"OGK-4" Group

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

"OGK-4" Group
Consolidated Balance Sheet as at 31 December 2005
(in thousands of Russian Roubles)

	Note	31 December 2005	31 December 2004 (Unaudited)
ASSETS			
Non-current assets			
Property, plant and equipment	8	5,660,702	5,788,714
Intangible assets		71,020	35,963
Investments in associates		36	36
Other non-current assets	9	53,966	23,548
Total non-current assets		**5,785,724**	**5,848,261**
Current assets			
Cash in bank and in hand		68,002	15,493
Accounts receivables and prepayments	11	434,385	398,218
Inventories	10	274,003	222,566
Other current assets		986	225
Total current assets		**777,376**	**636,502**
TOTAL ASSETS		**6,563,100**	**6,484,763**
EOUITY AND LIABILITIES			
Equity			
Share capital			
Ordinary shares (Nominal value RR 8 210 831 thousand)	12	8,210,831	8,210,831
Unpaid share capital		-	(20,500)
Merger reserve	12	(3,669,541)	(3,669,541)
Retained earnings		388,742	237,615
Total equity attributable to the shareholders of JSC "OGK-4"		**4,930,032**	**4,758,405**
Non-current liabilities			
Deferred profit tax liabilities	17	741,514	961,877
Non-current debt	13	49,779	71,437
Other non-current liabilities	18	65,916	242,153
Total non-current liabilities		**857,209**	**1,275,467**
Current liabilities			
Current debt and current portion of non-current debt	14	120,223	42,517
Accounts payable and accruals	15	468,524	244,483
Taxes payable	16	187,112	163,891
Total current liabilities		**775,859**	**450,891**
Total liabilities		**1,633,068**	**1,726,358**
TOTAL EQUITY AND LIABILITIES		**6,563,100**	**6,484,763**

Chairman of the Management Board A.V. Kitashev

Deputy Director General for Finance and Economics R.N. Lenkov

18 October 2006

(in thousands of Russian Roubles)

	Note	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Revenues	19	3,071,166	2,718,318
Other operating income		51,287	131,914
Operating expenses	20	(3,002,406)	(2,562,973)
Operating profit		**120,047**	**287,259**
Net finance costs	21	(35,545)	(24,267)
Profit before tax		**84,502**	**262,992**
Total tax benefit	17	71,031	26,892
Profit for the year		**155,533**	**289,884**
Earnings per ordinary share - basic and diluted (in Russian Roubles)	**7**	**0.019**	**0.035**

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18 October 2006

"OGK-4" Group
Consolidated Cash Flow Statement for the year ended 31 December 2005
(in thousands of Russian Roubles)

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit before tax	**84,502**	**262,992**
Adjustments for non-cash items:		
Depreciation (including impairment of property, plant, and equipment)	308,565	292,442
Doubtful debtors expense	44,153	39,796
Provision for obsolete stock	15,736	-
Interest expense	36,482	24,267
Forgiveness of restructured profit tax liability	(33,521)	(131,914)
Loss on disposal of property, plant and equipment	15,859	10,579
Adjustments for other non-cash investing activities	(937)	11,584
Operating cash flows before working capital changes and profit tax paid	**470,839**	**509,746**
Working capital changes:		
(Increase) / decrease in accounts receivable and prepayments	(117,448)	147,657
(Increase) / decrease in inventories	(67,173)	73,072
Increase in other current assets	(761)	-
Increase / (decrease) in accounts payable and accrued charges	211,804	(461,560)
Increase / (decrease) taxes payable other than profits tax	30,132	(50,206)
Increase / (decrease) in other non-current liabilities	(128,479)	110,745
Profit tax paid	(156,243)	(173,296)
Net cash generated from operating activities	**242,671**	**156,158**
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(162,124)	(163,265)
Proceeds from sale of property, plant and equipment	7,186	2,442
Purchase of other non-current assets	(35,057)	-
Purchases of investments	-	2,382
Interest received	937	-
Net cash used for investing activities	**(189,058)**	**(158,441)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowing	655,009	868,102
Repayment of short-term debt	(615,358)	(838,527)
Repayment of financial lease	(5,367)	-
Interest paid	(36,482)	(19,207)
Dividends paid	(19,406)	(37,269)
Proceeds from share issuance	20,500	-
Net cash used for financing activities	**(1,104)**	**(26,901)**
(Decrease) / increase in cash in bank and in hand	**52,509**	**(29,184)**
Cash in bank and in hand at the beginning of the year	15,493	44,677
Cash in bank and in hand at the end of the year	68,002	15,493

Chairman of the Management Board — A.V. Kitashev

Deputy Director General for Finance and Economics — R.N. Lenkov

18 October 2006

(in thousands of Russian Roubles)

	Ordinary share capital	Unpaid share capital	Merger reserve	Retained Earnings	Total equity attributable to the shareholders of JSC "OGK-4"
At 1 January 2004 (Unaudited)	8	(20,500)	(3,669,541)	-	4,520,790
Profit for the year	-	-	-	289,884	289,884
Dividends	-	-	-	(52,269)	(52,269)
At 31 December 2004 (Unaudited)	8	(20,500)	(3,669,541)	237,615	4,758,405
Payment of share capital	-	20,500	-	-	20,500
Profit for the year	-	-	-	155,533	155,533
Dividends	-	-	-	(4,406)	(4,406)
At 31 December 2005	8	-	(3,669,541)	388,742	4,930,032

Chairman of the Management Board A.V. Kitashev

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18 October 2006

Note 1. The Group and its operations

Open Joint-Stock Company "Fourth Wholesale Generating Company" (hereinafter referred to as JSC "OGK-4" or the Company) was established as a wholly-owned subsidiary of the Open Joint-Stock Company RAO "UES of Russia" on 04 March 2005.

The registered office of the Company is at Surgutskaya GRES-2, Surgut, Khanty-Mansiysk Autonomous Area - Yugra, Tyumen region, Russian Federation.

JSC "OGK-4" and its subsidiaries form the "OGK-4" Group (hereinafter referred to as "Group"). The main subsidiaries are listed in Note 5.

The number of employees of the Group as of 31 December 2005 and 31 December 2004 was 1,770 and 1,821 accordingly.

The Group performs its activity only in the Generation operating segment, i.e. generation of electric and heat energy.

The principal place of the Group's activities – Central Russia and Krasnoyarsk region.

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, 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.

Relations with the state and current regulation

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

The Government of the Russian Federation directly affects the Group's operations through regulating by the Federal Service on Tariffs ("FST"), with respect to their wholesale energy sales, and through regulating by the regional services on tariffs ("RSTs"), with respect to retail electricity and heating sales.

Tariffs which the Group may charge for sales of electricity are governed by regulations specific to the electricity industry and by regulations applicable to natural monopolies.

As described above, the government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring

The Russian electric utilities industry in general and the Group in particular are in the process of restructuring designed to introduce competition into the electricity sector and to create an environment where electric entities can raise the capital required to maintain and expand their generating capacity.

The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No.35-FZ of 26 March 2003 "On Electric Utilities" and Federal Law No.36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period" and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation" ("Federal Law No.36-FZ"). In March 2006 changes to the Federal Law No.36-FZ of 26 March 2003 were made which cancelled the moratorium on combining competitive and monopoly types of activities in the electric utility industry.

Note 1. The Group and its operations (continued)

On 29 May 2003, the Board of Directors of RAO "UES of Russia" approved a "Concept of RAO UES 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 the Holding Company RAO UES" and "Generating companies of the Wholesale Electricity Market ("WGCs")". These documents provide a detailed description of the major changes that are planned to take place in the Group during the electric utilities reform program.

In early September 2003, the Russian Federation Government issued Resolution No. 1254-r which approved the structure of Wholesale generating companies ("WGCs"). In October 2004, Resolution of the Russian Federation Government No. 1367-r amended the structure of the WGCs. Under the Resolutions, 7 generating companies (6 companies based on thermal generating power plants and 1 company based on hydro generating power plants), which will include the power plants owned by RAO UES and its subsidiaries, are to be established.

In October 2003, the Russian Federation Government issued Resolution No. 643 "On the Rules for the Wholesale Electricity (Power) Market during the Transition Period". According to the rules adopted, there will be two sectors within the Federal Wholesale Electricity (Power) Market: regulated trading sector and free trading sector. Within the free trading sector, electricity suppliers will be able to sell electricity generated with the use of facilities and equipment accounting for 15 percent of their working capacity. Since November 2003, the non-commercial partnership "Trade System Administrator of the Wholesale Electricity Market", in accordance with the rules for the wholesale electricity (power) market during the transition period, has been holding electricity bidding in the free trading sector, the European part of Russia and the Ural. Starting from May 2005, the free trading sector was extended to include Siberia, and starting from October 2005, a balancing market was put in operation. According to the laws underlying the electric utilities reform, subsequently free trading will be extended over the whole volume of trading.

At this time, the impact of the industry changes on both the financial results and position of the Group cannot be readily assessed because the specific, detailed mechanisms to effect the restructuring are still being determined.

Accordingly, no provision has been recognised for the effects of the restructuring process.

Group establishing and restructuring

According to the Resolution No. 1254-r which approved the structure of Wholesale generating companies ("WGCs"), JSC "OGK-4" should consist of the following power stations: JSC BGRES-1, JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya GRES and JSC Surgutskaya GRES-2. The above power stations are to be merged to JSC "OGK-4" and become its affiliates. As at 31 December 2005, the process of the Group formation and conversion to the unified share has not yet been completed.

JSC "OGK-4" was founded in 2005 by the sole shareholder (RAO UES) that made the following contributions to form the Company’s share capital:

- non-documentary ordinary shares of JSC BGRES-1, all in all 515,624,043 shares with the nominal value of 0.50 Russian Rouble,
- "A" type preference shares of JSC BGRES-1, all in all 161,272 shares with the nominal value of 0.50 Russian Rouble,
- cash funds in the amount of RR 20,500 thousand.

JSC Shaturskaya GRES-5 was created on 1 April 2005 as a result of reorganization of JSC "Mosenergo" by way of spinning-off. The principal founder and shareholder of the Company was RAO UES – 50.9%.

JSC Yajvinskaya GRES was established on 1 April 2005 as a result of reorganization of JSC Permenergo by way of spinning-off. The principal founder and shareholder of the Company was RAO UES – 64.36%.

JSC Smolenskaya GRES was created on 1 February 2005 as a result of reorganization of JSC Smolenskenergo by way of spinning-off. The principal founder and shareholder of the Company was RAO UES – 59.26%.

JSC Surgutskaya GRES-2 was created on 1 July 2005 as a result of reorganization of JSC Tumenenergo by way of spinning-off. The only founder and shareholder of the Company was RAO UES – 100%.

Note 1. The Group and its operations (continued)

On 1 July 2006 the companies JSC BGRES-1, JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya GRES and JSC Surgutskaya GRES-2 were merged to JSC "OGK-4" and become affiliates.

The main steps of the reforming process were as follows:

- On 23 December 2005, the Board of Directors of RAO UES, acting as extraordinary meeting of the Group shareholders approved the following decisions:
  - to reorganize the Group through merging JSC BGRES-1, JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES, JSC Smolenskaya GRES, JSC Surgutskaya GRES-2 to JSC "OGK-4";
  - to approve the agreements of affiliation (merging) of the power stations to JSC "OGK-4";
  - to declare additional issuance of 45,012,738,300 ordinary shares with the nominal value of 1 Russian Rouble, which is being used during converting the shares of power stations to the shares of JSC "OGK-4" according to the agreements of affiliations and on the basis of conversion ratios approved by the Board of Directors of RAO UES, listed below:

    Each one additional ordinary registered share of JSC "OGK-4" with the par value of 1 Russian rouble should be converted to:

    - 0.8588/13.6336 ordinary nominal shares of JSC BGRES-1,

    - 0.8588/96.1906 ordinary nominal shares of JSC Surgutskaya GRES-2,

    - 0.8588/11.2039 ordinary nominal shares of JSC Smolenskaya GRES,

    - 0.8588/10.2605 type "A" privileged shares of JSC Smolenskaya GRES,

    - 0.8588/0.1247 ordinary nominal shares of JSC Shaturskaya GRES-5,

    - 0.8588/56.0173 ordinary nominal shares of JSC Yajvinskaya GRES,

    - 0.8588/51.3006 type "A" privileged shares of JSC Yajvinskaya GRES.

In order to determine the conversion ratios of JSC "OGK-4" shares in regard to each power station to be merged to JSC "OGK-4", in the year 2005 the independent valuation of market value of each type of their shares was performed. The valuation was performed by the Cosmos Appraisal Consortium.

- On 12 January 2006, the agreement of affiliation of the power stations was signed.
- On 28 February 2006 the extraordinary meetings of the power stations' shareholders approved the decision of their reorganization through merging to JSC "OGK-4" and also approved the agreements of affiliation and the transference acts.
- On 22 May 2006 the joint meeting of the shareholders of the Group and the power stations approved Addendums to the Charter of JSC "OGK-4", providing for the succession of the JSC "OGK-4" for the rights and obligations of the power stations merging to it.
- On 13 June 2006 the Federal Service for financial markets of Russia registered the Resolution for additional issuance of JSC "OGK-4" shares (for the purpose of conversion of the power stations shares) and Offering Memorandums for the first and the additional issues of shares.
- On 1 July 2006 termination of activities of JSC BGRES-1, JSC Smolenskaya GRES, JSC Surgutskaya GRES-2, JSC Shaturskaya GRES-5, JSC Yajvinskaya GRES as legal entities and their merging to JSC "OGK-4" as affiliates was registered in the United State Register of Enterprises and Organizations of Russia.

Note 1. The Group and its operations (continued)

- On 1 July 2006 shares of JSC BGRES-1, JSC Smolenskaya GRES, JSC Surgutskaya GRES-2, JSC Shaturskaya GRES-5 and JSC Yajvinskaya GRES were converted to the shares of JSC "OGK-4". As the result the RAO UES's share in the Group Charter amounted to 89.6% whereas minority interest equaled to 10.4%. Minority shareholders of the power stations became minority shareholders of the "OGK-4" Group.

40 919 795 214 additional ordinary shares of JSC "OGK-4" with nominal value of 1 Russian Rouble per share were issued and fully paid on 1 July 2006. The Group share capital totaled to RR 49,130,626 thousand.

Thus, on 1 July 2006 a single generating company JSC "OGK-4" was established.

Note 2. Financial condition

As discussed above, the Group is significantly 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 thus some tariffs are insufficient to cover all the costs of generation. Moreover, these tariffs consider costs only on Russian statutory basis and, accordingly, exclude significant additional costs recognized under IFRS basis of accounting. As a result, tariffs often do not allow for an adequate return or provide sufficient funds for the full replacement of property, plant and equipment.

The Group continues to experience problems in obtaining settlement of old accounts receivable. The Group's management has significantly improved the absolute level of settlements of current sales; currently substantially all settlements of accounts receivable are made in cash. Despite the achieved successes, there still remains a significant level of uncollectible accounts receivable for current and earlier periods. The current regulations provide for termination of delivery of services to debtors, however, only to a certain extent because of strategic and political factors.

Management has continued efforts to improve the Group's financial position focus primarily on the following areas:

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

Management believes that these continuing efforts will result in improvements in the Group's profitability and liquidity, and the Group will be able to raise needed capital to sustain the business.

Note 3. Basis of preparation

Statement of compliance

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

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

Functional and presentation currency

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

Note 3. Basis of preparation (continued)

Predecessor Accounting

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

Inflation accounting

Non-monetary assets acquired and non-monetary liabilities incurred or assumed prior to 1 January 2003 have been adjusted 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 amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

New accounting developments

During the period December 2003 to September 2006, the International Accounting Standards Board ("IASB") made 26 revisions to its standards and issued 7 new standards. In addition, the International Financial Reporting Interpretations Committee ("IFRIC") issued ten new interpretations, one of which was subsequently withdrawn. These new IFRSs are effective for the accounting periods commencing on or after 1 January 2005, except for IFRS 6 "Exploration and Evaluation of Mineral Resources" and IFRS 7 "Financial Instruments: Disclosures".

Effective 1 January 2005 the Group adopted all of those IFRS, which are relevant to its operations, and were in force for the reporting year.

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

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.
- IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure 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 recognize actuarial gains and losses arising in post-employment benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employees.
- 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.

Note 3. Basis of preparation (continued)

- Amendment to IAS 21 "Net Investment in a Foreign Operation", which is effective for annual periods beginning on or after 1 January 2006. This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognized in consolidated profit or loss. It also extends the definition of net investment in a foreign operation to include loans between sister companies.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – 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", is effective for annual periods beginning on or after 1 January 2006. The amendment allows hedge accounting for the foreign currency risk of a highly probable forecast intragroup transaction which is denominated in a currency other than the functional currency of the entities entering into that transaction and if the foreign currency risk will affect consolidated profit or loss.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee contract", which is effective for annual periods beginning on or after 1 January 2006. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognizing of financial assets or result in continuing involvement accounting.
- 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).

Note 3. Basis of preparation (continued)

- 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 contract. Only if the contract subsequently is significantly modified the entity reassesses whether to separate or not.
- IFRIC 10 "Interim Financial Reporting and Impairment" which is effective for periods beginning on or after 1 November 2006, that is from 1 January 2007. The interpretation clarifies that an entity should not reverse an impairment loss recognised in a previous interim periods in respect of goodwill or an investment in a financial asset carried at cost.

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

Going concern

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

Critical accounting estimates and assumptions

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

Impairment provision for accounts receivable

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

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

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

Note 3. Basis of preparation (continued)

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.

Tax contingencies

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

Note 4. Summary of significant accounting policies

Principles of consolidation

The Financial Statements comprise the financial statements of OJSC "OGK-4" and the financial statements of those entities whose operations are controlled by OJSC "OGK-4". Control is presumed to exist when OJSC "OGK-4" controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, except for businesses that are transferred to the Group from parties under common control. Inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Transfers of subsidiaries from parties under common control

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

Property, plant and equipment

Basis to determine current value of property, plant and equipment

Property, plant and equipment are stated at depreciated costs. Deemed cost was initially determined by a third party valuation at 31 December 1997 and restated for the impact of inflation until 31 December 2002. Adjustments are made for additions, disposals and depreciation charges. 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.

Further acquisitions of property, plant and equipment are recognized at their actual value.

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

Note 4. Summary of significant accounting policies (continued)

Profit or loss from sale or other retirement of property, plant and equipment is defined as difference between sales proceeds and residual value and is recognized in the income statement.

Depreciation

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. For the property, plant and equipment which were subject to the third party valuation as at 31 December 1997, the depreciation rate applied is based on the estimated remaining useful lives as at the valuation date. The useful lives, in years by type of facility are as follows:

Electricity and heat generation	21-50
Electricity transmission	15 - 26
Heating network	11
Other	8

Useful life of property, plant and equipment is analyzed on a regular basis to ensure its compliance with previous assessments. Depreciation accrued for an accounting period is corrected properly, if necessary.

Intangible assets

Intangible assets are recognized at actual purchase cost, adjusted on subsequent disposal, amortisation and impairment.

Amortisation of intangible assets is calculated on a straight-line basis over the smallest of useful life or action of legal rights.

Inventory

Inventories are valued at the lower of acquisition cost and net realizable value. Acquisition cost of inventory is determined on the weighted average basis.

Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

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

Accounts receivable

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 recognized in amounts presented to contractors for payment and 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 and recoverable amount, being the present value of the expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Note 4. Summary of significant accounting policies (continued)

Accounts payable and accruals

Accounts payable are stated inclusive of value added tax. If accounts payable are restructured and the fair value of the restructured payable determined using the original effective interest rate differs by more than ten percent from the original liability, then the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Group at the date of the restructuring.

The amount of the discount is credited to the income statement (finance costs - net) as a gain on restructuring, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortized over the period of the restructuring as an interest expense.

Debt

Debt is recognized 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 amortized cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation. The Group follows IAS 23 "Borrowing Costs" of recognizing all borrowing costs in the period in which they are incurred.

Pension and post-employment benefits

The Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are accrued when incurred. Discretionary pensions and other post-employment benefits are included in wages, benefits, and payroll taxes in the income statement, however, separate disclosures are not provided as these costs are not material.

Income tax

The income tax expense represents the sum of the tax currently payable and deferred profit tax.

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

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

Deferred tax is not provided on the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiaries.

Revenue recognition

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

Note 4. Summary of significant accounting policies (continued)

Revenue and related VAT from the sales of electricity and the corresponding sums of the accounts receivable don't include the sum of balance and tariffs underpayment arisen from differences in tariffs at the Federal Wholesale Electricity Market (FOREM).

Finance leases

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

Dividends

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

Earnings per share

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

Environmental liabilities

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

Segment reporting

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

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

Minority interest

The minority interest in the Group subsidiaries equals to 1 ordinary share of the JSC Berezovskaya GRES-1. Due to its immateriality the minority interest is not reflected in the Group consolidated financial statements.

(in thousands of Russian Roubles)

Note 5. Group subsidiaries

The Group financial statements consolidate JSC BGRES-1 with its subsidiaries which are presented in the table below.

JSC BGRES-1 operates a power station located in Krasnoyarsk region. Installed electric capacity of the power station is 1500 MW and heat power is 960 Gigacalories (Gcal). By the year 2010 it is planned to have constructed and put into operation the third steam-power generating unit with capacity of 800 MW which allows sales increase by 4 641 mln. KWh per year.

Subsidiaries of JSC BGRES-1	Activity	Ownership, %	
		2005	2004
JSC "Transavto"	Transportation services	99.9	99.9
JSC "SMU"	Construction and assembling services	99.9	99.9
JSC "KATEKenergoremont"	Repairs services	99.9	99.9

In 2006 the Group's Board of Directors decided to sell its shares in JSC "Transavto", JSC "SMU" and JSC "KATEKenergoremont" (see Note 26).

As at 31 December 2005 the Group does not consolidate JSC Shaturskaya GRES-5, JSC Smolenskaya GRES, JSC Surgutskaya GRES-2, and JSC Yajvinskaya GRES as it does not have sufficient legal or actual control over them for IFRS consolidation purposes. RAO UES is the founder of above companies (the main and sole one), whereas the "OGK-4" Group as at 31 December 2005 performed the function of the sole executive body of the companies.

This can be explained by the fact that the structure of the "OGK-4" Group is currently being reformed and in 2006 the merge of above power stations to JSC "OGK-4" in form of production affiliates took place (see Note 1).

Note 6. Related parties

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 or 2004 are detailed below.

RAO UES is the only shareholder of the "OGK-4" Group and has a full control over the Group's activity. The Russian Government is the ultimate controlling party of the Group, owning 52.6 percent of RAO UES of Russia. Thus, the related parties of Group OGK-4 include RAO UES and its subsidiaries as well as other entities controlled by the State.

Other Entities controlled by the state

In the course of operating activity, the Group performs transactions with other entities controlled by the state. The prices for natural gas, electricity and heat are based on tariffs set by the Federal Service on Tariffs and Regional Service on Tariffs. Tax accruals and settlements are performed in accordance with Russian tax legislation.

The table below contains related party transactions for the periods ended 31 December 2005 and 31 December 2004 as well as balances of settlements with related parties as at 31 December 2005 and 31 December 2004.

(in thousands of Russian Roubles)

Note 6. Related parties (continued)

Transactions with the Parent's subsidiaries

	Revenue	
	Year ended 31 December 2005	**Year ended 31 December 2004 (Unaudited)**
	Electricity and heating	
JSC Arkhenergo	80,493	374,069
JSC Altajenergo	295,792	17,478
JSC Buryatenergo	174,742	50,419
JSC Krasnoyarskenergo	392,019	257,852
JSC Kuzbassenergo	132,398	263,639
JSC Novosibirskenergo	34,648	55,653
JSC Omskenergo	,23,715	9,251
JSC Tomskenergo	88,000	300,541
JSC Khakasenergo	14,605	2,708
JSC Tchita energo	190,850	240,565
JSC Tuvaenergo	13,876	18,897
JSC Arkhangelskaya sale company	22,189	-
JSC Tomskaya energy sale company	149,075	-
JSC Omskaya energy sale company	28,559	-
JSC Khakasenergosbit	67,713	-
JSC Krasnoyarskenergosbit	116,616	-
Total electricity	**1,825,290**	**1,591,072**
	Management services	
JSC Shaturskaya GRES-5	18,013	-
JSC Yajvinskaya GRES	7,908	-
JSC Smolenskaya GRES	7,031	-
JSC Surgutskaya GRES-2	69,711	-
Total management contracts	**102,663**	**-**
Total related parties	**1,927,953**	**1,591,072**

(in thousands of Russian Roubles)

Note 6. Related parties (continued)

Balances with the Parent and its subsidiaries

	Accounts receivables		Accounts payable	
	31 December 2005	**31 December 2004 (Unaudited)**	**31 December 2005**	**31 December 2004 (Unaudited)**
RAO UES	98,014	98,014	-	15,000
JSC Orelenergo	-	948	-	-
SC Kuzbasenergo	-	40,664	-	-
JSC Tivaenergo	26,762	19,199	-	-
JSC Novosibirskenergo	15,232	7,302	-	-
JSC Altajenergo	44,836	15,630	353	-
JSC Tchitaenergo	5,798	-	-	-
JSC Omskenergo	237	-	-	-
JSC Irkutskenergo	35,400	-	-	-
JSC Omskaya energy sale company	-	-	4,216	-
SC Buraytenergo	-	-	3,674	335
SC Arhenergo	-	-	-	147
JSC Yajvinskaya GRES	2,229	-	-	-
JSC Smolenskaya GRES	1,782	-	-	-
JSC Shaturskaya GRES-5	416	-	1,596	-
JSC Surgutskaya GRES-2	1,614	-	6,183	-
Total	**232,320**	**181,757**	**16,022**	**15,482**
Provision for doubtful debtors	**(2,865)**	**(2,865)**	**-**	**-**
TOTAL including the provision	**229,455**	**178,892**	**16,022**	**15,482**

As at 31 December 2005 and 31 December 2004 the Group had a liability to RAO UES with respect to dividends that were accrued but not paid in the amount of RR nil and RR 15,000 thousand respectively.

The Group has performed transactions with the other entities controlled by the state and has the following balances and totals in respect of these transactions:

	Accounts receivables		Accounts payable	
	31 December 2005	**31 December 2004 (Unaudited)**	**31 December 2005**	**31 December 2004 (Unaudited)**
NPP Vicont	313	-	-	-
NPO Measuring equipment	247	-	-	-
NPO Pribor GANG	158	-	-	-
GNIC Prophylactic medicine	829	-	-	-
Ural NII Geeology	118	-	-	-
NII Economics and energy	767	-	-	-
Academy of national economy under Russian Government	149	120	-	-
Post of Russia	140	370	-	-
Bank Agroimpulse	8,877	-	-	-
FSB of Russia	188	-	-	-
Sberbank RF	-	-	68,825	113,594
Other	657	402	-	-
Total	**12,443**	**892**	**68,825**	**113,594**

(in thousands of Russian Roubles)

Note 6. Related parties (continued)

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Sales of electricity and heating :	**54,852**	**59,000**
OVD Sharipovo	8,932	11,300
TKST	5,977	7,611
Hygiene center	3,914	2,031
GOU Federal registration service	6,723	8,673
KRASGASA	9,617	10,631
Social insurance fund	7,381	9,171
Interdistrict inspection of FTS №12	1,934	1,276
OVO attached to GOVD	3,718	4,679
RU FSB of Krasnoyarsk region	1,196	1,463
AGKOTiB	934	1,830
The center of the population employment	1,895	1
KACH	672	-
Other	1,959	334
Interest expenses	**4,161**	**5,791**
- SB RF	4,161	5,791

Directors' compensation

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

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

Key management received the following remuneration during the years ended 31 December 2005 and 31 December 2004:

	For the year ended 31 December 2005	For the year ended 31 December 2004 (Unaudited)
Salaries	8,500	9,520
Bonuses	10,841	12,216
Compensations	2,541	1,350
Other	698	499
TOTAL	**22,580**	**23,585**

The Group has no other compensation programs.

Note 7. Basic and diluted earnings per share

	For the year ended 31 December 2005	For the year ended 31 December 2004 (Unaudited)
Profit/(loss) for the year	155,533	289,884
Weighted average number of ordinary shares issued	8,210,830,759	8,210,830,759
Basic and diluted earnings per share (in Russian Roubles)	**0.019**	**0.035**

(in thousands of Russian Roubles)

Note 8. Property, plant and equipment

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Finance lease	Total
Cost							
Opening balance as at 31 December 2004 (Unaudited)	**6,389,176**	**248,007**	**304,624**	**690,557**	**1,111,264**	**-**	**8,743,628**
Additions	2,929	-	1,073	141,240	29,882	21,764	196,888
Transfers	73,934	365	14,550	(121,432)	32,583	-	-
Disposals	(6,112)	-	-	(3,585)	(16,884)	-	(26,581)
Closing balance as at 31 December 2005	**6,459,927**	**248,372**	**320,247**	**706,780**	**1,156,845**	**21,764**	**8,913,935**
Accumulated depreciation (including impairment)							
Opening balance as at 31 December 2004 (Unaudited)	**(2,374,154)**	**(49,047)**	**(83,511)**	**-**	**(448,202)**	**-**	**(2,954,914)**
Charge for the period	(161,228)	(8,131)	(15,622)	-	(121,529)	(2,055)	(308,565)
Disposals	2,412	-	-	-	7,834	-	10,246
Closing balance as at 31 December 2005	(2,532,970)	(57,178)	(99,133)	-	(561,897)	(2,055)	(3,253,233)
Net book value as at 31 December 2004 (Unaudited)	**4,015,022**	**198,960**	**221,113**	**690,557**	**663,062**	**-**	**5,788,714**
Net book value as at 31 December 2005	**3,926,957**	**191,194**	**221,114**	**706,780**	**594,948**	**19,709**	**5,660,702**

(in thousands of Russian Roubles)

Note 8. Property, plant and equipment (continued)

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Finance lease	Total
Cost							
Opening balance as at 31 December 2003 (Unaudited)	**6,193,612**	**248,007**	**277,264**	**923,493**	**99**		**8**
Additions	1,909	-	9,023	127,709	2		163
Transfers	200,828	-	18,337	(328,515)	10		-
Disposals	(7,173)	-	-	(32,130)	(1		(57
Closing balance as at 31 December 2004 (Unaudited)	**6 ,389,176**	**248,007**	**304,624**	**690,557**			**8**
Accumulated depreciation (including impairment)							
Opening balance as at 31 December 2003 (Unaudited)	**(2,240,426)**	**(40,923)**	**(68,963)**	**-**	**(34**		**(2**
Charge for the period	(155,658)	(8,124)	(14,548)	-	(11		(292
Disposals	21,930	-	-	-	1		36
Closing balance as at 31 December 2004 (Unaudited)	(2,374,154)	(49,047)	(83,511)	-	(44		(2
Net book value as at 31 December 2003 (Unaudited)	**3,953,186**	**207,084**	**208,301**	**923,493**	**64**		**5**
Net book value as at 31 December 2004 (Unaudited)	**4,015,022**	**198,960**	**221,113**	**690,557**	**66**		**5**

(in thousands of Russian Roubles)

Note 8. Property, plant and equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been available for use in production, including generating stations under construction.

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

Operating lease

The Group use land on which the Group's buildings and facilities are situated. The land is a property of local state authorities and the Group uses it on operating lease terms. Lease payments determined based on the lease agreements terms are as follows:

	As at 31 December 2005
From 1 to 2 years	16,846
From 2 to 5 years	32,121
More than 5 years	203,599
Total	**252,566**

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

Impairment

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

Cost and accumulated depreciation of transferred assets including the impairment provision were accepted by the Group as at the time of assets transfer from the Predecessor. Management assessed the adequacy of the existing impairment provision and concluded that an additional impairment charge is not required, as at 31 December 2005.

The impairment provision included in accumulated depreciation balance as at 31 December 2005 and 31 December 2004 was RR 1,130,772 thousand and RR 1,178,285 thousand, accordingly.

Assets, leased under finance lease, included in property, plant and equipment disclosure, represent furniture, computers and office equipment.

Note 9. Other non-current assets

	31 December 2005	31 December 2004 (Unaudited)
Non-current trade accounts receivable	10,760	-
Non-current accounts receivable from related parties	31,199	23,548
Non-current value added tax	12,007	-
Total	**53,966**	**23,548**

(in thousands of Russian Roubles)

Note 10. Inventories

	31 December 2005	31 December 2004 (Unaudited)
Fuel production costs	176,121	74,132
Other inventories	113,618	148,434
Provision for obsolete stock	(15,736)	-
Total	**274,003**	**222,566**

Certain part of inventories are provided as collateral (see note 14).

Note 11. Accounts receivable and prepayments

	31 December 2005	31 December 2004 (Unaudited)
Trade receivables (Net of allowance for doubtful debtors of RR 19,930 thousands as at 31 December 2005 and RR 11,763 thousands as at 31 December 2004)	271,644	218,593
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 7,754 thousand as at 31 December 2005 and RR 7,420 thousand as at 31 December 2004)	89,179	60,902
Other receivables (Net of allowance for doubtful debtors of RR 15,937 thousand as at 31 December 2005 and RR 16,279 thousand as at 31 December 2004)	29,037	82,449
Value added tax recoverable	43,561	36,274
Due from budget (excluding VAT)	964	-
Total	**434,385**	**398,218**

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. The management of the Group believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates their fair value.

In 2005 trade receivables for total amount of RR 14,043 thousand and other receivables for total amount of RR 21,951 thousand, which were not provided during prior periods were written off the balance sheet.

The above accounts receivable and prepayments included balances due from related parties (see Note 6).

(in thousands of Russian Roubles)

Note 12. Equity

The Group's share capital was registered on 4 March 2005. The issued number of ordinary shares is 8,210,830,760 with nominal value of 1 Russian Rouble per share.

The issued shares were paid partly in cash (RR 20,500 thousand) and partly by non-cash facilities represented by ordinary registered shares of JSC BGRES-1 (515,624,043 shares) with nominal value of 0.50 Russian Rouble per share and "A" type preference shares of JSC BGRES-1 (161,272 shares) with nominal value of 0.50 Russian Rouble per share.

According to the appraisals' estimate, the market value of the JSC BGRES-1 shares as at the time of the transfer was equal to RR 8,190,331 thousand. Because of the application of the predecessor accounting, the IFRS carrying value of the contributed assets was RR 4,520,790 thousand. The difference of RR 3,669,541 thousand between the nominal value of share capital paid and the IFRS carrying value of the contributed assets has been recorded as a merger reserve.

In accordance with the method applied to the formation of the Group (pooling of interest method), the Group's consolidated financial statements for the year ended 31 December 2005 and the year ended 31 December 2004 include the assets, liabilities, revenues and expenses of the Group entities as if the Group as it was as at 31 December 2005 had already been formed as at 1 January 2004.

On 23 December 2005 an Addendum to the Group's Charter has been introduced, and the Group declared additional issuance of 45,012,738,300 ordinary registered shares with the nominal value of 1 Russian Rouble. The Addendum was registered on 12 January 2006, and the Offering Memorandum for additional issuance was registered on 13 June 2006.

Thus, as at 31 December 2005 the number of authorized shares of the Group equaled to 53,223,569,060 shares.

Dividends

The annual statutory accounts of the parent company, JSC "OGK-4", form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit for the year.

Dividends for the 2005 approved by the Shareholders' Meeting were announced in 2006 (Minutes No. 220 as of 21 April 2006) and amounted to 0.01123 Russian Rouble per share, and totaled RR 92,208 thousand.

There were no dividends for 2004 as the JSC "OGK-4" did not exist.

Note 13. Non-current debt

Name	Currency	Effective interest rate, %	Due	31 December 2005	31 December 2004 (Unaudited)
Sberbank RF	RR	15%	2005-2008	68,825	71,437
Finance lease	RR		2006-2008	16,397	-
Total non-current debt				**85,222**	**71,437**
Less: current portion of non-current debt				(22,923)	-
Less: current portion of non-current finance lease				(12,520)	-
Total				**49,779**	**71,437**

(in thousands of Russian Roubles)

Note 13. Non-current debt (continued)

Maturity schedule for non-current debt** (**except for finance lease)	**31 December 2005**	**31 December 2004 (Unaudited)**
Maturity		
Under one year	22,923	2,612
From 1 to 2 years	22,923	22,923
From 2 to 5 years	22,979	45,902
Total	**68,825**	**71,437**

Maturity table for finance lease (discounted minimum lease payments)	**31 December 2005**	**31 December 2004 (Unaudited)**
Maturity		
Under one year	12,520	-
From 1 to 2 years	3,817	-
From 2 to 5 years	60	-
Total	**16,397**	**-**

Maturity table for finance lease (undiscounted minimum lease payments)	**31 December 2005**	**31 December 2004 (Unaudited)**
Maturity		
Under one year	13,626	-
From 1 to 2 years	3,983	-
From 2 to 5 years	61	-
Total	**17,670**	**-**

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

Long term loans issued to the Group by the Russian Sberbank were secured as at 31 December 2005 and as at 31 December 2004 by equipment totaling RR 168,600 and RR 168,600 thousand, accordantly, used as collateral.

At the balance sheet date, the estimated fair value of the non-current loan issued by the Russian Sberbank (including the current portion) was RR 69,537 thousand (31 December 2004: RR 71,795 thousand), which is estimated by discounting the future contractual cash flows at the estimated current interest rates available to the Group for similar financial instruments.

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

Name	**Currency**	**Effective interest rate, %**	**31 December 2005**	**31 December 2004 (Unaudited)**
Sberbank RF	RR	10,5%	-	42,517
AKB Kamabank	RR	11%	84,780	-
Current portion of non-current debt	RR		35,443	-
- debt	RR	15 %	22,923	**-**
- finance lease	RR		12,520	**-**
Total			**120,223**	**42,517**

(in thousands of Russian Roubles)

Note 14. Current debt and current portion of non-current debt (continued)

Short term loans issued to the Group were secured as at 31 December 2005 by inventories totaling RR 3,789 thousand (as at 31 December 2004 – RR 89,776 thousand) used as collateral.

Note 15. Accounts payable and accrued charges

	31 December 2005	31 December 2004 (Unaudited)
Trade payables	223,718	91,384
Accrued liabilities and other creditors	195,830	138,099
Provision for tax claims	48,976	-
Dividends payable	-	15,000
Total	**468,524**	**244,483**

Note 16. Taxes payable

	31 December 2005	31 December 2004 (Unaudited)
Value added tax	29,619	25,334
Fines and interest	-	17,627
Profit tax	6,839	35,424
Property tax	25,256	544
Employee taxes	13,201	10,318
Water tax	2,542	-
Deferred VAT	99,998	65,598
Other taxes	9,657	9,046
Total	**187,112**	**163,891**

The deferred VAT only becomes payable to the tax authorities when the underlying receivables balance is either recovered or forgiven.

Note 17. Profit tax

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Current profit tax charge	(149,332)	(126,770)
Deferred profit tax benefit	220,363	153,662
Total	**71,031**	**26,892**

(in thousands of Russian Roubles)

Note 17. Profit tax (continued)

Net profit before profit tax for financial reporting purposes is reconciled to theoretical profit tax (statutory profit tax rate – 24%) as follows:

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Profit before profit tax	**84,502**	**262,992**
Theoretical profit tax charge at an average statutory tax rate of 24 percent	(20,280)	(63,118)
Tax effect of items which are not deductible or taxable for taxation purposes	91,311	90,010
Total profit tax	**71,031**	**26,892**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of temporary differences that resulted in formation of deferred assets and liabilities is shown below:

Deferred tax assets	31 December 2005	Movement for the year recognized in the income statement	31 December 2004 (Unaudited)
Trade receivables	92,175	44,963	47,212
Inventories	4,971	4,971	-
Other assets	16,732	2,704	14,028
Non-current debt	930	930	-
Accounts payable and other accruals	31,500	31,500	-
Deferred tax assets as at year end	**146,307**	**85,067**	**61,240**

Deferred tax liabilities	31 December 2005	Movement for the year recognized in the income statement	31 December 2004 (Unaudited)
Property, plant and equipment	(887,821)	73,207	(961,028)
Restructured tax and penalty liability	-	62,089	(62,089)
Deferred tax liabilities as at year end	**(887,821)**	**135,296**	**(1,023,117)**
Deferred tax liabilities as at year end, net		**(741,514)**	**(961,877)**

Note 18. Other non-current liabilities

	31 December 2005	31 December 2004 (Unaudited)
Restructured tax and penalty liability	-	162,100
Other	65,916	80,053
Total	**65,916**	**242,153**

(in thousands of Russian Roubles)

Note 18. Other non-current liabilities (continued)

As of 31 December 2004 the Group entities had restructured taxes including penalties and fines to be repaid over a period of up to 10 years. Discounting rate of 24% has been used in the estimates of fair value of tax liabilities at the date of restructuring. The discounting of the restructured tax payable amount initially gave rise to a gain. This discount is being amortized over the period of the restructuring as an expense. RR 19,452 thousand of such amortization is included in interest expense for the year ended 31 December 2005 (see note 21).

In 2005, the Group fulfilled all conditions for restructuring, paying RR 128,479 thousand, including the amount of RR 63,000 thousand of payment in accordance to the payments schedule. Based on the Resolutions of Interdistrict Russia Taxes and Charges Ministry Inspectorate No.12 for Krasnoyarsk region the remaining restructured debt for taxes and fines in the amount of RR 271,072 thousand (the original amount before discounting) were forgiven and written off the balance sheet. The net amount of RR 33,521 thousand, which represents the difference between the gain from forgiveness of restructured tax liability and the unamortized discount of RR 237,551 thousand, was recognized as other operating income in the income statement.

Note 19. Revenues

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Electricity	2,693,245	2,485,495
Heating	160,646	143,800
Revenues from management services	102,663	-
Other	114,612	89,023
Total	**3,071,166**	**2,718,318**

Note 20. Operating expenses

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Fuel expenses	1,155,652	942,103
Salaries and wages, payroll taxes	765,465	573,119
Depreciation and impairment of property, plant and equipment	308,565	292,442
Row materials and supplies	215,701	228,558
Taxes other than profit tax	187,018	137,989
Transportation expenses	53,342	59,544
Doubtful debtors expense	44,153	39,796
Consulting services	31,205	31,534
Insurance cost	17,945	8,392
Rent and lease payments	16,318	3,529
Loss on disposal of property, plant and equipment	15,859	10,579
Provision for obsolete stock	15,736	-
Repairs and maintenance	12,703	49,937
Business trip expenses	7,248	3,624
Telecommunication services	6,416	3,689
Bank services	5,857	4,816
Other expenses	143,223	173,322
Total	**3,002,406**	**2,562,973**

(in thousands of Russian Roubles)

Note 21. Net finance costs

	Year ended 31 December 2005	Year ended 31 December 2004 (Unaudited)
Interest expense (borrowings and restructured liability)	(36,482)	(24,267)
Interest income	937	-
Total	**(35,545)**	**(24,267)**

Note 22. Commitments

Fuel commitments

The Group Companies concluded a number of contracts for fuel supply. Principal supplier of fuel is: JSC Siberian Coal and Energy Company. The prices of coal stipulated in the Contracts signed by the Group are mainly determined on the basis of base amounts, adjusted for price changes set by the regulators, published inflation indices and current market prices.

Sales commitments

The Group has no agreements for guaranteed supplies of electricity in the year 2006.

Social commitments

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

Capital commitments

The Group has no future capital commitments at 31 December 2005.

Note 23. Contingencies

Insurance

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

Legal proceedings

Group entities are party to certain legal proceedings arising in the ordinary course of business.

In the opinion of management, current legal proceedings and claims, listed below, upon their final disposition, may have a material effect on the financial position of the Group. The provision for possible tax claims in the amount of RR 48,976 thousand was created (see note 15).

The Resolution of the Administration of Federal Tax Service for the main taxpayers of Krasnoyarsk region, Taymyr and Evenky Autonomy areas dated 19 June 2006 issued based on tax audit of JSC "BGRES-1", stipulated unpaid taxes amounted to RR 39,973 thousand and accrued fines and penalties for total amount of RR 17,491 thousand. JSC "OGK-4" as a successor of JSC "BGRES-1" is going to appeal the above Resolution and filed claims for total amount of RR 17,288 thousand.

JSC "BGRES-1" acts as a respondent in two court cases with the MUO "ZRET" (municipal unitary enterprise "Housing repairs and maintenance trust") on recognition as invalid (null and void) of the contract on purchase-sale of heating energy distribution systems of Sharypovo's 6th micro-region for total amount of RR 10,828 thousand and applying the appropriate legal actions to such a transaction, namely collecting of the above amount. The Resolution of the Arbitrage court for Krasnoyarsk territory as of 22 February 2006 denied the claim of the plaintiff. But on 22 June 2006 the Court of cassations canceled the above Resolution of the Arbitrage court due to revealed violations of procedural rules. The case was transferred for reconsideration.

Note 23. Contingencies (continued)

JSC "BGRES-1" acts as a plaintiff in the court case with JSC "Novosibirskenergo" on collecting of debts for delivery of electricity through FOREM for the amount of RR 7,302 thousand. The Resolution of the Arbitrage court as of 26 January 2006 satisfied the claim. The respondent filed a cassation complain which consideration is scheduled for 29 June 2006.

On 19 May 2006 JSC "BGRES-1" received a claim of "Neft-Trade" LLC on recognition as invalid (null and void) of the contract on delivery of oil product for total amount of RR 7,861 thousand and applying the appropriate legal actions to such a transaction, namely collecting of the oil products transferred in exchange of promissory notes not collected.

Tax contingency

Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years prior to the year of review. Under certain circumstances review may cover longer periods.

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

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations. Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Note 24. Risk Management

Financial risk factors

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out finance market position.

The Group aims at maintaining flexibility in funding by means of monitoring of cash position (through budgeting) and keeping borrowings available.

Interest rate risk

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

Fair values

Management believes that the fair value of other financial assets and financial liabilities approximates their current value.

Note 24. Risk Management (continued)

Credit risk

The credit risk represents the risk of default by the Group contractors of their obligations to the Group when due and in full.

Financial assets which potentially subject Group entities to concentrations of credit risk consist principally of trade receivables from related parties (see Note 6). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the allowance for doubtful debtors already recorded.

The Group has worked out and approved Credit policy, establishing keeping of debt position levels and cost of debts levels. Decision on the Group's debt structure is made based on minimization of the debt's cost, availability of borrowings and income maximizing.

Foreign exchange risk

The Group operates within the Russian Federation. The Group's purchases and borrowings are denominated in Russian Roubles.

Note 25. Subsequent events

Group establishing

The Group is currently in process of restructuring – based on Resolution of Russian Federation Government No. 1254-r which approved the structure of Wholesale generating companies ("WGCs").

As on the 1st of July 2006, a unified company JSC "OGK-4" is being created.

Note 1 contains detailed plans for the Group forming.

Resolutions on legal proceedings

In 2005 JSC "BGRES-1" acted as a plaintiff in the court case on recognizing as unlawful of the Resolution of the Administration of Federal Tax Service for the main taxpayers of Krasnoyarsk region, Taymyr and Evenky Autonomy areas No. 608 of 28 September 2005 on additional profit tax and fines for total amount of RR 12,951 thousand. The Resolution of the Arbitrage court as of 14 April 2006 satisfies the claim of JSC "BGRES-1". The Court of appellate jurisdiction empowered the above Resolution.

The rest legal proceedings in which the Group is currently participating as either a plaintiff or a respondent are listed in the Note 24 above.

Other

Dividends for the 2005 approved by the Shareholders' Meeting (Minutes No. 220 of 21 April 2006) amounted to 0.01123 Russian Rouble per share, and totaled RR 92,208 thousand.

In 2006 the Group's Board of Directors decided to sell its investments in JSC "SMU", JSC "KATEKenergoremont" and JSC "Transavto" by means of public offering with initial price equaling to RR 20,021 thousand (minimum price RR 10,010 thousand), RR 59,504 thousand (minimum price 29,752 thousand) and RR 28,585 thousand (minimum price 14,292 thousand).

In August 2006 the management of the principal shareholder of the Company, RAO UES, with the consent of the Government of the Russian Federation, selected OGK-4 as one of the priority companies in terms of additional share issue (IPO), which is being planned for 2007. The management and the board of directors of OGK-4 consider the additional share issue as one of the sources of financing of the investment program aimed at expansion of production which is one of the critical elements of the Company's general business strategy. In July-August the board of the directors of the Company selected UBS Advisory services and Troyka-Dialog as the main advisors on preparation and assistance with the forthcoming share issue.