RAO UES GROUP
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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Independent Auditors' Report

Board of Directors
OAO RAO UES of Russia

We have audited the accompanying consolidated balance sheet of OAO RAO UES of Russia and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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ZAO KPMG
28 June 2005

RAO UES Group
Consolidated Balance Sheet as at 31 December 2004
(in millions of Russian Roubles)

	Notes	31 December 2004	31 December 2003
Assets			
Non-current assets			
Property, plant and equipment	8	892,881	872,179
Investments in associates	9	1,030	196
Deferred profit tax assets	16	5,937	3,881
Other non-current assets	10	32,561	26,200
Total non-current assets		**932,409**	**902,456**
Current assets			
Cash and cash equivalents	11	35,844	31,978
Accounts receivable and prepayments	12	111,242	105,340
Inventories	13	41,956	42,731
Other current assets		5,547	5,036
Total current assets		**194,589**	**185,085**
Total assets	6	**1,126,998**	**1,087,541**
Shareholders' equity, minority interest and liabilities			
Shareholders' equity	14		
Share capital			
Ordinary shares (nominal value RR 20,521 million)		147,439	147,439
Preference shares (nominal value RR 1,038 million)		7,667	7,667
Treasury shares		(3,925)	(355)
		151,181	154,751
Retained earnings and other reserves		462,470	432,553
Total shareholders' equity		**613,651**	**587,304**
Minority interest	15	**227,633**	**219,687**
Non-current liabilities			
Deferred profit tax liabilities	16	56,091	57,895
Non-current debt	17	20,047	12,556
Other non-current liabilities	18	17,035	24,202
Total non-current liabilities		**93,173**	**94,653**
Current liabilities			
Current debt and current portion of non-current debt	19	65,949	50,496
Accounts payable and accrued charges	20	83,865	89,758
Taxes payable	21	42,727	45,643
Total current liabilities		**192,541**	**185,897**
Total liabilities	6	**285,714**	**280,550**
Total shareholders' equity, minority interest and liabilities		**1,126,998**	**1,087,541**

Chairman of the Management Board — Chubais A.B.

Financial Director — Zhurba D.G.

28 June 2005

RAO UES Group

Consolidated Statement of Operations for the year ended 31 December 2004

(in millions of Russian Roubles)

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Revenues			
Electricity		507,220	448,043
Heating		114,908	100,117
Governmental assistance	22	6,713	5,200
Other		50,816	39,789
Total revenues	6	**679,657**	**593,149**
Costs and other deductions			
Fuel expenses		186,777	161,251
Wages, benefits and payroll taxes		103,399	96,172
Purchased power		76,017	70,312
Depreciation and property, plant and equipment impairment	8	69,118	61,771
Repairs and maintenance		45,732	41,936
Taxes other than on income		12,173	13,371
Other materials		10,729	13,313
Electricity and heat distribution		9,753	6,081
Doubtful debtors expense / (reversal of expense)		4,848	(1,536)
Insurance expense		5,044	4,552
Water usage expenses		5,526	4,578
Social expenditures		1,678	3,193
Loss on disposal of property, plant and equipment		1,837	1,873
Other expenses	23	66,932	51,805
Total costs and other deductions		**599,563**	**528,672**
Income from operations	6	**80,094**	**64,477**
Share of loss of associates	9	(312)	(54)
Net financing expenses	24	(16,835)	(15,387)
Income before profit tax and minority interest		**62,947**	**49,036**
Total profit tax charge	16	(20,097)	(24,754)
Net income		**42,850**	**24,282**
Minority interest: share of net result	15	(10,901)	2,701
Net income		**31,949**	**26,983**
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	25	0.74	0.63

Chairman of the Management Board — Chubais A.B.

Financial Director — Zhurba D.G.

28 June 2005

RAO UES Group

Consolidated Cash Flow Statement for the year ended 31 December 2004
(in millions of Russian Roubles)

	Year ended 31 December 2004	Year ended 31 December 2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Income before profit tax	**62,947**	**49,036**
Adjustments to reconcile income before profit tax to net cash provided by operations:		
Depreciation and property, plant and equipment impairment	69,118	61,771
Doubtful debtors expense / (release)	4,848	(1,536)
Interest and gain on restructuring accounts payable and taxes payable	17,609	16,947
Share of loss of associates, before profit tax	312	54
Loss on disposal of property, plant and equipment	1,837	1,873
Adjustment for non-cash investing activities	(6,992)	(10,231)
Operating cash flows before working capital changes and profit tax paid	**149,679**	**117,914**
Working capital changes:		
Increase in accounts receivable and prepayments	(10,218)	(9,356)
(Increase) / decrease in other current assets	(511)	6,738
Decrease in loans issued	-	2,635
Decrease / (increase) in inventories	610	(4,093)
Increase in other non-current assets	(8,923)	(3,458)
(Decrease) / increase in accounts payable and accrued charges	(6,509)	4,864
Decrease in taxes payable, other than profits tax	(2,901)	(4,479)
Decrease in other non-current liabilities	(16,004)	(13,110)
Profit tax paid (cash)	(23,342)	(16,389)
Profit tax paid (non-cash)	(525)	(233)
Net cash generated by operating activities	**81,356**	**81,033**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(85,323)	(64,338)
Proceeds from sale of property, plant and equipment	3,360	3,974
Purchases of investments, net	(62)	(554)
Acquisition of subsidiaries, net of cash acquired	(1,959)	(651)
Net cash used for investing activities	**(83,984)**	**(61,569)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of current debt	230,795	163,783
Proceeds from issuance of non-current debt	13,248	2,900
Repayment of debt	(221,357)	(162,124)
Interest paid	(7,930)	(7,550)
Dividends paid to RAO UES shareholders	(2,282)	(2,028)
Dividends paid by Group to minority interest shareholders	(2,679)	(1,938)
Proceeds from share issuance	258	456
(Purchases of) / proceeds from treasury shares, net	(3,559)	1,446
Net cash generated by / (used for) financing activities	**6,494**	**(5,055)**
Increase in cash and cash equivalents	**3,866**	**14,409**
Cash and cash equivalents at the beginning of the period	**31,978**	**17,569**
Cash and cash equivalents at the end of the period	**35,844**	**31,978**

Chairman of the Management Board — Chubais A.B.

Financial Director — Zhurba D.G.

28 June 2005

RAO UES Group

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2004
(in millions of Russian Roubles)

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 2003	147,439	7,667	(770)	412,079	566,415
Net income	-	-	-	26,983	26,983
Dividends	-	-	-	(1,988)	(1,988)
Change in fair value of available-for-sale investments	-	-	-	(4,897)	(4,897)
Change in treasury shares, net	-	-	415	726	1,141
Translation differences	-	-	-	(350)	(350)
At 31 December 2003	147,439	7,667	(355)	432,553	587,304

	Ordinary share capital	Preference share capital	Treasury shares	Retained earnings and other reserves	Total shareholders' equity
At 1 January 2004	147,439	7,667	(355)	432,553	587,304
Net income	-	-	-	31,949	31,949
Dividends	-	-	-	(2,399)	(2,399)
Change in fair value of available-for-sale investments	-	-	-	277	277
Translation differences	-	-	-	82	82
Change in treasury shares, net	-	-	(3,570)	8	(3,562)
At 31 December 2004	147,439	7,667	(3,925)	462,470	613,651

Chairman of the Management Board — Chubais A.B.

Financial Director — Zhurba D.G.

28 June 2005

Note 1: The Group and its operations

The Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") was created on 31 December 1992 following the privatisation of certain electricity power generation, transmission and distribution assets formerly under the control of the Ministry of Energy of the Russian Federation. Nuclear generation stations were not transferred to RAO UES.

The RAO UES Group (the "Group") consists of RAO UES and its related subsidiaries and associates as at 31 December 2004. Principal subsidiaries are disclosed in Note 5. The operations of all generating facilities are co-ordinated by the System Operator, which is under the control of the Group, in order to meet system requirements in an efficient manner.

The Group performs the following major activities:

- ***High voltage transmission:*** The high voltage transmission network connects all but a few regions of the Russian Federation. RAO UES charges a transmission fee to users of the network and, together with the Federal Grid Company (a 100 percent owned subsidiary of RAO UES), maintains this network. The System Operator, a 100 percent owned subsidiary of RAO UES, is responsible for system dispatch and the functioning of the Federal Wholesale Market of Electricity and Capacity ("FOREM");

- ***Regional generation and distribution:*** RAO UES has ownership interests in more than 70 regional power companies ("Energos"), responsible for the generation, distribution and sale of heat and electricity. These ownership interests range from 47 percent to 100 percent; and

- ***Stand-alone electricity generation:*** Major generation stations produce electricity and sell it via FOREM. The majority of these sales are within the Group.

At 31 December 2004, the number of employees of the Group was approximately 546,000 (31 December 2003: 557,000).

RAO UES's registered office is located at bld. 3, 101 Vernadskogo prospect, 119526, Moscow, Russia.

RAO UES also prepares annual parent company stand-alone financial statements in accordance with International Financial Reporting Standards ("IFRS").

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.

Relations with the state and current regulation. At 31 December 2004, the Russian Federation owned 52.7 percent of RAO UES, which represents 55.0 percent of the ordinary shares issued. As discussed in Note 14, only ordinary shares have voting rights. 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 sales, and by the regional services on tariffs ("RSTs"), with respect to its retail electricity and heat sales. Tariffs which Group entities may charge for sales of electricity and heat are governed both by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. As a condition to privatisation in 1992, the government of the Russian Federation imposed an obligation on Group entities to provide connection for the supply of electricity and heating to customers in the Russian Federation.

Note 1: The Group and its operations (continued)

As described above and in Notes 2 and 27, the government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which 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 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").

- On 29 May 2003, the Board of Directors of RAO UES approved a "Concept of RAO UES strategy for the period from 2003 through 2008". This document provides a detailed description of the major changes that are planned to take place in the Group during the electric utilities reform program.

- On 24 December 2004, the Government of the Russian Federation reviewed its policy aimed at the restructuring of electric utilities and appreciated the measures taken in line with the decisions made previously. A number of tasks related to the further reform was assigned to the Ministries and Agencies.

- At the present stage, bills are being drafted for the specific legislative acts envisioned under the aforementioned federal laws on electric utilities reform according to the action plan related to electric utilities reform and adopted by the resolution of the Russian Federation government of 27 June 2003 No 865-r (p). RAO UES has been playing an active role in drafting these legislative acts.

- In December 2004, amendments were made to the Federal Law #36-FZ, which provide for postponement of prohibition for combining electricity transmission and dispatching electricity with electricity generation, sales and purchases from 1 January 2005 to 1 April 2006.

- In early September 2003, the Russian Federation Government issued Resolution # 1254-r which approved the structure of generating companies at the wholesale market ("WGCs"). In October 2004, Resolution of the Russian Federation Government #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, will be established.

- In 2004, the Board of Directors of RAO UES at its meetings approved participation of RAO UES in all 7 WGCs. At the end of 2004 – beginning of 2005, state registration was issued to all 7 WGCs.

- In June 2005, the Board of Directors of RAO UES approved the exchange coefficients and conversion coefficients with regard to the shares of stand-alone electricity generation stations included in WGC–5 and WGC-3 to be converted into the shares of the respective WGG in order to implement the project on transition of the WGGs to the unified share and incorporation of stand-alone electricity generation stations with WGGs.

- 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 at the European part of Russia and in the Urals. Starting from May 2005, free trading sector was extended to Siberia. According to the laws underlying the electric utilities reform, subsequently free trading will be extended over the whole volume of trading.

- **Note 1: The Group and its operations (continued)**

- The Federal Grid Company – OAO Federal Grid Company of Unified Energy System ("FGC") – was established in June 2002, as a wholly-owned subsidiary of RAO UES, to manage the transmission of electricity through the use of transmission assets received or earmarked for receipt from RAO UES and its subsidiaries.

- The System Operator – OAO System Operator-Central Dispatch Unit of Unified Energy System ("SO-CDU") – was established in September 2002 to perform electricity dispatch functions within the unified electricity system of the Russian Federation through the use of assets received or earmarked for receipt from RAO UES and its subsidiaries.

- All the individual Energos that are subject to reform have developed their respective reform plans and submitted them to RAO UES. At present, these reform plans are being discussed, agreed and approved by the management bodies of RAO UES and the government bodies.

- In April 2004, the Board of Directors of RAO UES approved the listing and structure of 14 territorial generating companies ("TGCs"), which will ultimately own the generating assets, before the reform owned by RAO UES subsidiaries (except for power plants to be included into WGCs). In June 2005, the Board of Directors updated the structure of TGG-11 and TGG-12.

- As at 28 June 2005, the Board of Directors of RAO UES approved incorporation of 12 out of 14 TGCs, and 10 TGCs have already been established.

- On 1 October 2004, the Board of Directors of RAO UES approved participation of RAO UES in 4 Interregional distribution grid companies ("IDGCs"), which will be the owners of shares of the distribution grid companies, involved in electricity transmission via distribution grids. It is planned, that in the course of restructuring of RAO UES subsidiaries the distribution grid companies ("DGCs") will be established and their shares will be exchanged to the shares of IDGCs.

- As at 28 June 2005, 45 subsidiaries of RAO UES have held General shareholders meeting at which plans for reorganization have been approved, and state registration was issued to the companies spun off from 37 RAO UES subsidiaries.

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, except as noted in Note 20, no provision has been recognised for the effects of the restructuring process.

Note 2: Financial condition

At 31 December 2004, the Group's current assets exceeded its current liabilities by Russian Roubles ("RR") 2,048 million (at 31 December 2003 the Group's current liabilities exceeded its current assets by RR 812 million). Since 2000, the Group has improved its financial position, largely through better cash collections and the restructuring of trade and tax liabilities to long term. The effects of the restructuring of accounts and taxes payable are described in Notes 18, 20 and 21. There still remains a significant amount of uncollected accounts receivable from earlier periods. Management has continued its collection and restructuring efforts to reduce the outstanding balances. There is legislation enabling the Group to cut off non-payers, but this is only possible to a certain extent due to strategic and political factors. Federal, municipal and other governmental organisations make up a significant portion of the debtor balance as at 31 December 2004. The Group has provided against doubtful accounts receivable, as further described in Notes 10 and 12.

The Group is affected by government policy through control of tariffs and other factors. The RSTs do not always permit tariff increases in line with increases in the Group's costs and thus some tariffs 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 additional costs recognised under an IFRS basis of accounting. As a result, tariffs do not consistently allow for an adequate return on investment and currently do not provide sufficient funds for the full replacement of property, plant and equipment. Furthermore, the Group also experiences difficulties raising finance for the necessary investment in generation, transmission and distribution assets.

Note 2: Financial condition (continued)

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; and
- active participation in the restructuring of the electricity sector (see Note 1).

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.

Note 3: Basis of presentation

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB (“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”) with the exception of foreign companies which prepare their statutory financial statements in accordance with their statutory accounting requirements. 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 preparation of consolidated financial statements in accordance with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect of the impairment provision on property, plant and equipment, deferred profit taxes, allowance for doubtful debtors and fair values of financial instruments. Actual results could differ from these estimates.

Inflation accounting. 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 at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Adoption of new and revised standards. With effect from 31 March 2004, the Group has adopted IFRS 3 “Business combinations”(IFRS 3), IAS 36 (revised 2004) “Impairment of assets” (IAS 36) and IAS 38 (revised 2004) “Intangible assets” (IAS 38). The adoption of these standards did not have any impact on the consolidated financial statements.

Recent accounting pronouncements. During the period December 2003 to March 2004, the International Accounting Standards Board (“IASB”) revised 17 of its standards and issued 4 new standards. These standards, except for IFRS 3, IAS 36 and IAS 38, are effective for accounting periods commencing on or after 1 January 2005 but may be adopted early. The Group has not early adopted these revised and new standards in these consolidated financial statements. IFRS 3, IAS 36 and IAS 38 were adopted as described above.

Note 4: Summary of significant accounting policies

Principles of consolidation. The consolidated financial statements comprise the financial statements of RAO UES and the financial statements of those entities whose operations are controlled by RAO UES. Control is presumed to exist when RAO UES controls, directly or indirectly through subsidiaries, more than 50 percent of voting rights. The Group consolidates a number of companies in which the Group owns less than 50 percent of the voting shares. Control exists for such entities on the basis of a dominant shareholding combined with other factors which allow the Group to exercise control.

A significant majority of the principal subsidiary companies described in Note 5 were transferred to RAO UES by the state on and after its incorporation into a joint stock company. These transfers represented a reorganisation of assets under common control and, accordingly, are accounted for in a manner similar to uniting of interests from the date of privatisation of each Group entity.

All material inter-group balances and transactions have been eliminated. Separate disclosure is made of minority interests.

Investments in 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 RAO UES is presumed to exercise significant influence but which it does not control.

Equity accounting is discontinued when the carrying amount of the associated enterprise reaches zero, unless the Group incurred obligations or guaranteed obligations in respect of the associated enterprise.

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 classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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.

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

The Group does not hold any investments held-to-maturity or for trading purposes.

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

The balance sheets of foreign subsidiaries are translated into Russian Roubles at the exchange rate prevailing at the reporting date. Statements of operations of foreign entities are translated at the average exchange rate for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries are recognised as translation differences and included in the translation reserve in shareholders' equity.

(in millions of Russian Roubles)

Note 4: Summary of significant accounting policies (continued)

At 31 December 2004, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") was RR 27.75: US$ 1.00 (31 December 2003: RR 29.45: US$ 1.00), between the Russian Rouble and Euro RR 37.81: Euro 1.00 (31 December 2003: RR 36.82: Euro 1.00). Exchange restrictions and currency controls exist relating to converting the Russian Rouble into other currencies. The RR is not freely convertible in most countries outside the Russian Federation.

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 either proposed before the balance sheet date or proposed or declared after the balance sheet date, but before the financial statements are authorized for issue.

Property, plant and equipment. Property, plant and equipment are stated at depreciated replacement cost, based upon values determined by a third party valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation until 31 December 2002. 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 net selling price 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. 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. The change in carrying value arising from this valuation was recorded directly to retained earnings.

Major renewals and improvements are capitalised and the assets replaced are retired. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of an asset beyond its original capability. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

During the period of time that is required to complete and prepare the asset for its intended use interest costs on borrowings to finance the construction of property, plant and equipment are capitalised. All other borrowing costs are expensed.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is put into 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 useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired prior to 31 December 1997	Acquired subsequent to 31 December 1997
Electricity and heat generation	3 – 80	20 – 80
Electricity transmission	14 – 40	25 – 40
Electricity distribution	3 – 40	25 – 40
Heating network	3 – 40	20 – 40
Other	8 – 24	10 – 40

Social assets are not capitalized as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

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

Note 4: Summary of significant accounting policies (continued)

The statement of cash flows has been prepared in accordance with IAS 7 “Cash Flow Statements”. However, the Group relies to some extent on non-cash transactions and individual items within operating activities of the statement of cash flows are stated inclusive of both cash and non-cash transactions. Management believes that the benefits of providing individual cash items within operating activities are outweighed by the cost of preparation.

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.

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.

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 (VAT deferred) 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, impairment loss is recorded for the gross amount of the debtor’s balance, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Inventories. Inventories are valued at the lower of net realisable value and weighted average cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realisable value.

Deferred profit taxes. Deferred profit tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred profit tax is provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred profit tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred profit tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred profit tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are declared. Deferred profit tax is provided for the undistributed earnings of associated enterprises.

Accounts payable and accrued charges. Accounts payable are stated inclusive of value added tax which is reclaimable from the tax authorities upon the later of receipt of goods and services or the payment of the associated payable.

If accounts payable are restructured and the fair value of the restructured payable differs by more than ten percent from the original liability, then the fair value of the restructured payable is measured as the present value of the future cash flows discounted at the interest rate available to the Group at the date of the restructuring. The amount of the discount is credited to the statement of operations (net financing expenses) as a gain on restructuring, and the non-current portion of the discounted payable is reclassified to other non-current liabilities. The discount is amortised over the period of the restructuring as an interest expense.

Note 4: Summary of significant accounting policies (continued)

Debt. Debt is recognised initially at cost which is the fair value of the proceeds received, net of transaction costs incurred. 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.

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity and result of operations of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. Specific rights on dissolution for preference shareholders are included in the calculation of minority interests.

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.

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

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

Revenue is based on the application of authorised tariffs for electricity and heat sales as approved by the RSTs.

Earnings per share. Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. The earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group. Preference shares participate in losses.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

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

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

(in millions of Russian Roubles)

Note 5: Principal subsidiaries

The following are the significant subsidiary enterprises which have been consolidated into the Group's financial statements. All subsidiaries with the exception of foreign companies are incorporated and operate in Russia.

Regional generation and distribution companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Centre			*South*		
Astrakhanenergo	48.7	48.7	Dagenergo	51.3	51.3
Belgorodenergo	49.0	65.3	Kabbalkenergo	65.3	65.3
Bryanskenergo	49.0	65.2	Kalmenergo	96.4	96.4
Ivenergo	49.7	56.5	Karachayevo-Cherkesskenergo	100.0	100.0
Kalugaenergo	52.3	52.3	Kubanenergo	49.0	49.0
Kostromaenergo	49.0	49.0	Nurenergo	100.0	100.0
Kurskenergo	49.0	59.5	Rostovenergo	48.4	62.8
Lipetskenergo	49.0	49.0	Sevkavkazenergo	49.0	49.0
Mosenergo	50.9	50.9	Stavropolenergo	55.1	71.9
Orelenergo	49.0	60.3			
Ryazanenergo	49.0	49.0	*Ural*		
Smolenskenergo	49.8	60.5			
Tambovenergo	49.0	56.0	Chelyabenergo	49.0	49.0
Tulenergo	49.0	49.0	Kirovenergo	48.2	64.0
Tverenergo	49.0	65.3	Orenburgenergo	100.0	100.0
Vladimirenergo	49.0	49.0	Permenergo	49.0	64.4
Volgogradenergo	49.3	61.5	Sverdlovenergo	49.0	65.3
Vologdaenergo	49.0	49.0	Tyumenenergo	100.0	100.0
Voronezhenergo	49.0	65.3	Udmurtenergo	49.0	55.4
Yarenergo	47.8	60.3			
			Siberia		
North-West					
			Altaienergo	54.7	72.2
Arkhenergo	49.0	59.1	Buryatenergo	47.0	47.0
Karelenergo	100.0	100.0	Chitaenergo	49.0	62.2
Kolenergo	49.2	49.2	Khakasenergo	100.0	100.0
Komienergo	50.1	50.3	Krasnoyarskenergo	51.8	66.4
Lenenergo	49.0	57.4	Kuzbassenergo	49.0	49.0
Novgorodenergo	49.0	62.9	Omskenergo	49.0	60.4
Pskovenergo	49.0	49.0	Tomskenergo	52.0	59.9
Yantarenergo	100.0	100.0	Tuvaenergo	51.2	99.0
Middle Volga			*East*		
Chuvashenergo	100.0	100.0	Amurenergo	50.6	57.8
Marienergo	64.4	64.4	Dalenergo	49.0	65.3
Mordovenergo	53.1	53.1	Geotherm	72.6	78.5
Nizhnovenergo	49.0	62.3	Khabarovskenergo	48.5	60.2
Penzaenergo	49.0	49.0	Kolymaenergo	87.6	87.6
Samaraenergo	48.3	55.4	Kamchatskenergo	49.0	49.0
Saratovenergo	49.0	49.0	Magadanenergo	49.0	64.4
Ulyanovskenergo	49.0	49.0	Sakhalinenergo	49.0	49.0
			Sakhaenergo	47.9	100.0
			Yakutskenergo	47.9	56.3

(in millions of Russian Roubles)

Note 5: Principal subsidiaries (continued)

Hydrogenerating companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Bureyskaya GES	75.4	76.5	Taimyrenergo	100.0	100.0
Kabbalk GES	81.4	98.0	Volzhskaya GES	83.3	86.4
Kamskaya GES	100.0	100.0	Votkinskaya GES	59.8	74.2
Kaskad Verhnevolzhskih GES	100.0	100.0	Zaramagskie GES	89.7	91.4
Nizhegorodskaya GES	100.0	100.0	Zeiskaya GES	56.9	72.5
Saratovskaya GES	100.0	100.0	Zelenchugskie GES	100.0	100.0
Sayano-Shushenskaya GES	78.9	82.8	Zhigulevskaya GES	84.9	88.1
Sulakenergo	99.1	99.1			

Thermal generating companies

Name	Owner ship %	Voting %	Name	Ownership %	Voting %
Berezovskaya GRES –1	100.0	100.0	LUTEK	56.3	56.3
Bryansk Generation Company	49.0	65.2	Nevinnomysskaya GRES	100.0	100.0
Cherepetskaya GRES	55.8	55.8	North-West Station	68.2	75.3
Dzerzhinskaya TETS	49.0	100.0	Novocherkasskaya GRES	100.0	100.0
Experimentalnaya TETS	74.9	100.0	Novomoskovskaya GRES	49.0	100.0
Gusinoozerskaya GRES	100.0	100.0	Pechorskaya GRES	51.0	51.0
Heat Energy Company (Belgorod)	49.0	65.3	Permskaya GRES	100.0	100.0
Kaliningradskaya TETS –2	87.1	87.1	Pskovskaya GRES	50.0	50.0
Kaluzhskaya Generation Company	52.3	52.3	Ryazanskaya GRES	100.0	100.0
Kharanorskaya GRES	100.0	100.0	Shekinskie PGU	92.1	98.9
Kirishskaya GRES	100.0	100.0	Sochinskaya TETS	100.0	100.0
Konakovskaya GRES	51.0	51.0	Stavropolskaya GRES	51.0	51.0
Kostromskaya GRES	51.0	51.0	Troitskaya GRES	100.0	100.0
Krasnoyarskaya GRES –2	100.0	100.0	Voronezh Generation Company	49.0	65.3
Kuban GRES	79.8	99.9			

Construction companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Boguchanskaya GES	64.2	68.0	Chirkeigesstroy	100.0	100.0
Bureyagesstroy	100.0	100.0	Ivanovskie PGU	100.0	100.0

Grid companies

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Belgorod Power Grid Company	37.7	76.9			
Federal Grid Company	100.0	100.0	Kaluga Trunk Grid Company	52.3	52.3

Other

Name	Ownership %	Voting %	Name	Ownership %	Voting %
Belgorod Retail Company	49.0	65.3	Inter RAO UES	60.0	60.0
Bryansk Retail Company	49.0	65.2	Kaluga Retail Company	52.3	52.3
Centre of Settlement Optimisation	100.0	100.0	Media-Holding REN-TV	70.0	70.0
Energy Centre	75.0	75.0	System Operator-CDU	100.0	100.0
Engineering Centre	100.0	100.0	Voronezh Energy Retail Company	49.0	65.3

(in millions of Russian Roubles)

Note 5: Principal subsidiaries (continued)

Foreign companies

Name	Ownership %	Voting %	Country
RAO Nordic	60.0	100.0	Finland
Telasi	45.0	75.0	Georgia
Mtkvari	60.0	100.0	Georgia
Transenergy	30.0	50.0	Georgia
Silk Road	60.0	100.0	Netherlands
Gardabani	60.0	100.0	Netherlands
Georgia	60.0	100.0	Netherlands
MEK	54.0	100.0	Armenia
Interenergo	40.2	67.0	Netherlands

The Group also controls Centre for Assistance in Restructuring the Electricity Sector, a non-commercial partnership.

Differences between ownership interest and voting interest normally represent the effect of preference shares. Primarily RAO UES does not hold any preference shares of its subsidiaries. Such preference shares do not have any voting rights, unless dividends have not been declared fully at the Annual shareholders' meeting.

At the end of 2004, in the course of restructuring of the Russian electric utilities industry, a number of new 100 percent owned subsidiaries were established by RAO UES. They are: Hydro-WGC, WGC-5, WGC-3, Centre and North Caucasus IDGC, TGC-9 and TGC-14. As at 31 December 2004, the charter capital of newly established entities was not fully paid, with the exception of WGC-5. The outstanding charter capital of new entities is planned to be paid in 2005.

In June 2003, RAO Nordic, a Group entity, founded ZAO MEK, an entity located in Armenia. RAO Nordic owns a 90 percent interest in this entity. In September 2003, ZAO MEK purchased assets of ZAO Sevan-Razdansky Kaskad, a cascade of hydroplants located in Armenia, for a fair value consideration of RR 1,172 million (US$ 25 million payable immediately and EUR 17 million payable along with related interest over a period of 32 years commencing in 2009). The Group has settled the US$ 25 million payment to the seller by assuming the liability of ZAO Armyanskaya AS, a nuclear power plant, located in Armenia ("Armenian NPP"), owned by the government of Armenia, which was also the ultimate owner of the assets purchased, to a supplier of nuclear fuel. The assumed liability was redeemed in 2004 for RR 567 million.

The assets arising from the acquisition were as follows:	
Accounts receivable and prepayments	43
Other current assets	52
Property, plant and equipment	1,077
Fair value of assets acquired	**1,172**

The above acquisition was accounted for under the purchase method of accounting. The purchase price of the foreign acquisition was translated at the exchange rate in effect at the date of acquisition.

In May 2003, RAO Nordic, a Group entity, concluded an agreement to settle a separate liability of Armenian NPP to another supplier of nuclear fuel for the amount of RR 490 million (US$ 15.7 million). RAO Nordic will receive this amount back from Armenian NPP along with interest during two years commencing in June 2003. As of 31 December 2004 the outstanding recoverable balance of RR 173 million is included within other current assets.

Inter RAO UES and the government of Armenia have entered into a contract in respect of the Armenian NPP and will be entitled to the higher of 25 percent of that plant's annual net income during the period of 5 years commencing in September 2003 or US$ 0.1 million annually as a management fee (in the case of annual dividend distribution).

(in millions of Russian Roubles)

Note 5: Principal subsidiaries (continued)

In August 2003, the Group acquired 100 percent of the shares of AES Silk Road, AES Gardabani and AES Georgia, all holding companies based in the Netherlands, from the AES Group. In addition, amounts receivable by the AES Group from the above companies amounting to RR 15,923 million (US$ 522 million) were acquired by the Group. The total consideration paid in cash was RR 704 million (US$ 23 million).

The above holding companies were, in their turn, the owners of shares in certain entities located in Georgia: 75 percent of AES Telasi, an entity which holds electricity distribution assets, 100 percent of AES Mtkvari, an entity which holds electricity and heat generation assets; 50 percent of AES Transenergy, an entity which exports energy; AES Georgia is also the owner of the management rights of Khramesy 1 and 2 hydrogeneration plants.

The assets and liabilities arising from the acquisition are as follows:	
Cash and cash equivalents	53
Accounts receivable and prepayments	1,247
Other current assets	448
Property, plant and equipment	613
Other non-current assets	258
Accounts payable and accrued charges	(221)
Other current liabilities	(343)
Non-current debt	(97)
Other non-current liabilities	(153)
Minority interest	(1,101)
Fair value of net assets acquired	**704**
Less: cash and cash equivalents in subsidiary acquired	(53)
Cash flow on acquisition, net of cash acquired	**651**

The acquisition was accounted for under the purchase method of accounting. The results of operations of the acquired businesses were included in the consolidated financial statements as of the respective date of acquisition. The purchase price of the foreign acquisition was translated at the exchange rates in effect as the respective date of acquisition.

During the twelve months ended 31 December 2004 there were certain other changes in RAO UES' ownership percentage of several of its subsidiaries, which had an immaterial impact on the statement of operations.

Note 6: Segment information

Primary reporting segments - business segments. The Group is organised into four main business segments:

- ***"Transmission segment"*** this segment principally comprises RAO UES, FGC and SO-CDU, which maintain and operate the high voltage electricity transmission grid and perform electricity dispatch functions. Transmission fees are set by the FST;

- ***"Energos segment"*** consists of regional electricity and heat generation and distribution. The majority of electricity generated by energos is sold within the regions in which the energo operates at tariffs set by RSTs. Certain energos have surplus generation and sell electricity via FOREM. Tariffs in FOREM are set by the FST;

- ***"Hydro and thermal generating stations segment"*** consists of entities that produce and sell electricity to energos through FOREM, at tariffs set by the FST; and

- ***"Unallocated"*** consists of numerous insignificant segments including construction, and export generation and sales.

(in millions of Russian Roubles)

Note 6: Segment information (continued)

Year ended 31 December 2004	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	57,903	645,830	76,328	33,765	-	813,826
Intra-group revenues	(50,889)	(17,792)	(50,339)	(15,149)	-	(134,169)
Net revenues	7,014	628,038	25,989	18,616	-	679,657
Segment income / (loss)	31,340	43,003	7,451	(1,700)	-	80,094
Capital expenditures	18,032	57,225	22,548	1,607	-	99,412
Depreciation and property, plant and equipment impairment	9,786	46,920	7,968	4,444	-	69,118
Doubtful debtors (reversal of expense) / expense	(784)	4,861	101	670	-	4,848

Year ended 31 December 2003	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Gross revenues	59,201	561,918	63,095	34,353	-	718,567
Intra-group revenues	(54,978)	(9,900)	(49,133)	(11,407)	-	(125,418)
Net revenues	4,223	552,018	13,962	22,946	-	593,149
Segment income	28,504	26,962	2,537	6,474	-	64,477
Capital expenditures	10,599	45,480	14,125	6,769	-	76,973
Depreciation and property, plant and equipment impairment	7,958	45,545	6,434	1,834	-	61,771
Doubtful debtors expense / (reversal of expense)	289	(3,413)	654	934	-	(1,536)

As at 31 December 2004	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Segment total assets	154,964	746,387	169,760	120,166	(65,309)	1,125,968
Associates	-	1,030	-	-	-	1,030
Total assets	154,964	747,417	169,760	120,166	(65,309)	1,126,998
Segment liabilities	12,440	138,315	45,965	159,793	(70,799)	285,714
Total liabilities	12,440	138,315	45,965	159,793	(70,799)	285,714

As at 31 December 2003	Transmission	Energos	Hydro and thermal generating stations	Unallocated	Consolidation adjustments	Total
Segment total assets	148,721	739,889	140,723	112,530	(54,518)	1,087,345
Associates	-	-	-	196	-	196
Total assets	148,721	739,889	140,723	112,726	(54,518)	1,087,541
Segment liabilities	4,353	144,554	33,033	136,790	(38,180)	280,550
Total liabilities	4,353	144,554	33,033	136,790	(38,180)	280,550

(in millions of Russian Roubles)

Note 6: Segment information (continued)

Secondary reporting segments - geographical segments. The Group operates in seven geographical areas within the Russian Federation. These geographical areas correspond to the regions established for system operation. Group entities have been aggregated within these geographical areas based on the area where their assets are located, with the exception of the Transmission segment. The transmission grid, owned by RAO UES and FGC, is located throughout the territory of the Russian Federation, but is recorded in the books of these enterprises without details of geographic location. Accordingly, it is not practicable to split these assets on a geographical basis. The Group's assets generate revenues primarily within the geographical region where they are located.

	Revenue		Total assets		Capital expenditures	
	Year ended 31 December 2004	Year ended 31 December 2003	31 December 2004	31 December 2003	Year ended 31 December 2004	Year ended 31 December 2003
Transmission segment	57,903	58,588	154,964	148,721	18,032	10,599
Centre	219,743	180,713	254,498	252,458	24,623	15,294
North-West	78,197	67,267	95,604	82,194	12,120	6,514
Urals	156,155	138,763	182,473	187,967	9,443	10,291
Siberia	79,981	74,765	129,237	127,791	8,217	8,167
Middle Volga	71,957	63,540	71,789	63,875	5,401	2,697
East	71,555	60,426	113,783	107,162	11,520	11,450
South	49,637	45,444	70,275	65,558	9,119	6,329
	785,128	689,506	1,072,623	1,035,726	98,475	71,341
Unallocated	28,698	29,061	119,684	106,333	937	5,632
Consolidation adjustments	(134,169)	(125,418)	(65,309)	(54,518)	-	-
Total	679,657	593,149	1,126,998	1,087,541	99,412	76,973

Note 7: Related parties

Associates. The following transactions were carried out with associates, the majority of which are based on tariffs set by the FST and the RSTs:

	Year ended 31 December 2004	Year ended 31 December 2003
Electricity revenues	6,195	106
Heating revenues	2,321	263
Transmission fee income	151	-
Electricity and heat distribution expense	71	15

In 2004, the Group issued a loan to an associate of the Group, OAO "Rossiskiye kommunalniye sistemy" (RKS), for the amount of RR 493 million bearing interest of 13 percent per annum. The loan is to be repaid in 2006. As of 31 December 2004 the outstanding recoverable balance of RR 493 million is included within other non-current assets.

Directors' compensation. Compensation is paid to members of the Management Board of RAO UES 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 year 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.

Note 7: Related parties (continued)

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. Under the Russian legislation, fees, compensation or allowances to the members of the Board of Directors, being government employees, are transferred to the federal budget.

Remuneration of members of the Board of Directors amounted to RR 257 million for the year ended 31 December 2004 (RR 282 million for 2003). Remuneration of members of the Management Board, amounted to RR 174 million for the year ended 31 December 2004 (RR 159 million for 2003).

Employee share option plan. In June 2004, the Board of Directors approved a Share Option Plan for the employees of RAO UES (hereinafter – the Plan).

The Plan provides for the granting of share options to the members of the Management Board and other key employees of RAO UES (hereinafter – the Plan participants).

The Plan participants shall be rewarded for their work in RAO UES over the period of 3 years, starting from 25 June 2004.

In February 2005, the Board of Directors approved a number of changes relating to the list of Plan participants and to the number of shares allocated under the Plan. Key employees from certain Group entities were included into the list.

A total of up to 418,657,600 ordinary shares (or about one per cent of the issued ordinary shares of RAO UES) may be allocated under the plan. 213,671,372 shares are allocated for granting share options to the members of the Management Board, the remainder to the other key employees of RAO UES.

Ordinary shares ultimately allocated under the Plan are allocated from treasury shares purchased by the Group for that purpose on the open market by a special-purpose entity, which is controlled by the Group. The treasury shares held for the purpose of the Plan will have no voting rights, unless otherwise decided by the Board of Directors.

In the event that the restructuring of RAO UES is completed prior to the exercise date of the share options, the Plan participants will be entitled to purchase successor shares or other securities, distributed among the RAO UES shareholders.

At 31 December 2004, based on decision of the Board of Directors the Group granted options to purchase 365,365,878 shares (signed share option agreement), including 213,671,372 granted to the members of the Management Board.

The number of shares, which the Plan participants may purchase as part of implementation of the Plan, in the event that the Plan participant has terminated its employment with the Group entity before 25 June 2007, will be calculated proportionally based on the number of days worked prior to terminating the employment. In case of breaching certain defined provisions of the labor agreement and termination of employment at the initiative of the Group entity, the Plan participants will lose their right to purchase the shares.

The exercise price of the share option is USD 0.2934 per share, which is the weighted average price of the shares of RAO UES on RTS over the period of 25 June 2003 through 24 June 2004. For the Plan participants, who joined Group entities after 25 June 2004, the exercise price of the share option is the weighted average price of the shares of RAO UES on RTS one year before the date of the labor agreement. In addition to the exercise price, the Plan participants, who exercise their options, must reimburse part of the interest expenses paid on borrowings, which can be attracted for the purpose of purchases of the shares.

(in millions of Russian Roubles)

Note 7: Related parties (continued)

One of the vesting terms of the share options is prepayment by the members of the Management Board (in the amount of 10 percent of the share option agreement) and by other key employees (in the amount of 0.2 percent of the share option agreement). In the event that realization of the share option lapses, the prepayment will be returned to the Plan participant in full.

The Plan participant can exercise the share option at any time over the period of 25 June 2007 through 25 January 2008.

At 31 December 2004, the Group granted to the members of the Management Board non-interest bearing loans, which will be used by individuals to make prepayments under the share option agreements. The loans are granted for a period of 5 years.

At 31 December 2004, in the course of the Plan implementation the Group purchased 418,657,600 treasury shares. Their purchase cost was RR 3,571 million (see Note 14).

Note 8: Property, plant and equipment

Appraised value or cost

	Electricity and heat generation	Electricity transmission	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2003	746,298	229,353	716,449	129,692	205,590	243,509	2,270,891
Additions	1,986	2,637	1,476	374	88,489	4,450	99,412
Transfers	30,365	23,426	19,479	7,686	(95,296)	14,340	-
Disposals	(3,871)	(1,486)	(2,963)	(1,528)	(6,625)	(6,636)	(23,109)
Disposals to associates	(3,955)	-	(6,177)	(319)	(292)	(932)	(11,675)
Closing balance as at 31 December 2004	770,823	253,930	728,264	135,905	191,866	254,731	2,335,519

Accumulated depreciation (including impairment)

	Electricity and heat generation	Electricity transmission	Electricity distribution	Heating networks	Construction in progress	Other	Total
Opening balance as at 31 December 2003	(462,352)	(131,279)	(509,391)	(93,870)	(25,595)	(176,225)	(1,398,712)
Charge for the period	(16,831)	(9,786)	(16,320)	(4,842)	(2,811)	(18,528)	(69,118)
Transfers	(2,403)	(1)	(955)	(235)	4,564	(970)	-
Disposals	3,662	1,161	2,828	1,329	505	6,336	15,821
Disposals to associates	3,228	-	4,969	317	43	814	9,371
Closing balance as at 31 December 2004	(474,696)	(139,905)	(518,869)	(97,301)	(23,294)	(188,573)	(1,442,638)
Net book value as at 31 December 2004	296,127	114,025	209,395	38,604	168,572	66,158	892,881
Net book value as at 31 December 2003	283,946	98,074	207,058	35,822	179,995	67,284	872,179

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

Depreciation is charged once an asset is available for service.

(in millions of Russian Roubles)

Note 8: Property, plant and equipment (continued)

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

The assets transferred to the Group upon privatisation did not include the land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registrator body or to formalize the right for rent. According to Russian legislation expiry date to this option is 1 January 2006. As at 31 December 2004, the majority of the Group's companies have not filed any application to exercise the purchase option.

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

	Year ended 31 December 2004	Year ended 31 December 2003
Non-cash acquisitions	14,089	12,630
Non-cash proceeds from the sale of property, plant and equipment	2,091	2,553

The majority of the non-cash acquisitions related to construction in progress.

Impairment. For the year ended 31 December 2004, management assessed the adequacy of the existing impairment provision and concluded that an additional impairment charge was needed due to changes in estimated future net cash flows related to certain fixed assets and construction in progress. An additional impairment provision of RR 3,687 million was recognised and included in line Depreciation and property, plant and equipment impairment of the statement of operation.

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.

Included in the impairment provision is RR 15,815 million related to items recorded as construction in progress, which currently are not planned to be completed and are therefore fully impaired.

Note 9. Investments in associates

The Group has investments in the following associated enterprises, both of which are incorporated and operate in Russia:

	31 December 2004		31 December 2003	
Enterprise name	**% Ownership**	**% Voting**	**% Ownership**	**% Voting**
RKS	25.0	25.0	25.0	25.0
Kurganenergo	49.0	49.0	49.0	49.0

(in millions of Russian Roubles)

Note 9. Investments in associates (continued)

	RKS	Kurganenergo	Total
Carrying value as at 31 December 2003	**196**	**-**	**196**
Transfer from subsidiaries	-	1,110	1,110
Share of loss of associates	(225)	(87)	(312)
Share of associates' tax benefit	29	7	36
Carrying value as at 31 December 2004	-	**1,030**	**1,030**

In May 2003, the Group acquired 25 percent of the share capital of a new entity, RKS. The entity was set up with the purpose to provide local utility services to customers.

During 2004 management re-assessed the level of control that the Group had over Kurganenergo and determined that this no longer amounted to control, but to significant influence. Consequently, as at 31 December 2004 the investment in Kurganenergo has been accounted for as an investment in an associate.

Note 10. Other non-current assets

	31 December 2004	31 December 2003
Available-for-sale investments (carried at cost)	4,866	6,962
Available-for-sale investments (carried at fair value)	2,996	2,589
Advances to contractors	17,306	10,830
Restructured trade receivables (Net of allowance for doubtful debtors of RR 4,169 million as at 31 December 2004 and RR 5,051 million as at 31 December 2003)	2,200	2,936
Other (Net of allowance of RR 865 million as at 31 December 2004 and nil as at 31 December 2003)	5,193	2,883
	32,561	26,200

Note 11: Cash and cash equivalents

	31 December 2004	31 December 2003
Cash at bank and in hand	22,413	19,982
Cash equivalents	12,880	9,856
Foreign currency accounts	551	2,140
	35,844	31,978

Cash equivalents comprise short term investments in bank promissory notes and certificates of deposit.

(in millions of Russian Roubles)

Note 12: Accounts receivable and prepayments

	31 December 2004	31 December 2003
Trade receivables (Net of allowance for doubtful debtors of RR 36,003 million as at 31 December 2004 and RR 40,527 million as at 31 December 2003)	44,271	43,590
Value added tax recoverable	28,940	24,445
Advances to suppliers and prepayments	13,224	14,577
Receivables from associates	1,809	151
Other receivables (Net of allowance for doubtful debtors of RR 6,491 million as at 31 December 2004 and RR 6,534 million as at 31 December 2003)	22,998	22,577
	111,242	105,340

At 31 December 2004 and 31 December 2003, the above other receivables balance included RR 7,921 million and RR 7,135 million of tax prepayments, respectively, which are to be settled against future tax liabilities.

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 16–25 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 Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements.

Certain trade receivables have been restructured and as a result are due to be realised more than one year from the balance sheet date (see Note 10). The loss on restructuring is included in doubtful debtors expense.

For the year ended 31 December 2004: approximately 7 percent (year ended 31 December 2003: 13 percent) of the Group's accounts receivables were settled via non-cash settlements.

Note 13: Inventories

	31 December 2004	31 December 2003
Materials and supplies	24,736	24,443
Fuel production stocks	15,656	16,858
Other inventories	1,564	1,430
	41,956	42,731

The above inventory balances are recorded net of an obsolescence provision of RR 2,185 million and RR 2,036 million as at 31 December 2004 and 31 December 2003, respectively.

At 31 December 2004 and 31 December 2003, the inventory balance included RR 16,502 million and RR 18,200 million, respectively, of inventory pledged as collateral under loan agreements.

(in millions of Russian Roubles)

Note 14: Shareholders' equity

Share Capital

	Number of shares issued and fully paid	31 December 2004	31 December 2003
Ordinary shares	41,041,753,984	147,439	147,439
Preference shares	2,075,149,384	7,667	7,667
		155,106	155,106

The authorised number of ordinary and preference shares are 47,509,289,488 and 2,075,149,384 respectively, both with a nominal value per share of 0.5 Russian Roubles.

Ordinary shares and preference shares. Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10 percent of net statutory profit. In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting. In liquidation preference shareholders are first paid any declared unpaid dividends and then the nominal value of the shares ("liquidation value"). Following this, preference shareholders participate equally in the distribution of remaining assets with ordinary shareholders.

Dividends. The annual statutory accounts of the parent company, RAO UES, are 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. For 2004, the statutory profit for the parent company, RAO UES, as reported in the published statutory reporting forms, was RR 24,069 million. However this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

A dividend was proposed by the Board of Directors in 2005 in respect of the year ended 31 December 2004 of RR 0.0559 per ordinary share and RR 0.2233 per preference share.

A dividend was declared in 2004 in respect of the year ended 31 December 2003 of RR 0.0469 per ordinary share and RR 0.2283 per preference share.

Fair value reserve. The fair value reserve, relating to the changes in the fair value of available-for-sale investments, at 31 December 2004 was a debit of 4,571 RR million (31 December 2003: a debit of RR 4,848 million), and is included in retained earnings and other reserves.

Translation reserve. The translation reserve, relating to the exchange differences arising on translation of the net assets of foreign subsidiaries, at 31 December 2004 was a debit of RR 268 million (31 December 2003: a debit of RR 350 million) and is included in retained earnings and other reserves.

Treasury shares. The Group periodically purchases and sells treasury shares. Treasury shares as at 31 December 2004 represent 467,812,021 (31 December 2003: 49,138,221) ordinary shares and 14,968,763 (31 December 2003: 16,768,863) preference shares.

	Cost as at 31 December 2003	Purchases and disposals, net	Cost as at 31 December 2004
Ordinary shares	300	3,571	3,871
Preference shares	55	(1)	54
	355	3,570	3,925

(in millions of Russian Roubles)

Note 15: Minority interest

	Year ended 31 December 2004	Year ended 31 December 2003
Opening balance, beginning of year	219,687	223,981
Change in fair value of available-for-sale investments	-	26
Share of net result	10,901	(2,701)
Acquisitions and changes in Group structure	920	205
Dividends	(3,875)	(1,824)
Closing balance, end of period	227,633	219,687

Dividends allocated to the minority interest include interim dividends at the amount of RR 1,744 million declared by the Group in 2004.

Note 16: Profit tax

Profit tax charge

	Year ended 31 December 2004	Year ended 31 December 2003
Current profit tax charge	(24,187)	(16,621)
Deferred profit tax benefit / (charge)	4,054	(8,133)
Share of associate's tax benefit	36	-
Total profit tax charge	(20,097)	(24,754)

During the year ended 31 December 2004 most members of the Group were subject to profit tax rates of 24 percent on taxable profit.

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

(in millions of Russian Roubles)

Note 16: Profit tax (continued)

Net income before profit tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	Year ended 31 December 2004	Year ended 31 December 2003
Income before profit tax	62,947	49,036
Theoretical profit tax charge at an average statutory tax rate of 24 percent	(15,107)	(11,769)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax interest and penalties release	1,749	1,318
Other non-deductible and non-taxable items, net	(8,408)	(5,229)
Effect of statutory revaluation on tax base	467	(7,856)
Non-recognised deferred tax assets movements	2,079	1,275
Losses carried forward	-	1,239
Other	(877)	(3,732)
Total profit tax charge	(20,097)	(24,754)

During 2002-2004, the Group established a number of new subsidiaries to perform electricity generation and transmission as separate legal entities. The value of the property, plant and equipment transferred was determined by a third party valuer. This valuation is used for Russian statutory and tax accounting purposes. Consequently, included within the effect of statutory revaluation for the year ended 31 December 2004 is a deferred tax benefit of RR 384 million in respect of the revaluation of assets transferred to newly established entities during 2004 (for the year ended 31 December 2003 deferred tax benefit amounted to RR 3,479 million).

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

Deferred profit tax liabilities

		Movement for the period recognised in:		
	31 December 2004	Statement of operations	Statement of changes in shareholders' equity	31 December 2003
Trade receivables	(6,151)	2,288	-	(8,439)
Property, plant and equipment	63,383	(1,909)	-	65,292
Accounts payable	2,368	(1,684)	-	4,052
Inventories	(408)	(68)	-	(340)
Losses carried forward	(631)	286	-	(917)
Other	(2,470)	(742)	25	(1,753)
	56,091	(1,829)	25	57,895

(in millions of Russian Roubles)

Note 16: Profit tax (continued)

Deferred profit tax assets

	31 December 2004	Movement for the period recognised in Statement of operations	Transfers to associates	31 December 2003
Trade receivables	2,123	(324)	-	2,447
Property, plant and equipment	10,076	87	-	9,989
Accounts payable	(518)	354	-	(872)
Inventories	106	7	-	99
Losses carried forward	505	183	-	322
Other	339	(161)	(169)	669
Deferred profit tax assets	12,631	146	(169)	12,654
Less: non-recognised deferred tax assets	(6,694)	2,079	-	(8,773)
	5,937	2,225	(169)	3,881

As at 31 December 2004 the Group has not recognized a deferred tax liability in respect of RR 48,095 million (31 December 2003: RR 55,872 million) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

Note 17: Non-current debt

	Currency	Effective interest rate	Due	31 December 2004	31 December 2003
Central and regional government loans	US$	LIBOR + 3.0%	2005 and thereafter	2,772	2,816
Central and regional government loans	RR	21.0% - 48.0%	2005 and thereafter	419	554
Bonds issued by subsidiaries	RR	9.0% - 18.0%	2005-2007	9,359	1,000
Bonds – RAO UES	RR	15.0%	2005	3,000	3,000
Bank debt from foreign banks	Euro	EURIBOR + 4.1%	2005	616	1,723
Bank debt from foreign banks	Euro	EURIBOR + 4.3%	2005 and thereafter	1,361	-
Bank debt from foreign banks	US$	LIBOR + 4.0%	2005-2007	1,260	1,714
Bank debt from foreign banks	US$	LIBOR + 3.5%	2005-2009	780	993
Bank debt from Russian banks	RR	12.0% - 16.0%	2005-2009	4,467	2,460
Bank debt from Russian banks	US$	LIBOR + 6.5%	2006	1,249	-
Other long-term debt				2,142	2,613
Total non-current debt				27,425	16,873
Less: current portion of non-current debt				(7,378)	(4,317)
				20,047	12,556

(in millions of Russian Roubles)

Note 17: Non-current debt (continued)

Maturity table

	31 December 2004	31 December 2003
Due for repayment		
Between one and two years	4,163	6,164
Between two and five years	14,100	4,353
After five years	1,784	2,039
	20,047	12,556

Except as otherwise noted, the majority of 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 loans and the current market rate for floating rate loans.

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

At the balance sheet date, the estimated fair value of total non-current debt (including the current portion) was RR 27,652 million (31 December 2003: RR 17,258 million), 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.

Note 18: Other non-current liabilities

	31 December 2004	31 December 2003
Taxes payable	12,010	21,276
Trade payables	720	1,588
Other	6,062	6,386
Total other non-current liabilities	18,792	29,250
Less: current portion of restructured liabilities	(1,757)	(5,048)
	17,035	24,202

In accordance with Government Resolution No. 1002 dated 3 September 1999, most members of the Group have restructured taxes including fines and interest to be repaid over a period of up to 10 years. Non-adherence to certain payment schedules could result in the gross amount of taxes payable including fines and interest becoming due on demand. Additionally, a number of Group entities have restructured trade payables to be repaid over a period of up to five years. Based on the contractual dates of repayment, discount rates of 21 - 24 percent have been used in the estimate of the fair value of these liabilities at the date of restructuring.

The discounting of the restructured payable amounts gives rise to a gain, as disclosed in Note 24.

The maturity profile is as follows:

	31 December 2004	31 December 2003
Between one and two years	2,430	4,572
Between two and five years	6,553	9,457
After five years	8,052	10,173
	17,035	24,202

(in millions of Russian Roubles)

Note 19: Current debt and current portion of non-current debt

	Effective interest rate	31 December 2004	31 December 2003
Current debt	7.0% - 16.0%	58,571	46,179
Current portion of non-current debt		7,378	4,317
		65,949	50,496

Note 20: Accounts payable and accrued charges

	31 December 2004	31 December 2003
Trade payables	44,898	51,683
Accrued liabilities and other creditors	36,018	34,625
Bills of exchange payable	747	2,040
Dividends payable	1,898	466
Payables to associates	-	16
Current portion of trade payables and other creditors restructured to long-term	304	928
	83,865	89,758

For the year ended 31 December 2004, approximately 14 percent (the year ended 31 December 2003: 18 percent) of the Group's accounts payable and accrued charges were settled via non-cash settlements.

Restructured trade payables which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 18. The effect of restructuring the trade payables is included in Note 24.

Accrued liabilities and other creditors as at 31 December 2004 include an accrual of RR 323 million for compensation to employees whose services are to be terminated during the course of the restructuring process (31 December 2003: RR 1,079 million). The plans, including the amount of such compensation, number of employees and the approximate timing whereby such payments will be made, have been approved by the Boards of Directors of the affected Group entities.

Note 21: Taxes payable

	31 December 2004	31 December 2003
Value added tax	21,608	21,568
Fines and interest	8,217	8,429
Profit tax	4,715	4,395
Property tax	1,461	2,110
Employee taxes	2,294	2,234
Other taxes	2,979	2,787
Current portion of taxes restructured to long-term	1,453	4,120
	42,727	45,643

(in millions of Russian Roubles)

Note 21: Taxes payable (continued)

Included in the payable for value added tax is RR 16,021 which only becomes payable to the authorities when the underlying receivables balance is either recovered or written off (31 December 2003: RR 16,649 million).

The principal tax liabilities past due, excluding the amounts which have been restructured, accrue interest each day at one three hundredth of the current refinance rate of the Central Bank of the Russian Federation. As at 31 December 2004 the refinance rate was 13 percent (31 December 2003: 16 percent). Interest does not accrue on tax fines and interest.

Restructured taxes, including fines and interest, which are payable more than one year from the balance sheet date are reflected within other non-current liabilities as described in Note 18. The gain on restructuring the taxes payable is included in Note 24.

For the year ended 31 December 2004, approximately 1 percent (the year ended 31 December 2003: 1 percent) of the Group's taxes payable were settled via non-cash settlements.

Note 22: Governmental assistance

During the year ended 31 December 2004 the Federal government of the Russian Federation and regional governments gave financial assistance equal to RR 5,147 million (year ended 31 December 2003: RR 4,063 million) for certain entities in the Far East region and RR 1,566 million (year ended 31 December 2003: RR 1,137 million) for other Group entities. The assistance in respect of these periods has been recorded as revenue in the statement of operations.

Note 23: Other expenses

	Year ended 31 December 2004	Year ended 31 December 2003
Rent	4,925	2,521
Consulting, legal and information services	4,645	3,045
Transportation services	2,875	2,136
Security services	3,247	1,910
Fines and interest, other than on taxes	2,857	3,318
Charges from Energonadzor and RSTs	2,828	2,256
Bank services	2,462	2,057
Charity expenses	2,263	1,414
Media-Holding REN-TV expenses	1,598	1,774
Connection services	1,316	1,356
Business trip expenses	1,168	972
Purchased heat	1,236	1,147
Expenses related to restructuring process	1,499	1,733
Labor protection costs	719	759
Other	33,294	25,407
	66,932	51,805

(in millions of Russian Roubles)

Note 24: Net financing expenses

	Year ended 31 December 2004	Year ended 31 December 2003
Gain on restructured accounts payable and taxes payable	1,224	1,902
Interest expense	(18,833)	(18,849)
Foreign exchange gain	774	1,560
	(16,835)	(15,387)

The discounting of restructured payable amounts gives rise to gain. Subsequent to its initial recognition, the discount is amortized over the period of the restructuring as an expense; RR 10,353 million of such amortisation was included in interest expense for the year ended 31 December 2004 (year ended 31 December 2003: RR 11,112 million. Further information on the restructuring of accounts payable and taxes payable is contained in Notes 18, 20 and 21.

Note 25: Earnings per share

	Year ended 31 December 2004	Year ended 31 December 2003
Weighted average number of ordinary shares outstanding (thousands)	41,041,754	41,041,754
Weighted average number of preference shares outstanding (thousands)	2,075,149	2,075,149
Adjustment for weighted average number of treasury shares (thousands)	(135,035)	(154,142)
Weighted average number of ordinary and preference shares outstanding (thousands)	42,981,868	42,962,761
Net income	31,949	26,983
Earnings per ordinary and preference share – basic and diluted (in Russian Roubles)	0.74	0.63

Note 26: Commitments

Sales commitments. The Group has entered into a contract with TOO Kazenergoresource, a contract with concern Belenergo and two contracts with TPK Sirius.

The contract with TOO Kazenergoresource specifies the supply of 1.44 million MWh of electricity per year. The price for electricity supplied is USD 22 per MWh for the period 1 July 2004 to 31 December 2004 and USD 24.7 per MWh since 1 January 2005. The contract shall be executed in USD or RR as agreed with the supplier. The contract expires in March 2008.

The contract with concern Belenergo specifies the supply of 5,5 million MWh of electricity in 2005 and 4,5 million MWh of electricity in 2006 and 2007 each year. The price for electricity supplied is USD 20,3 per MWh. The contract shall be executed in USD or RR. The contract expires in December 2007.

Two contracts with TPK Sirius specify the supply of 16.52 million MWh of electricity for the period 26 May 2004 to 31 December 2013. The price for electricity supplied is USD 18 for the period 26 May 2004 to 31 December 2004. According to the contracts terms the price of the actually supplied electrical power shall increase, if the actual hourly capacity and the quantity of the electrical power differ by more than 10% from the agreed figures. The price of the electrical power to be supplied is determined annually on the basis of the supplementary agreements. The contracts will be executed in USD.

Note 26: Commitments (continued)

Purchase commitment. The Group concluded agreements with its electricity suppliers Ekibastuzskaya GRES-2 and OAO Elektricheskie Stantsii.

In August 2003 the Group concluded the agreement with its electricity supplier, Ekibastuzskaya GRES-2, for the period 2003-2007. The quantity of electricity to be supplied is 6 million MWh per annum. The price for the period September 2004 to December 2005 is fixed in the amount of RR 276 per MWh. The average price for the period 1 January 2006 to 31 December 2007 will be defined by an additional agreement, but the average price will not vary by more than 10 percent from the latest price.

The agreement with OAO Elektricheskie Stantsii specifies the supply of 1.5 million MWh per annum. The price is USD 6 per MWh. According to the contract terms the price may increase by not more than 10% per year, price revision is possible two times per year. The contract shall be executed in USD. The contract expires in December 2008.

Fuel commitments. Group entities have numerous fuel contracts. These fuel contracts represent less than the total annual fuel requirement of the Group. Additional fuel requirements are purchased through short-term agreements and on a spot basis from a variety of suppliers. Prices under the Group's natural gas and coal contracts are generally determined by reference to base amounts adjusted to reflect provisions for changes in regulatory prices, published inflation indices and current market prices.

Social commitments. 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. Future capital expenditures for which contracts have been signed amount to RR 46 555 million at 31 December 2004 and RR 43,517 million at 31 December 2003.

Note 27: Contingencies

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

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

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

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

At present, RAO UES is involved in litigation with the tax authorities with regard to a claim of RR 3,679 million made against RAO UES in respect of profit tax. RAO UES management believes that the claim is without merit and that the probability of a favorable outcome is high. Consequently, no liability has been accrued in respect of the claim.

Note 27: Contingencies (continued)

As at 31 December 2004 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

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

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in the accompanying consolidated balance sheet.

Note 28: Financial instruments and financial risk factors

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

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

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

Foreign exchange risk. The Group primarily operates within the Russian Federation, with minimal exports of electricity. The majority of the Group's purchases are denominated in Russian Roubles. The major concentration of foreign exchange risk is in relation to foreign currency denominated sales and purchase commitments (as disclosed in Note 26) and foreign currency denominated debt (as disclosed in Note 17).

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets.

Note 29: Subsequent events

In February 2005, Inter RAO UES, a Group entity, established together with the Government of the Republic of Tadjikistan a company OAO Sangtudinskaya GES-1. Inter RAO UES owns a 75 percent interest in the OAO Sangtudinskaya GES-1. The Company has been created in accordance with the Inter-governmental Agreement between the Russian Federation and the Republic of Tadjikistan for construction of Sangtudinskaya GES-1 in the Republic of Tadjikistan. The Group's future capital expenditures in connection with construction of Sangtudinskaya GES-1 amounts to RR 16 500 mln.

In March 2005, RAO Nordic, a Group entity, acquired 51 percent of the shares of ZAO Moldavskaya GRES (Republic of Moldova, Pridnestrovski region). The total consideration paid in cash was RR 1 400 mln (US$ 50 mln).

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 and various governmental bodies, is conducting an investigation into the causes of the failure. It is possible that power consumers may call for reimbursement of alleged damages incurred as a result of the outages. As of the date of issuing these consolidated financial statements management does not believe that it is practicable to determine the financial consequences, if any, for the Group that could result from any such claims being asserted and contested, but the consequences could have a material adverse impact on the Group's financial condition.

In June 2005, Interenergo, a Group entity, acquired 100 percent of the shares of ZAO Electricheskie Seti Armenii (Republic of Armenia). The total consideration paid in cash was RR 2 029 mln (US$ 73 mln).