</u>	<u>(1 818 895)</u>
<i>Net book value</i>						
At 1 April 2005	<u>7 866 974</u>	<u>27 698 129</u>	<u>2 062 718</u>	<u>1 942 571</u>	<u>4 450 127</u>	<u>44 020 519</u>
At 31 December 2005	<u>11 094 563</u>	<u>35 993 167</u>	<u>2 736 630</u>	<u>3 730 978</u>	<u>2 609 663</u>	<u>56 165 001</u>
<i>Net book value had no revaluations taken place</i>						
At 1 April 2005	<u>7 866 974</u>	<u>27 698 129</u>	<u>2 062 718</u>	<u>1 942 571</u>	<u>4 450 127</u>	<u>44 020 519</u>
At 31 December 2005	<u>8 596 316</u>	<u>28 473 423</u>	<u>2 324 971</u>	<u>3 809 625</u>	<u>2 157 727</u>	<u>45 362 062</u>

(a) Revaluation

In 2005 management commissioned CJSC HLB Vneshaudit to independently appraise property, plant and equipment as at 1 April and 31 December 2005.

The majority of the Company's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data, etc., and industry experts and suppliers of property, plant and equipment were contacted in the Russian Federation.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of that value. No impairment loss was required to be recognised during this period.

The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results, the four-year business plan and electricity transmission tariffs in Moscow and Moscow region.
- Total growth of electricity transmission is projected as follows:

	2006	2007	2008	2009
Projection of electricity transmission (mln. kVch)	62 701	64 417	68 062	75 136

- Average annual growth of tariff on electricity transmission is projected in accordance with Company's business plan and the strategy of RAO UES for period 2007-2009 as follows:

	2006	2007	2008	2009
Average tariff (RUR / MVch)	357,51	398,27	418,58	482,62
Rate of growth (%)	36,33	11,40	5,10	15,30

- A discount rate of 14,27 % was applied in determining the recoverable amount of the assets.

Cash flows for a further twenty years were extrapolated assuming no further growth in production, and revenue and expenses increasing in line with inflation.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources (historical data).

(b) Gain on disposal of property, plant and equipment

In 2005 the Company sold assets for RUR 25 814 thousand to the third parties. The carrying amount of assets sold was RUR 21 546 thousand. The gain on sale of the assets was RUR 4 268 thousand.

In 2005 the Company entered into a number of agreements under which the disposed assets should be compensated by the construction of new assets. In accordance with these agreements the Company disposed of the assets with the carrying amount of RUR 167 312 thousand, which were compensated by non cash acquisition of new assets in the amount of RUR 283 774 thousand. The gain on disposal of these assets in the amount of RUR 116 462 thousand was recognised in Other operating income.

(c) Leased plant and machinery

The Group leased production 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 plant and machinery was RUR 89 022 thousand. The leased equipment secures lease obligations.

10 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

'000 RUR	Assets		Liabilities		Net	
	31 December 2005	1 April 2005	31 December 2005	1 April 2005	31 December 2005	1 April 2005
Property, plant and equipment	-	-	(9 443 096)	(7 081 159)	(9 443 096)	(7 081 159)
Trade and other receivables	42 052	17 499	(2 774)	(6 764)	39 278	10 735
Employee benefits	25 589	-	-	-	25 589	-
Trade and other payables	22 141	12 204	-	-	22 141	12 204
Inventories	9 380	1 967	-	-	9 380	1 967
Tax assets/(liabilities)	99 162	31 670	(9 445 870)	(7 087 923)	(9 346 708)	(7 056 253)
Net tax assets/(liabilities)	99 162	31 670	(9 445 870)	(7 087 923)	(9 346 708)	(7 056 253)

(b) Movement in temporary differences during the period

'000 RUR	1 April 2005	Recognised in income	Recognised in equity	31 December 2005
Property, plant and equipment	(7 081 159)	249 644	(2 611 581)	(9 443 096)
Trade and other receivables	10 735	28 543	-	39 278
Inventories	1 967	7 413	-	9 380
Trade and other payables	12 204	9 937	-	22 141
Employee benefits	-	25 589	-	25 589
	(7 056 253)	321 126	(2 611 581)	(9 346 708)

11 Inventories

	31 December 2005	01 April 2005
	'000 RUR	'000 RUR
Raw materials and consumables	640 772	568 918
Other	7 357	10 105
Write-down of inventories in the current period	(3 642)	(4 595)
	644 487	574 428

12 Trade and other receivables

	31 December 2005	1 April 2005
	'000 RUR	'000 RUR
Value added tax recoverable	1 165 602	691 321
Trade receivables	1 090 887	53 909
Advances to suppliers	395 936	390 129
Other receivables	163 717	67 752
Provision for doubtful debtors	(52 796)	(12 105)
	2 763 346	1 191 006

13 Cash and cash equivalents

	31 December 2005	1 April 2005
	'000 RUR	'000 RUR
Petty cash	2 981	1 563
Current accounts	235 011	232 677
Cash and cash equivalents	237 992	234 240

14 Equity

(a) Share capital

Share capital

	Ordinary shares	Ordinary shares
	31 December 2005	1 April 2005
Issued shares, fully paid	28 249 359 700	28 249 359 700
Par value (in RUR)	0,50	0,50

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December, 2005 the Company had cumulative retained earnings, including the profit for the current period, of RUR 3 857 756 thousand. No dividends were declared during the period.

15 Loans and borrowings

This note provides information about the contractual terms of the Company's loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 21.

	31 December 2005	1 April 2005
	'000 RUR	'000 RUR
Non-current		
Promissory notes	182 653	-
Finance lease liability	1 985	11 071
	184 638	11 071
Current		
Unsecured bank facility	1 247 619	1 506 904
Current portion of finance lease liability	25 831	39 778
	1 273 450	1 546 682

Finance lease liabilities are payable as follows:

	31 December 2005		
'000 RUR	Payments	Interest	Principal
Less than one year	31 747	5 916	25 831
Between one and five years	2 150	165	1 985
	33 897	6 081	27 816

16 Employee benefits

(i) *Post employment benefits*

The amounts recognised in the balance sheet are as follows:

	31 December 2005	1 April 2005
	'000 RUR	'000 RUR
Present value of unfunded obligations	4 337	309 647
Present value of funded obligations	327 935	-
Fair value of plan assets	(30 672)	-
Deficit in plan	301 600	309 647
Net actuarial gains not recognised in the balance sheet	24 179	-
Net liability in balance sheet	325 779	309 647

The amounts recognised in income statement are as follows:

	2005
	'000 RUR
Current service costs	32 201
Interest on obligation	16 256
Total	48 457

Changes in the present value of the defined benefit obligation are as follows:

	2005
	'000 RUR
Defined benefit obligation at start of period	309 647
Current service cost	32 201
Interest cost	16 256
Return on plan liabilities	(24 159)
Benefits paid	(1 673)
Defined benefit obligation at end of period	332 272

Changes in the fair value of plan assets are as follows:

	2005
	'000 RUR
Return on plan assets	20
Contributions by the employer	32 325
Benefits paid	(1 673)
Fair value of the plan assets at end of period	30 672

The company expects to contribute RUR 265 981 thousand to the pension plan in 2006.

The fair value of plan assets in each category:

	2005
Equity instruments	19,60%
Debt instruments	61,60%
Other	18,80%

	2005
Expected average remaining working lives of the employees (years)	13,3

Where investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets at the balance sheet date.

Amounts for the current and previous periods are as follows:

	31 December 2005	1 April 2005
	'000 RUR	'000 RUR
Defined benefit obligation	(332 272)	(309 647)
Plan assets	30 672	-
Deficit	(301 600)	(309 647)
Return on plan liabilities	24 159	-
Return on plan assets	20	-

(ii) Other long-term employee benefits

The amounts recognised in the balance sheet are as follows:

	31 December 2005	1 April 2005
	'000 RUR	'000 RUR
Present value of obligations	143 990	137 904

Movements in the net liability recognised in the balance sheet:

	2005
	'000 RUR
Net liability at 1 April	137 904
Contributions received	(10 029)
Expense recognised in the income statement	16 115
Net liability at 31 December	143 990

The amounts recognised in income statement are as follows:

	2005
	'000 RUR
Interest on obligation	7 240
Current service costs	4 714
Recognized actuarial losses	4 161
	16 115

Principal actuarial assumptions for both post employment benefits and other long-term employee benefits:

	31 December 2005	1 April 2005
Discount rate	7%	7%
Rate of salary increases	7%	7%
Rate of pension increases	7%	7%
Annualised expected return on plan assets for the period ended	12%	12%

	31 December 2005	1 April 2005
Life expectancy for male	58,87 years	58,87 years
Life expectancy for female	72,39 years	72,39 years
Average life expectancy	65,30 years	65,30 years

The expense is recognised in the following line items in the income statement:

	2005	2005	2005
	Post employment benefits	Other long-term employee benefits	Total
	'000 RUR	'000 RUR	'000 RUR
Operating expenses	32 201	8 875	41 076
Finance expenses	16 256	7 240	23 496
	48 457	16 115	64 572

17 Provisions

'000 RUR	Legal claims	Unused vacation	Total
Balance at 1 April 2005	70 382	-	70 382
Provisions raised during the period	167 042	42 504	209 546
Balance at 31 December 2005	237 424	42 504	279 928

Legal claims

Provision for legal claims relates to the claims brought against the Company by fuel suppliers and service providers. The balance of the provision at 31 December, 2005 is expected to be utilised by the end of 2006. The management believes, after taking appropriate legal advice, that the outcome of current legal claims against will not give rise to any significant loss beyond the accrued amounts.

18 Earnings per share

The calculation of earnings per share is the net profit for the period divided by the weighted average number of ordinary shares outstanding during the period, calculated as shown below. The Company has no dilutive potential ordinary shares.

<i>Number of shares unless otherwise stated</i>	Ordinary shares 31 December 2005	Ordinary shares 1 April 2005
Authorised shares	28 249 359 700	28 249 359 700
Par value	RUR 0,50	RUR 0,50
On issue at the beginning of period	28 249 359 700	28 249 359 700
On issue at the end of period, fully paid	28 249 359 700	28 249 359 700
Weighted average number of shares	28 249 359 700	28 249 359 700

19 Trade and other payables

	31 December 2005 '000 RUR	1 April 2005 '000 RUR
Accounts payable – trade	2 283 063	764 873
Other payables and accrued expenses	825 287	23 035
	3 108 350	787 908

20 Taxes payable

	31 December 2005	1 April 2005
	'000 RUR	'000 RUR
Value added tax	289 735	9 106
Employee taxes	72 307	
Property tax	34 907	-
Other taxes	50 480	-
	<u>447 429</u>	<u>9 106</u>

21 Financial instruments and financial risks

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

Credit risk. Financial assets, which potentially subject the Company 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 Company beyond the provision for impairment of receivables already recorded.

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Interest rate risk. The Company's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The Company is only exposed to fair value interest rate risk as all of its borrowings are at fixed interest rates.

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

The following table shows the period in which interest-bearing financial liabilities reprice.

RUR '000	Average interest rate		6-12 months	1-2 years	4-5 years	Total
	Contract	Effective				
Liabilities						
Unsecured borrowings:						
RUR	11%	11%	775 984	-	-	775 984
RUR	10%	10%	471 635	-	-	471 635
RUR	0%	11.7%			182 653	182 653
Finance lease liabilities:						
RUR	14.27%	-	25 831	1 985	-	27 816
			<u>1 273 450</u>	<u>1 985</u>	<u>182 653</u>	<u>1 458 088</u>

22 Operating leases

Non-cancelable operating lease rentals are payable as follows:

	2005
	'000 RUR
Less than one year	106 783
Between one and five years	350 269
More than five years	2 260 713
	<u>2 717 765</u>

The Company leases a number of lots of land owned by local governments under operating lease. Land lease payments are stipulated by lease agreements.

The lots of land leased by the Company are the areas where the Company's electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

23 Commitments

Sales commitments. The Company has entered into contracts to carry out electricity transmission services to OJSC "Mosenergosbyt" on the regulated market for RUR 22 283 million (without VAT) in 2006 year.

Purchase commitment. The Company has entered into contracts to purchase materials and equipment, totaling RUR 805 million in 2006.

24 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Litigation

The Company is party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are current legal proceedings and claims outstanding, which will have a material adverse effect on the financial position of the Company and therefore accrued during the period, see Note 17.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

25 Related party transactions

(a) Control relationships

The Company's parent is RAO UES of Russia. The party with ultimate control over the Company is the Russian Federation, which holds the majority of the voting rights of RAO UES.

(b) Transactions with management and close family members

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

(i) Management remuneration

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors for the period ended 31 December 2005 was RUR 1 437 thousand.

(c) Transactions with other related parties

(i) Revenue

'000 RUR	Transaction value 2005	Outstanding balance 2005
Electricity transmission		
Entities under common control of the parent	11 365 550	785 529
Other revenues:		
Entities under common control of the parent	267 903	202 861
	<u>11 633 453</u>	<u>988 390</u>

(ii) Expenses

'000 RUR	Transaction value 2005	Outstanding balance 2005
Recover energy loss:		
Entities under common control of the parent	(2 491 431)	(225 204)
Electricity transmission		
Other state controlled entities	(718 293)	(81 582)
Other expenses		
Entities under common control of the parent	(67 247)	(332 602)
Other state controlled entities	(59 888)	(53)
	<u>(3 336 859)</u>	<u>(639 441)</u>

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(iii) Loans

'000 RUR	Amount loaned 2005	Outstanding balance 31 December 2005	Outstanding balance 1 April 2005
Loans received:			
State controlled entities	4 409 316	1 247 619	1 506 904
	<u>4 409 316</u>	<u>1 247 619</u>	<u>1 506 904</u>

Loans are received under the market interest rate (see Note 21).

26 Events subsequent to the balance sheet date

In June 2006 dividends for 2005 were approved for distribution by Shareholders. Dividend approved were RUR 0,00177 per ordinary share, totalling RUR 50 million.

In September 2006 the Company issued the bonds, totalling RUR 6 billion. The maturity date is September 2011.

In May 2007 the management of the Company approved the issuance of loan participation notes, totalling up to RUR 10 billion in the international capital markets.