OAO Mosenergo

IFRS Consolidated Financial Statements for the year ended 31 December 2005

PRICEWATERHOUSECOOPERS

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AUDITOR'S REPORT

To the shareholders of Open Joint Stock Company «Mosenergo»:

1 We have audited the accompanying consolidated balance sheet of OAO Mosenergo and its subsidiaries (the "Group") as of 31 December 2005 and the related consolidated statements of operations, of cash flow and of changes in equity for the year then ended. These consolidated financial statements as set out on pages 3 to 37 are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated interim 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 The Group did not disclose all information about transactions and outstanding balances with state controlled entities for the year ended 31 December 2005 and the year ended 31 December 2004 in accordance with International Financial Reporting Standards. As a result, the financial statements for the year ended 31 December 2005 do not comply with International Accounting Standard No 24 "Related Party Disclosures".

4 In our opinion, except for the omission of information discussed in the paragraph 3, the accompanying 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.

5 Without further qualifying our opinion, we draw your attention to the information in Note 4 to the accompanying consolidated financial statements. The Group has spun off its activities in transmission and distribution, retail sales of electricity, four power plants and other non-core businesses from 1 April 2005.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
16 May 2006

(in millions of Russian Roubles)

	Note	31 December 2005	As restated (see Note 2(a)) 31 December 2004
Non-current assets			
Property, plant and equipment	5	38 155	97 149
Investments in associate	6	328	-
Other non-current assets	7	82	3 466
Total non-current assets		**38 565**	**100 615**
Current assets			
Cash and cash equivalents	11	2 383	6 260
Accounts receivable and prepayments	10	5 950	8 381
Current profit tax prepayments		1 175	26
Inventories	8	2 966	4 888
Other current assets	9	679	3 512
Total current assets		**13 153**	**23 067**
Total assets		**51 718**	**123 682**
EQUITY AND LIABILITIES			
Equity			
Share capital			
Ordinary shares (nominal value RR 28 249 million)	12	154 624	154 624
Treasury shares	12	-	(21)
Accumulated loss		(123 633)	(68 987)
Total Equity		**30 991**	**85 616**
Non-current liabilities			
Deferred profit tax liabilities	14	3 993	8 382
Minority interest		-	273
Total non-current liabilities		**3 993**	**8 655**
Current liabilities			
Loans and borrowings	13	9 814	12 106
Accounts payable and accrued charges	16	5 043	12 260
Current profit tax payable		9	1 677
Other taxes payable	17	1 868	3 368
Total current liabilities		**16 734**	**29 411**
Total liabilities		**20 727**	**38 066**
Total equity and liabilities		**51 718**	**123 682**

Chairman of the Management Board A.Y. Kopsov

Chief Accountant T.P. Dronova

16 May 2006

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 36.

(in millions of Russian Roubles)

	Note	Year ended 31 December 2005	As restated (see Note 2(a)) Year ended 31 December 2004
Revenue			
Electricity		40 294	58 046
Heating		27 539	22 434
Other		2 884	2 179
Total revenues		**70 717**	**82 659**
Other operating income		1 276	5 277
Operating expenses			
Fuel expenses		(29 552)	(27 361)
Wages and payroll taxes		(8 550)	(9 835)
Transmission fees		(5 751)	(1 083)
Depreciation of property, plant and equipment	5	(5 612)	(9 576)
Repairs and maintenance		(4 465)	(11 297)
Purchased power		(3 913)	(5 239)
Taxes other than profit tax		(1 650)	(2 608)
Subscription fees		(1 604)	(5 512)
Other materials		(933)	(1 170)
Insurance cost		(691)	(1 394)
Commission fee		(456)	(949)
Water payments		(436)	(746)
Labour protection costs		(417)	(331)
Doubtful debtor expenses		(392)	(301)
Loss on disposal of subsidiary	23	(338)	
Expenses related to restructuring process		(324)	(234)
Social expenditures		(319)	(239)
Loss on disposal of property, plant and equipment		(10)	(333)
Other expenses		(4 968)	(4 726)
Total operating expenses		**(70 381)**	**(82 934)**
Operating profit		**1 612**	**5 002**
Financial expenses, net	18	(1 125)	(1 249)
Share of profit of associate		79	-
Profit before profit tax		**566**	**3 753**
Profit tax expense	14	(825)	(1 895)
(Loss)/ profit for the year		**(259)**	**1 858**
Attributable to:			
Shareholders of OAO Mosenergo		(289)	1 762
Minority interest		30	96
(Loss)/earnings per ordinary share for (loss)/ profit attributable to the shareholders of OAO Mosenergo – basic and diluted (in Russian Roubles)	15	**(0.01)**	**0.06**

Chairman of the Management Board A.Y. Kopsov

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16 May 2006

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2005	As restated (see Note 2(a)) Year ended 31 December 2004
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before profit tax		**566**	**3 753**
Adjustments to reconcile profit before profit tax to net cash provided by operations:			
Depreciation and impairment of property, plant and equipment	5	5 612	9 576
Doubtful debtors expense		392	301
Gain recognized on replacement of PPE	5(b)	(1 745)	(4 971)
Foreign exchange loss (gain)		59	(125)
Loss on disposal of property, plant and equipment		10	333
Loss on disposal of a subsidiary	23	338	-
Share of profit of associate		(79)	-
Interest expense		1 066	1 374
Operating cash flows before working capital changes and profit tax paid		**6 219**	**10 241**
Working capital changes:			
Decrease in inventories		(259)	(516)
(Increase)/decrease in accounts receivable and prepayments		(3 273)	217
Decrease in other current assets		1 335	571
Decrease in other non-current assets		799	80
Increase in accounts payable and accrued charges		285	4 558
(Decrease)/increase in taxes payable, other than profits tax		(1 500)	1 006
Profit tax paid		(3 849)	(1 440)
Net cash (used for) generated by operating activities		**(243)**	**14 717**
CASH FLOW FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment		(3 178)	(10 583)
Proceeds from sale of property, plant and equipment		253	528
Cash disposed of through spin-off	4(b)	(954)	-
Proceeds from sales of subsidiary, net of cash disposed of	23	(1 296)	-
Net cash used for investing activities		**(5 175)**	**(10 055)**
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		32 010	11 611
Repayment of borrowings		(28 696)	(11 425)
Interest paid		(1 170)	(1 506)
Purchase of treasury shares		-	(39)
Proceeds from treasury shares		21	27
Dividends paid to OAO Mosenergo shareholders		(624)	(613)
Net cash generated by (used for) financing activities		**1 541**	**(1 945)**
(Decrease)/increase in cash and cash equivalents		**(3 877)**	**2 717**
Cash and cash equivalents at the beginning of the period	11	**6 260**	**3 543**
Cash and cash equivalents at the end of the period	11	**2 383**	**6 260**

Chairman of the Management Board A.Y. Kopsov

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16 May 2006

(in millions of Russian Roubles)

	Attributable to the shareholders of OAO Mosenergo			
	Share capital	**Treasury shares**	**Accumu-lated loss**	**Total**
Balance at 1 January 2004	154 720	(9)	(70 186)	84 525
Net profit for the year (as restated – see Note 2(a))	-	-	1 762	1 762
Cancellation of shares	(96)	-	50	(46)
Dividends to shareholders	-	-	(613)	(613)
Treasury shares acquired	-	(39)	-	(39)
Treasury shares sold	-	27	-	27
Balance at 31 December 2004 (as restated - see Note 2(a))	154 624	(21)	(68 987)	85 616
Balance at 31 December 2004 as previously reported	154 624	(21)	(64 568)	90 035
Correction of prior period errors	-	-	(4 419)	(4 419)
Balance at 1 January 2005 (as restated - see Note 2(a))	154 624	(21)	(68 987)	85 616
Net loss for the year	-	-	(289)	(289)
Dividends to shareholders	-	-	(624)	(624)
Disposal of subsidiaries	-	-	-	-
Spin-off (Note 4)	-	-	(53 733)	(53 733)
Disposal of treasury shares	-	21	-	21
Balance at 31 December 2005	154 624	-	(123 633)	30 991

Chairman of the Management Board A.Y. Kopsov

Chief Accountant T.P. Dronova

16 May 2006

1 Background

(a) OAO Mosenergo and its operations

OAO Mosenergo (OAO Mosenergo or the Group) is a regional utility providing electric power and heat generation and distribution services to the city of Moscow, Moscow region and surrounding regions, which is an area of 47,000 square kilometers with a population of 16 million people. The overall operational capacity of OAO Mosenergo is approximately 10,101 megawatts ("MW") of installed generating capacity for electricity and 34,957 gigacalories ("Gkal") of installed generating capacity for heat. Additionally, OAO Mosenergo purchases electricity from the Federal Wholesale Market for Electricity and Capacity ("FOREM") as determined by the operating needs of OAO Mosenergo. The Group's asset base includes 15 power stations.

OAO Mosenergo was registered in the Russian Federation on 6 April 1993 in accordance with State Property Management Committee Decree No. 169-R dated 26 March 1993. In accordance with the privatisation of the Russian electric utility industry, OAO Mosenergo was organised as a joint-stock company and certain assets and liabilities formerly under the control of the Ministry of Energy of the Russian Federation were assumed at their net book value.

In accordance with the regulatory and sector restructuring (see Note 1(c)), OAO Mosenergo adopted certain guidelines for the implementation of its restructuring. These guidelines were approved by the Board of Directors of RAO UES of Russia on 30 January 2004 and adopted by the Board of Directors of OAO Mosenergo and by its shareholders at the AGM. The first step of the restructuring is to "spin-off" to shareholders certain OAO Mosenergo divisions into 13 newly established open joint stock companies (see Note 4). By means of the spin-off, OAO Mosenergo intends to:

- separate its monopolistic lines of business (transmission, distribution) from competitive lines of business (generation and supply);
- develop competition in the retail (consumer) energy market;
- phase-out cross-subsidies among energy market participants; and
- create real economic incentives for energy generators to reduce costs and expenses, modernise their facilities and network assets and increase management and operational efficiencies.

On 28 February 2005, general shareholders' meetings of the thirteen joint stock companies created as a result of the spin-offs from OAO Mosenergo approved their respective Articles of Association. On 1 April 2005 these companies obtained State registration.

At 31 December 2005, the number of employees of OAO Mosenergo was approximately 19 thousand (approximately 47 thousand at 31 December 2004). Approximately 23 thousand employees were transferred to other companies separated during the reorganisation (see Note 4).

OAO Mosenergo's registered office is located at 8 Raushskaya Naberezhnaya, Moscow, 115035, Russian Federation.

(b) Relations with the state

At 31 December 2005, State-controlled RAO UES of Russia owned 50.9% of the voting ordinary shares of OAO Mosenergo (50.9% at 31 December 2004).

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

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal service on tariffs ("FST"), with respect to its wholesale energy purchases, and by the Moscow and Moscow Regional Energy Commissions ("REC's"), with respect to its retail electricity and heat sales.

The operations of all generating facilities are coordinated by OAO System Operator – Central Despatch Unit of Unified Energy System ("SO-CDU") in order to meet system requirements in an efficient manner. SO-CDU is controlled by RAO UES of Russia.

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined under the Regulations on Accounting and Reporting of the Russian Federation ("RAR"), a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS"). In practice, tariff decisions are impacted significantly by social and political considerations, causing significant delays in tariff decisions being received and tariff increases which are lower than required.

As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on regional utility companies to provide connections for the supply of electricity and the supply of heating to customers in the Russian Federation. As part of the State's continuing efforts to collect taxes, Governmental Resolution No. 1 was issued on 5 January 1998 and amended on 17 July 1998, which allows the Group to discontinue the supply of electricity and heat to delinquent customers, except for certain governmental and other entities.

As described in Notes 1(e) and 21, the government's economic, social and other policies could have material effects on the operations of the Group.

(c) Regulatory and sector restructuring

The Russian electric utilities industry in general and OAO Mosenergo in particular are presently undergoing a restructuring 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 of the Russian Federation" 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."
- On 24 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 accounting for 15 percent of their working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity (power) market during the transition period, has been holding electricity bidding for the sale of electricity in the free trading sector at the European part of Russia and in the Urals. Starting from May 2005, free trading sector was extended to Siberia, and starting from October 2005, competitive market of deviations was put in operation. According to the laws underlying the electric utilities reform, subsequently free trading will be extended over the whole volume of trading.
- On 29 May 2003 the Board of Directors of RAO UES of Russia approved a Concept of its strategy for the period from 2003 through 2008. In February 2006 the Board of Directors approved Appendixes to the Concept of RAO UES Strategy: "Territorial generating companies (TGCs) being created on the basis of assets of Holding Company RAO UES of Russia" and "Generating companies

of the Wholesale Electricity Market (WGCs)". These documents provide a detailed description of the major changes that are planned to take place in RAO UES of Russia during the electric utilities reform program.

- All the individual Energos that are subject to the reform have developed their respective reform plans and submitted them to RAO UES of Russia for approval. In 2005 the majority of Energos, including OAO Mosenergo, completed spin-offs as part of the restructuring – see Note 4.

(d) Operating environment

The Russian Federation 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, restrictive currency controls, 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.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

(e) Financial condition

As at 31 December 2005, the Group's current liabilities exceeded its current assets by RR 3 581 million (RR 6 344 million as at 31 December 2004).

As discussed above, OAO Mosenergo is affected by government policy through control of tariffs and other factors. In recent years the Regional Energy Commissions have not always permitted tariff increases in line with inflation and Group's costs and thus some tariffs are insufficient to cover all the costs of generation and distribution. Moreover, these tariffs consider costs only on a Russian statutory basis and, accordingly, exclude significant additional costs recognised under IFRS. As a result, tariffs often do not allow for an adequate return and currently do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group also experiences difficulties raising finance for the necessary investment in generation and distribution assets.

The Group continues to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales. Currently substantially all settlements of accounts receivables are made in cash. Despite this success, there still remains a significant level of uncollected accounts receivable from earlier periods. There is legislation enabling the OAO Mosenergo to cut off non-payers, but this is only practical to a limited extent. In addition, market reforms have reduced the budgets for many governmental organisations, adversely impacting their ability to pay for old and current supplies. Federal, municipal and other governmental organisations make up a significant proportion of the debtor balance as at 31 December 2004. Such debts had reduced slightly by 31 December 2005.

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

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

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

(f) Seasonality of business

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

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB"). The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Note 3.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(a) Restatement of comparatives

In line with IAS 8 the comparative figures for 2004 have been restated due to the identification of a material prior period error arose in 2004. The nature of this prior period error is explained in more detail below:

Revenue in 2004 was overstated by RUR 5 814 due to invoices being raised for which no payment was expected. Therefore prior period revenue and trade accounts receivable have been reduced by RR 5 814, related deferred tax liability and deferred tax charge was reduced by RR 1 395. This revenue overstatement related wholly to the operations that were spun off from the Group on 1 April 2005.

The net impact of this adjustment were to reduce net profit for the 2004 year by RR 4 419, earnings per share attributable to the shareholders of OAO Mosenergo were respectively reduced by RR 0.16.

(b) Reclassifications

Certain reclassifications have been made to prior year data to conform to the current year presentation. The most significant reclassifications relate to:

- As explained further in Note 5(b), elements of the Group's property, plant and equipment are dismantled by local authorities and construction companies. The Group receives no consideration for this and the net book value of these assets is written off. However, the local authorities and construction companies are required to replace the disposed assets, at no cost to the Group, and these replacement assets are capitalized by the Group at their fair value. During 2004, the Group's PPE increased in value by RR 4 901 due to the dismantling and replacement of assets. The value of replacement assets was incorrectly credited to a gain on disposal of PPE in the Statement of operations. The disposal and addition are two separate transactions and the value of assets contributed should be recognized as other operating income, therefore RR 4 901 was re-classified from gain on disposal of PPE into Other operating income;

- Other current assets were increased by RR 1 992 as result of reclassification of assets constructed under financing from Moscow Government on return basis from Property, plant and equipment;
- Current profit tax payable and current profit tax prepayments as of 31 December 2004 were reclassified from Taxes payable and Account receivable and prepayments respectively;
- Other taxes payable as of 31 December 2004 have been increased by RR 492 as result of reclassification of part of deferred VAT from Trade and other payable;
- Other operating income for the year ended 31 December 2004 have been increased by RR 376 as result of the reclassification from other revenue;
- Transmission and subscription fee for the year ended 31 December 2004 have been presented as two separate categories; respectively RR 5 512 were reclassified from transmission fee.

(c) Accounting of effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current as at 31 December 2002 are treated as the basis for the carrying amounts in these Financial Statements.

(d) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in millions of Russian Roubles has been rounded to the nearest million.

(e) Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment and the Group's financial condition discussed in Note 1(e). The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(f) New accounting developments

During the period December 2003 to March 2006, the International Accounting Standards Board ("IASB") made 26 revisions- to its standards and issued 7 new standards. In addition, the International Financial Reporting Interpretations Committee ("IFRIC") issued six new interpretations in 2004, one of which was subsequently withdrawn. These standards are effective for accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" ("IFRS 6") and IFRS 7 "Financial instruments: disclosures" ("IFRS 7"), which are effective for periods commencing on or after 1 January 2006 and 1 January 2007 respectively, but may be adopted early.

With effect from 1 January 2005, the Group adopted all of those IFRS, which are relevant to its operations, except for IFRS 3 "Business Combinations" ("IFRS 3"), IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IAS 36 (revised 2004) "Impairment of Assets" ("IAS 36") and IAS 38 (revised 2004) "Intangible Assets" ("IAS 38"), which were early adopted by the Group in 2004.

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

The adoption of IAS 1 clarifies certain presentation requirements. Most significantly, the revised standard requires that

- in the Statement of operations, the minority interest share in the results of subsidiaries, is no longer added or subtracted in arriving at the Group's profit or loss for the period. Instead it is presented as an allocation of the Group's profit or loss for the period. In the balance sheet, minority interest is presented as a separate component of equity rather than being presented between equity and liabilities. As a result, the Statement of Changes in Equity shows the movement in minority interests during the period. Comparatives were restated to reflect these changes.
- The Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlements for at least twelve month after the balance sheet date. This includes loans with covenant breaches even if, after balance sheet date, and before the financial statements were issued, the lenders waived the breaches.

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

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

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

- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments.
- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's capital.
- Amendment to IAS 19 "Employee Benefits", which is effective for annual periods beginning on or after 1 January 2006. The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.
- IFRS 6 "Exploration for and Evaluation of Mineral Resources", which is effective for annual periods beginning on or after 1 January 2006. IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.
- Amendment to IAS 21 "Net Investment in a Foreign Operation", which is effective for annual periods beginning on or after 1 January 2006. This amendment requires foreign exchange gains and

losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – The Fair Value Option", which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss". The Group has not yet completed its analysis of the impact of the amendment.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions", which is effective for annual periods beginning on or after 1 January 2006. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts", which is effective for annual periods beginning on or after 1 January 2006. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

- IFRIC 4 "Determining whether an Arrangement contains a Lease", which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease. The Group has not yet completed its analysis of the impact of the new Interpretation.

- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds", which is effective for annual periods beginning on or after 1 January 2006. Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

- IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment", which is effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

- IFRIC 7 "Applying the Restatement Approach under IAS 29", which is effective for periods beginning on or after 1 March 2006, that is from 1 January 2007. The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

- IFRIC 8, Scope of IFRS 2, which is effective for periods beginning on or after 1 May 2006, that is from 1 January 2007. The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

- IFRIC 9 "Reassessment of Embedded Derivatives", which is effective for annual periods beginning on or after 1 January 2006. The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contact. Only if the contact subsequently is significantly modified the entity reassesses whether to separate or not.

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

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The minority interest has been disclosed as part of equity.

(ii) Associates

Investments in associated enterprises are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associated enterprises are entities over which OAO Mosenergo is presumed to exercise significant influence but which it does not control.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method from the date on which it ceases to have significant influence in an associate.

(iii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) Net assets attributable to minority shareholders

In accordance with Russian legislation, limited liability companies are obliged to pay a withdrawing shareholder its share of the company's net assets. Accordingly, minority interests in limited liability companies are presented as liabilities.

(b) Foreign currencies

Transactions in foreign currencies are translated to RR 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 RR 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 RR 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 RR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the statement of operations.

At 31 December 2005 the official rates of exchange, as determined by the Central Bank of the Russian Federation, were:

- RR 28.7825: US Dollar (US$) 1.00 (31 December 2004: RR 27.7487: US$ 1.00)
- RR 34.1850: Euro 1.00 (31 December 2004: RR 37.8104: Euro 1.00).

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside the Russian Federation.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment are stated at depreciated cost. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

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

The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Interest on borrowings to finance the construction of property, plant and equipment is capitalised during the period of time that is required to complete and prepare the asset for its intended use.

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.

Property, plant and equipment dismantled and replaced by local authorities as part of ongoing city restructuring work is shown as a disposal with the net book value being written off as a loss on disposal of PPE. Replacement assets provided by local authorities are capitalized at their fair value and shown as a non-cash acquisition with the gain being recognized in other operating income.

(ii) 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 is recognised in the statement of operations as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the statement of operations 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 the asset is completed and ready for use. For the property, plant and equipment which was subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date.

The estimated useful lives are as follows:

- Electricity and heat generation 17 to 50 years
- Electricity distribution 11 to 25 years
- Heating networks 14 to 20 years
- Other 15 years

(d) Investments

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

Available-for-sale investments principally comprise non-marketable securities, which are not publicly traded or listed on the Russian stock exchange. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at each balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

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

(e) 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 cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(f) Accounts receivable and prepayments

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

(g) Value added tax on purchases and sales

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

(h) Cash and cash equivalents

Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term high 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.

(i) Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in equity attributable to the shareholders of OAO Mosenergo.

(j) Dividends

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

(k) Asset distributions

Distributions of assets or net assets ("spin-offs") to the shareholders are recognised as a dividend equal to the carrying amount of the net assets distributed. No gain or loss is recognised in the statement of operations.

(l) Loans and borrowings

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

(m) 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. Discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in the statement of operations, however, separate disclosures are not provided as these costs are not material.

(n) Accounts payable and accrued charges

Accounts payable are stated inclusive of value added tax.

(o) 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, and any adjustment to tax payable in respect of previous periods.

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

(p) Revenues

Revenue is recognised on the delivery of electricity and heat, and on the dispatch of non-utility goods and services. Revenue amounts are presented exclusive of value added taxes. Revenue is based on the application of authorised tariffs for electricity and heat sales as approved by the Regional Energy Commission.

(q) 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 recognised in the statement of operations as incurred.

(r) Segment reporting

The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in the city of Moscow, Moscow region and the surrounding regions. 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.

(s) Discontinued operations

A discontinued operation is a "component" of the Group's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. A "component" is a part of the Group that has operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group.

The operations that were spun off as a result of the Group's restructuring (see Note 4) did not meet the definition of a "component" and therefore are not presented as discontinued operations in these consolidated financial statements.

(t) Mutual settlements, barter and non-cash settlements

A portion of sales and purchases is settled by mutual settlements, barter and non-cash settlements. These settlements are generally in the form of direct settlement by goods or services with the final customer, cancellation of mutual balances or through a chain of non-cash transactions involving several companies. Non-cash settlements which are expected to be settled within 12 months are recorded as other current assets. These include "veksels" or "bills of exchange" which are negotiable debt obligations. The receivables and payables recorded in the consolidated balance sheet, that are expected to be settled by mutual settlements, barter or non-cash settlements, 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 cashflow statement, therefore investing activities, financing activities and the total of operating activities represent actual cash flows.

(u) Earnings per share

The earnings per share is determined by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

(v) Environmental liabilities

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

(w) Impairment of assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount. The amount of the reduction is recorded in the consolidated statement of operations in the period in which the reduction is identified. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

(x) Interest

Interest income and expense are recognized in the statement of operations for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued 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.

(y) 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.

(z) Embedded derivatives

The Group enters into purchase agreement for fuel within ordinary course of business. The contracts were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected usage requirements and they are not within the scope of IAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion should be separated from its host contracts and measured as if it were stand-alone derivative if its economic characteristics are not closely related to those of the host contract.

(aa) Critical accounting estimates and assumptions

(i) Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

(ii) Impairment of other assets and accounting for provisions

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 is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified. If conditions change and management determines that the asset value has increased, the impairment provision will be fully or partially reversed.

Accounting for impairment includes provisions against property, plant and equipment, investments, other long-term assets and inventory obsolescence. The provisions for liabilities and charges primarily include provisions for environmental and pension liabilities, legal proceedings. The Group records impairment or accrues these provisions when its assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered, and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future. Actual results may differ from the estimates, and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

(iii) Tax contingencies

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

4 Restructuring

(a) Process

As it was described in Note 1(a), OAO Mosenergo spun-off to its shareholders 13 newly established joint stock companies, which represent the following lines of business:

- transmission and distribution of electricity and heat – monopolistic;
- retail sales of electricity, repair and construction – non-core activities;
- four power plants – to be later contributed into wholesale generation companies in accordance with the Governmental Resolution No 1254-r dated 1 September 2003 "On formation of generating companies of the wholesale electricity market".

On 28 February 2005, general shareholders' meetings of these thirteen joint stock companies created as a result of the spin-offs from OAO Mosenergo approved their respective Articles of Association. On 1 April 2005 these companies obtained State registration.

(in millions of Russian Roubles)

The thirteen companies created during the reorganisation are:

Name of the company	Number of registered shares (thousands)	Par value per share in RR	Total volume of issue at par value in RR
OAO Management Energy Company	28 249 360	0.0000037	104 523
OAO Trunk Grid Company	28 249 360	0.05	1 412 467 985
OAO Moscow City Electricity Network Company	28 249 360	0.2	5 649 871 940
OAO Moscow Heat Distribution Company	28 249 360	0.3	8 474 807 910
OAO Moscow Regional Electricity Distribution Company	28 249 360	0.5	14 124 679 850
OAO Mosenergosbyt	28 249 360	0.01	282 493 597
OAO Specialised Design Bureau for Repair and Modernisation	28 249 360	0.0001	2 824 936
OAO Mosteploseternergoremont	28 249 360	0.01	282 493 597
OAO Mosenergosetstroy	28 249 360	0.001	28 249 360
OAO GRES-4	28 249 360	0.05	1 412 467 985
OAO GRES-5	28 249 360	0.05	1 412 467 985
OAO GRES-24	28 249 360	0.02	564 987 194
OAO Zagorskaya PSHP	28 249 360	0.1	2 824 935 970

The ownership structure of the newly established companies mirrors OAO Mosenergo's ownership structure. Shares in the companies are distributed among the shareholders of OAO Mosenergo pro rata to OAO Mosenergo shares held by them prior to spin-off. Therefore RAO UES of Russia retained its controlling interest (50.9%) in each of the companies.

OAO Mosenergo did not receive any consideration from its shareholders as a result of the spin-off. The net assets transferred to the new companies were derecognised with a corresponding amount recognised in equity as a distribution.

As the result of the spin-off the reorganised OAO Mosenergo became in substance the biggest in Russia territory generation company with 15 power plants with installed generating capacity for electricity of approximately 10,101 megawatts ("MW") of and installed generating capacity for heat of 34,957 gigacalories ("Gkal").

(b) Estimated financial information

Previously the Group did not maintain separate financial information in respect of the businesses that were spun off. The restructuring, for legal purposes, took place at the RAR statutory accounting values. Management has prepared the following estimated financial information under IFRS. It was not practicable for the Group to present similar information in respect of the comparative period.

(in millions of Russian Roubles)

The amounts of the spun-off assets and liabilities are set forth in the following table. In producing this estimated information management made the following assumptions:

- The amounts of the spun-off assets and liabilities were calculated based on the Separation Balance Sheet prepared for the purpose of the spin-off in accordance with the Russian accounting standards (RAR);
- The amounts of spun-off property, plant and equipment were adjusted for IFRS purposes proportionally to the RAR book value of PPE.

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The carrying amounts of the assets and liabilities distributed at the effective date of the spin-offs, 1 April 2005, were as follows:

Assets	
Property, plant and equipment	58 042
Other non current assets	865
Accounts receivable and prepayments	5 262
Inventories	2 181
Cash and cash equivalents	954
Liabilities	
Account payable and accrued charges	(3 781)
Short term loans and borrowings	(5 608)
Deferred profit tax liabilities	(4 182)
Net assets	**53 733**

The operations that were spun off contributed an estimated RR 16,231 to the Group's revenue from operations for the period from 1 January to 31 March 2005. Revenue in accordance with IFRS was estimated by allocation using the tariff structure.

(in millions of Russian Roubles)

5 Property, Plant and Equipment

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Appraised value or cost						
Opening balance as at 31 December 2004	91 499	49 411	23 537	5 345	42 797	212 589
Additions	14	9	-	4 852	48	4 923
Transfers	369	351	114	(1 682)	848	-
Disposals	(247)	(74)	(127)	(56)	(558)	(1 062)
Spin-off	(31 337)	(46 536)	(19 103)	(6 277)	(15 908)	(119 161)
Closing balance as at 31 December 2005	60 298	3 161	4 421	2 182	27 227	97 289
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2004	(48 455)	(22 227)	(12 815)	-	(31 943)	(115 440)
Charge for the period	(2 158)	(693)	(622)	-	(2 139)	(5 612)
Disposals	146	43	75	-	535	799
Spin-off	16 854	21 450	10 669	-	12 146	61 119
Closing balance as at 31 December 2005	(33 613)	(1 427)	(2 693)	-	(21 401)	(59 134)
Net book value as at 31 December 2004	43 044	27 184	10 722	5 345	10 854	97 149
Net book value as at 31 December 2005	26 685	1 734	1 728	2 182	5 826	38 155

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Appraised value or cost						
Opening balance as at 31 December 2003	89 345	44 141	20 655	3 126	42 747	200 014
Additions	15	60	-	15 265	184	15 524
Transfers	2 782	5 522	3 872	(12 568)	392	0
Disposals	(643)	(312)	(990)	(478)	(526)	(2 949)
Closing balance as at 31 December 2004	91 499	49 411	23 537	5 345	42 797	212 589
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2003	(45 496)	(20 355)	(12 564)	-	(29 296)	(107 711)
Additions	(15)	-	-	-	(183)	(198)
Charge for the period	(3 398)	(2 129)	(1 120)	-	(2 929)	(9 576)
Disposals	454	257	869	-	465	2 045
Closing balance as at 31 December 2004	(48 455)	(22 227)	(12 815)	-	(31 943)	(115 440)
Net book value as at 31 December 2003	43 849	23 786	8 091	3 126	13 451	92 303
Net book value as at 31 December 2004	43 044	27 184	10 722	5 345	10 854	97 149

(in millions of Russian Roubles)

Other property, plant and equipment is comprised of motor vehicles, computer equipment, office fixtures and other assets not included in categories mentioned above.

(a) Impairment

Management believes that there were no impairment indicators, main reasons being as follows:

- electricity tariffs set for OAO Mosenergo for 2005 were 13 % (heat: 17 %) higher than those set for 2004;
- growth of gas prices until the year 2007 is to be defined in accordance with resolutions of the Government of the Russian Federation (see Note 20(a)). This growth shall not exceed limits set in the Government's forecast (submitted to the State Duma on 26 August 2004): 11 % for 2006 and 8 % for 2007, which is no more than inflation;
- demand for both electricity and heat is consistently growing from year to year;
- the Group's restructuring (see Note 4) did not change the manner of recovery of the assets – the regulator allocated previously single tariffs for electricity and heat set for a vertically integrated utility among OAO Mosenergo and spun-off entities.

Consequently, there was no need to perform an impairment testing in respect of 2004 and 2005 recoverable amounts of property, plant and equipment.

(b) Non-cash transactions

Non-cash transactions during the year were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
PPE additions	1 745	4 971

Non-cash PPE additions – as a part of a general city restructuring plan, elements of the Group's property, plant and equipment were removed and replaced during the year. The cost of removing existing PPE is met by the local government and its subcontractors, with the replacing PPE being transferred to the Group on its completion.

(c) Operating leases

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

Operating lease rentals are payable as follows:

	31 December 2005
Less than one year	253
Between one and five years	1 315
More than five years	7 466
	9 034

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 to 45 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

(in millions of Russian Roubles)

6 Investments in associates

The Group has the following investments in an associate:

	Country	Ownership/Voting
OOO KB Transinvestbank	Russia	24.6%

The following is summarised financial information, in aggregate, in respect of associates:

	31 December 2005
Assets	5 403
Liabilities	(4 069)
Total equity	**1 334**

Retained earnings at 1 January 2005	906
Net profit for the year 2005	428
Retained earnings at 31 December 2005	**1 334**

Revenues for the year 2005	1 284
Expenses for the year 2005	(856)

OOO KB Transinvestbank was consolidated into the financial statements of OAO Mosenergo until 1 April 2005 (see Note 23).

7 Other non-current assets

Other non-current assets are represented by the following:

	31 December 2005	31 December 2004
Long-term trade receivables (net of provision of nil as at 31 December 2005 and of RR 108 in 2004)	55	230
Advances to contractors	17	1 162
Available-for-sale investments	10	67
Other	-	2 007
	82	**3 466**

The advance to Moscapstroy amounting to RR 814 as at 31 December 2004 was transferred during restructuring. Other non-current assets included assets related to the disposed subsidiary (see Note 23) in the amount of RR 1 720 including investments held-to-maturity of RR 1 460.

(in millions of Russian Roubles)

8 Inventories

	31 December 2005	31 December 2004
Fuel production stocks	1 945	2 608
Materials and supplies	951	1 344
Other inventories	70	936
	2 966	**4 888**

Materials and supplies are shown net of a provision for obsolete inventory and an adjustment for slow-moving inventory of RR 129 as at 31 December 2005 and RR 413 as at 31 December 2004.

9 Other current assets

	31 December 2005	31 December 2004
Assets constructed under financing from Moscow Government (see Note 16)	523	1 992
Other current assets	156	1 520
	679	**3 512**

10 Accounts receivable and prepayments

	31 December 2005	As restated (see Note 2(a)) 31 December 2004
Trade receivables (Net of provision for impairment of receivables of RR 1 316 as at 31.12.2005 and RR 2 954 as at 31.12.2004)	3 826	3 496
Value Added Tax recoverable	1 007	2 652
Advances to suppliers and prepayments	521	1 027
Tax prepayments (other than current profit tax prepayments)	384	791
Receivables from associate	23	-
Other receivables (Net of provision for impairment of receivables of nil as at 31.12.2005 and RR 334 as at 31.12.2004)	189	415
	5 950	**8 381**

Management has determined the allowance for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 17-19 percent have been used in the estimate of fair value of future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Group believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates their fair value.

(in millions of Russian Roubles)

11 Cash and cash equivalents

	31 December 2005	31 December 2004
Cash at bank and in hand	2 373	6 251
Foreign currency bank accounts	10	9
Cash and cash equivalents	2 383	6 260

Cash and cash equivalents balances do not include balances on special accounts in OAO ABN AMRO bank and OAO KB Citibank in the aggregate amounts of RR 156 and RR 149 as at 31 December 2005 and 31 December 2004 respectively. Such balances are allotted for the purpose of repayment of principal amount of a debt and interest on EBRD and IFC loans. Such balances are classified within other current assets.

12 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares	Ordinary shares
	31 December 2005	31 December 2004
Authorised shares	28 249 359 700	28 249 359 700
Par value (in Russian Roubles)	1.00	1.00

As of 31 December 2005 and 31 December 2004 all shares have been issued and fully paid.

The carrying amount of share capital has been adjusted to take into account the effects of hyperinflation that existed in Russian Federation until the end of 2002.

(b) Treasury shares

At 31 December 2004 OOO KB Transinvestbank, a 72% owned subsidiary of OAO Mosenergo owned 0.018 % of the ordinary shares of OAO Mosenergo. Treasury shares as at 31 December 2004 represented 5 074 526 ordinary shares.

During 2005 the investment in OOO KB Transinvestbank was reduced and recorded as an investment in associate as at 31 December 2005. Accordingly the shares of OAO Mosenergo held by OOO KB Transinvestbank are no longer treated as treasury shares.

(c) Dividends

A decision in respect of the payment of dividends following OAO Mosenergo's 2004 results was taken on 30 June 2005. The amount of declared (accrued) dividends on the issuer's shares was 0.0221 Russian Roubles per share, total amount of dividends is RR 624.

In accordance with Russian legislation OAO Mosenergo's distributable reserves are limited to the balance of accumulated retained earnings as recorded in OAO Mosenergo's statutory financial statements prepared in accordance with Russian Accounting Principles. As of 31 December 2005 OAO Mosenergo had distributable reserves of RR 10 369.

(in millions of Russian Roubles)

13 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	Currency	Effective interest rate	31 December 2005	31 December 2004
Alfa Bank	RR	11,75%	-	1 500
Gazprombank	RR	9,5%	6 350	-
Eurofinance	RR	11.75%	1 300	1 300
Russian Commercial Bank	RR	10%	600	-
Bank of Moscow	RR	13.25%	-	2 100
Vneshtorgbank	RR	12.67%	-	4 520
IFC	USD	LIBOR + 3.5%	366	468
EBRD	USD	LIBOR + 3.5%	291	312
EBRD	USD	LIBOR + 3.5%	907	1 260
RAO UES of Russia	RR	10%	-	646
			9 814	**12 106**

Except as otherwise noted, the majority if the above bank debt is obtained at fixed interest rates.

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

The Group has not entered into any hedging arrangements in respect of its foreign currency obligation or interest rate exposure.

At the balance sheet date, the estimated fair value of total debt was RR 9 809 (31 December 2004 - RR 12 061), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

EBRD and IFC loans. These loans were obtained in April 1998 to finance construction of Zagorsky GAES. Loans from EBRD and IFC were received under non-revolving line of credit agreements (loan amount not to exceed USD 50 million in total). The full amount available under the agreements had been provided to the Group by 31 March 2001. OAO Mosenergo is required to make 18 principal payments on a semi-annual basis, beginning 15 January 2001. Interest is payable at the same time as the principal.

Certain equipment with net book value of RR 501 of one of OAO Mosenergo's principal operating units is pledged as collateral for the loans.

In August 2002 OAO Mosenergo obtained a loan from EBRD under a non-revolving line of credit for the amount of USD 70 million. OAO Mosenergo is required to make 10 principal payments semi-annually, beginning 28 May 2003. Interest is payable at the same time as the principal.

As of 31 December 2004 and 31 December 2005 OAO Mosenergo did not comply with liquidity requirements as stated in loan agreements with the EBRD and IFC. These breaches give the EBRD and IFC the right to demand immediate repayment of the loans. Therefore, in accordance with IFRS 32, these loans were reclassified to current debt at the balance sheet date. OAO Mosenergo's liquidity has subsequently been improved following the issuance of bonds in April 2006 (see Note 24) and no liquidity breaches exist as of the date of issuing these Financial Statements.

The loans from the Bank of Moscow are secured by fuel inventory in the amount of RR 1 350 and promissory notes in the amount of RR 2 413.

No collateral was provided for the loans from Gazprombank, Eurofinance and Russian Commercial Bank.

(in millions of Russian Roubles)

14 Profit tax

(a) Profit tax expense

The Group's applicable tax rate is the corporate income tax rate of 24% (2004: 24%).

	Year ended 31 December 2005	As restated (see Note 2(a)) Year ended 31 December 2004
Current profit tax charge	(1 032)	(2 771)
Deferred profit tax benefit	207	876
	(825)	**(1 895)**

Profit before tax for the financial reporting purposes is reconciled to the profit tax as follows:

	Year ended 31 December 2005	As restated (see Note 2(a)) Year ended 31 December 2004
Profit before tax	**566**	**3 753**
Profit tax expense at applicable tax rate	(136)	(901)
Non-deductible/non-taxable items	(614)	(852)
Other effects	(75)	(142)
	(825)	**(1 895)**

(b) Deferred profit tax

(i) Recognised deferred tax assets and liabilities

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

(ii) Movement in temporary differences during the period

	As restated (see Note 2(a)) 31 December 2004	Recognised income	Spin-off	31 December 2005
Property, plant and equipment	(9 525)	452	4 648	(4 425)
Trade and other receivables	1 039	(577)	(400)	62
Other	104	332	(66)	370
	(8 382)	**207**	**4 182**	**(3 993)**

15 Earnings per share

The calculation of earnings per share is the net profit for the year period divided by the weighted average number of ordinary shares outstanding during the period, calculated as shown below. OAO Mosenergo does not have dilutive potential ordinary shares.

In thousands of shares	**Year ended 31 December 2005**	**As restated (see Note 2(a)) Year ended 31 December 2004**
Weighted average number of ordinary shares outstanding	28 249 360	28 261 604
Adjustment for weighted average number of treasury shares	(1 301)	(1 891)
Weighted average number of ordinary shares at 31 December	28 248 059	28 259 713
Net (loss)/profit attributable to the shareholders of OAO for the year	**(289)**	**1 762**
Weighted average (loss)/earnings per ordinary share – basic and diluted, Russian Rouble	(0.01)	0.06

16 Accounts payable and accrued charges

	31 December 2005	**31 December 2004**
Trade payables	2 508	4 031
Financing from Moscow Government	523	1 992
Accrued liabilities and other creditors	2 012	6 237
	5 043	**12 260**

Financing from the Moscow government relates to the funds received by the Group, on a return basis, as a contribution by the Moscow government towards the construction of distribution and heating network assets. Repayment terms stipulated that certain assets (as provided by further agreements), upon their completion, will be transferred to the Moscow government in the settlement of the above liability. During the year network assets of RR 1 469 were transferred to the Moscow government.

Accrued liabilities and other creditors included liabilities of RR 3 673 as at 31 December 2004 related to the disposed subsidiary (see Note 23).

17 Other taxes payable

	31 December 2005	**31 December 2004**
VAT payable	1 404	3 072
Property tax	192	77
Employee taxes payable	183	102
Other taxes payable	89	117
	1 868	**3 368**

(in millions of Russian Roubles)

18 Financial expenses

	Year ended 31 December 2005	Year ended 31 December 2004
Interest expense	1 066	1 374
Foreign exchange loss/(gain)	59	(125)
	1 125	**1 249**

19 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not have a risk policy to hedge its financial exposures.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of taking new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The largest part of the Group's current debt is at fixed rates (see Note 13).

(c) Foreign currency risk

The Group incurs foreign currency risk on borrowings that are denominated in a currency other than the Russian Rouble. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

(d) Fair values

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

20 Commitments

(a) Fuel commitments

The Group has a number of outstanding fuel contracts. Gas supplies are mostly received from OOO Mezhregiongas, a subsidiary of OAO Gazprom. The gas is supplied under a framework agreement, which was entered into during 2003 and extends until 2007. The quantity of gas to be supplied each period is determined annually based on minimum requirements on fuel inventory level set by RAO UES of Russia. The purchase price of gas in the contract is fixed at the level determined by the Government.

(b) Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the construction, development and maintenance of housing, hospitals, recreation and other social needs in the geographical areas in which it operates.

(c) Capital commitments

Future capital expenditure for which contracts have been signed amounted to RR 1 016 at 31 December 2005 (at 31 December 2004: RR 4 476).

21 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group 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 Group's property or relating to Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

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

In May 2005 a major failure occurred in the Moscow energy system, resulting in power outages in the city of Moscow, and the Moscow, Tula, Kaluga and Ryazan regions. A special task force, formed by RAO UES of Russia and various governmental bodies, is conducting an investigation into the causes of the failure. It is possible that the power consumers may call for reimbursement of alleged damages incurred as a result of the outages.

During the year a number of customers introduced claims to court against OAO Mosenergo concerning these power outages. The court has refused to consider these cases because from 1 April 2005 the activity of energy supply became the responsibility of OAO Mosenergosbyt. As a result, OAO Mosenergosbyt was recognized as the defendant for all claims concerning power outages.

As of the date of issuing these consolidated financial statements management believes that it has adequately provided for all significant potential losses that may result from any such claims being asserted and contested.

(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.

(in millions of Russian Roubles)

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. 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.

On 21 September 2005, OAO Mosenergo was informed by the Interregional Tax Inspectorate that it may be liable for additional taxes on the basis that the subscription fees paid to RAO UES of Russia, SO-CDU and FGC for managing the transmission of electricity, dispatch functions and for development of the Unified Energy System's strategy constitute financial aid, since the same services are provided by divisions of OAO Mosenergo, and that expenses have been overstated by the amounts of abnormal losses of electricity dispatched, etc.

No disclosure has been made in respect of the possible financial effect of potential claims or disputes on these matters, as to do so might prejudice seriously the position of the Group.

OAO Mosenergo will appeal against the decision of Tax Inspectorate and believes that probability of additional tax charges is low. Accordingly no provision has been recognised in these consolidated financial statements.

(d) Environmental contingencies

The Group and its predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group periodically evaluate its obligations under environmental regulations. Potential liabilities might arise as a result of changes in 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.

22 Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

(a) Parent

RAO UES of Russia owns 50.9% of the ordinary voting shares of OAO Mosenergo and has effective control over the Group's operations. RAO UES of Russia charges the Group a subscription fee at the tariffs approved by the FST, for the use of the electricity grids.

The Russian Government is the ultimate controlling party of the Group, owning 52.6 % of RAO UES of Russia.

Transactions and balances with the Parent company for the year were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Transactions with RAO UES of Russia		
Subscription fee	(1,604)	(2,620)
Settlement on loan obtained from RAO UES of Russia	(646)	583
	(2,250)	**(2,037)**

(in millions of Russian Roubles)

	Year ended 31 December 2005	Year ended 31 December 2004
Balances with RAO UES of Russia		
Loans and borrowings from RAO UES of Russia	-	(646)
	-	(646)

(b) Transactions with associates

During the year ended 31 December 2005 Mosenergo determined that the control over Transinvestbank no longer exists due to dilution of Mosenergo's share. Mosenergo exercises significant influence over Transinvestbank therefore, as at 31 December 2005 the investment in Transinvestbank has been accounted for as an investment in an associate.

During the year ended 31 December 2005 Mosenergo had transactions with Transinvestbank amounting to RR 629.

As at 31 December 2005 Mosenergo has Accounts receivable from Transinvestbank amounting to RR 23 (see Note 10).

(c) Transactions with management and close family members

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

Total remuneration in the form of salary paid to the members of the Board of Directors and Management Board for the year ended 31 December 2005 was RR 167 (for the year ended 31 December 2004 – RR 98).

(d) Transactions with other related parties

Energos. Prior to 1 April 2005 sales to and purchases from the national grids are contracted with electric and heat companies (Energos) through the SO-CDU (a subsidiary of RAO UES of Russia) at the established and regulated tariffs. Most of the electric and heat companies (Energos) are subsidiaries of RAO UES of Russia.

OAO Mosenergosbyt. From 1 April 2005, OAO Mosenergo no longer sells electricity and heat to Energos on FOREM. Electricity and heat sales are conducted with OAO Mosenergosbyt, which was spun off and sells the energy to customers and performs operations on FOREM.

Purchases from OAO Mosenergosbyt represent purchases of electricity for own use.

OAO Leader. At the end of 2003, OAO Mosenergo concluded insurance contracts for 2004 with an insurance company, Leader, which is a 100% owned subsidiary of RAO UES of Russia.

Transactions with other related parties for the year were as follows:

	Year ended 31 December 2005	Year ended 31 December 2004
Subscription fee		
SO-CDU	-	(2 198)
Federal Grid Company	-	(694)
FOREM transactions		
Electricity purchases	(3 064)	(4 165)
Electricity sales	-	14
Mosenergosbyt transactions		
Electricity purchases	(77)	-
Electricity sales	19 899	-

(in millions of Russian Roubles)

	Year ended 31 December 2005	Year ended 31 December 2004
Moscow heating network company transactions		
Purchases of heat transmission services	(5 419)	-
Heating sales	1 061	-
Rent	291	-
Other		
Settlements with insurance company Leader	-	(1 198)
	12 691	**(8 241)**

Balances with other related parties at the end of the period were as follows:

	31 December 2005	31 December 2004
Subscription fee		
SO-CDU	-	(61)
Federal Grid Company	-	(65)
FOREM transactions		
Advances/(Accounts payable) – Electricity purchases	27	(428)
Accounts receivable – Electricity sales	-	452
Accounts receivable from Mosenergosbyt		
Electricity sales	659	-
Accounts payable to Moscow heating network company		
Purchases of heat transmission services	(131)	-
Other		
Accounts payable to insurance company Leader	-	(49)
	555	**(151)**

(e) State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control, including RAO UES of Russia and its subsidiaries, Gazprom, Russian railways, state-controlled banks and various governmental bodies. Some of these entities control the Group (RAO UES of Russia), are under common control with the Group (subsidiaries of RAO UES of Russia, including spun off entities) or have significant influence over the Group (Gazprom).

Prices for natural gas, electricity, heat and other regulated services (provided by natural monopolies) are based on tariffs set by FST and RECs. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

Transactions and balances with the parent company RAO UES of Russia are disclosed in Note 22(a), with its subsidiaries and spun off entities – in Note 22(d)

Tax balances are disclosed in Note 14. Tax transactions are disclosed in the statement of operations. Current borrowings include loans from state-controlled entities of RR 6 350 and RR 4 500 as of 31 December 2005 and 31 December 2004, respectively.

It was not practicable for the Group (especially following the spin off completed on 1 April 2005) to present information in respect of transactions and balances with other state-controlled entities for the reporting and comparative periods.

(in millions of Russian Roubles)

23 Significant subsidiaries

	Country of incorporation	Ownership/voting 31 December 2005	Ownership/voting 31 December 2004
OOO KB Transinvestbank	Russian Federation	24.6%	72.0%
Mosenergo Finance B.V.	Netherlands	100%	100%
ZAO Energo-consult	Russian Federation	100%	100%
OOO Promishlennoe predpriyatie EPA	Russian Federation	100%	100%
ZAO Energoinvest ME	Russian Federation	90%	90%

During the year OOO KB Transinvestbank issued additional share capital, diluting the proportion held by OAO Mosenergo by 24.2%. In addition, Mosenergo sold shares of OOO KB Transinvestbank representing 23.2% of the voting interest for RR 119.

The investment in OOO KB Transinvestbank is accounted for as an associate of the Group and recorded under the equity method of accounting as the Group has significant influence over the operations of the bank.

The disposal of OOO KB Transinvestbank had the following effect on the Group's assets and liabilities:

Other non-current assets	1 720
Trade and other receivables	49
Other current assets	1 498
Cash and cash equivalents	1 415
Trade and other payables	(3 673)
Net identifiable assets and liabilities	**1 009**
Less: Minority share in net assets	(303)
Net assets of entity	**706**
Loss on sale	(338)
Recognition of associate share in net assets	(249)
Total consideration received	**119**
Cash disposed of	(1 415)
Net cash outflow on the disposal	**1 296**

24 Events subsequent to the balance sheet date

On 23 December 2005 the Group concluded the agreement with EBRR to open a credit line in the total amount of RR 7 200 for more than 10 years. The first tranche was received on 21 March 2006 in amount of RR 300. The loan was obtained for the purchase of additional equipment for the Group. The loan interest on loans is determined on Mosprime plus basis.

According to the Loan Agreement the payment of interest on the loan will be carried out on the monthly basis, and the principal amount is to be repaid upon maturity.

On 2 March 2006 the placement of OAO Mosenergo's 5 000 000 unconvertible fixed interest rate bearing bonds took place through underwriter Gazprombank on the trading floor of Moscow Interbank Currency Exchange. The total amount of placement equaled RR 5 billion. The face value of each bond is RR 1 000, term of maturity 5 years. The interest of 7.65% will be paid to the bond holders semiannually. OAO Mosenergo also registered another issue of bonds with the same face value and maturity of 10 years. The placement of these bonds is still pending as of the date of the authorization of these financial statements. The bonds may become subject for early redemption only upon the decision of the issuer to grant such option to the bond holders. The main purpose of bond issues is to refinance short-term bank loans.

On 31 March 2006 OAO Mosenergo signed an Agreement with OAO "Siloviye Mashini" on the acquisition of equipment (gas turbine, turbogenerator and accompanying parts), and services for the assembly of the above equipment and providing training to the Mosenergo staff on the use of the equipment. The cost of the equipment as mentioned in the Agreement is RR 943 net of VAT. According to the Agreement the supply of equipment must be completed by June 2007. The first two advance payments of 50% and 20% of the total amount of the Agreement are to be made by Mosenergo on 5 April 2006 and 15 July 2006 accordingly. The remaining portion will be paid based on the agreed stages of supply of the equipment.

The Board of Directors of OAO Mosenergo recommended a dividend of 0.01607 Russian Roubles per share on 17 April 2006. The total amount of dividends proposed is RR 454. The proposed dividend will be approved by the OAO Mosenergo shareholders general meeting on 26 May 2006.