

Substantiation of the procedure and conditions of reorganization of RAO UES of Russia, OAO OGK-5 Holding and OAO TGK-5 Holding as mentioned in the spin-off resolution and merger agreements

The General Meeting is proposed to resolve on reorganization of RAO UES of Russia through a spin-off of two companies, OAO OGK-5 Holding and OAO TGK-5 Holding, and merger of these two companies with OAO OGK-5 and OAO TGK-5 respectively.

Restructuring of RAO UES of Russia is done pursuant to the “5+5” Strategy Concept of RAO UES of Russia for the period from 2003 to 2008 as approved by the Board of Directors.

The Board of Directors of RAO UES of Russia has taken all corporate actions required to complete phase 2. Corporate procedures in RAO UES of Russia’s affiliates and subsidiaries (such as shareholder meetings, amendments to the Uniform State Register of Legal Entities, registration of share issue results, etc.) will be completed by mid 2007.

Therefore, the restructuring of RAO UES of Russia enters the final phase, i.e. preparation for reorganization and reorganization of RAO UES of Russia. Upon completion of reorganization, RAO UES of Russia’s shareholders will receive shares held by RAO UES of Russia in the target companies (OGK, TGK, FSK, etc.) pro rata their shareholding interest in the authorized capital of RAO UES of Russia. A target structure within the power industry will be set up, and favourable conditions will be created for launching a competitive wholesale power market.

It is proposed to reorganize RAO UES of Russia in two phases:

- Spin-off of OAO OGK-5 Holding and OAO TGK-5 Holding (2006 to 2007);
- Unbundling of RAO UES of Russia (2007 – mid 2008).

A special feature about RAO UES of Russia reorganization in 2006-2007 is the spin-off of **OAO OGK-5 Holding** and **OAO TGK-5 Holding**, who will start to account the blocks of shares in **OAO OGK-5** and **OAO TGK-5 respectively** on their balance sheets. At the same time, in compliance with the amendments to the Federal Law “On Joint-Stock Companies”, **OAO OGK-5 Holding** and **OAO TGK-5 Holding** will merge with **OAO OGK-5** and **OAO TGK-5 respectively**.

Therefore, as a result of such reorganization RAO UES of Russia’s shareholders will receive shares in OAO OGK-5 and OAO TGK-5.

At phase 1 of reorganization it is proposed to spin-off OAO OGK-5 and OAO TGK-5 from RAO UES of Russia. OAO OGK-5 and OAO TGK-5 were chosen primarily because establishment of these companies has been fully completed and they are ready to function independently to the full extent, including to implement promising investment projects.

To secure the rights and interests of shareholders, the shares on new joint-stock companies emerging through the reorganization RAO UES of Russia will be distributed pro rata each shareholder’s interest in the authorized capital of RAO UES of Russia taking account of the regulations applicable in the Russian Federation. The shares in new joint-stock companies distributed to RAO UES of Russia’s shareholders will be converted into shares in OAO OGK-

5 and OAO TGK-5 subject to the conversion coefficient as specified in the reorganization resolution.

No extra payment will be charged for distribution of shares in the new companies.

The shareholder interests during the reorganization will be additionally secured by the right of shareholders, who voted against or abstained from voting on the reorganization issues, to request that RAO UES of Russia redeem the shares held by such shareholders. Shares will be redeemed at the price set by the Board of directors of RAO UES of Russia by engaging an independent appraiser. The share redemption procedure is provided for by the Federal Law “On Joint-Stock Companies” and will be advised to the shareholders in the notice of general meeting of shareholders of RAO UES of Russia.

The rights of creditors during the reorganization of RAO UES of Russia will be secured by notifying the creditors of RAO UES of Russia’s resolution to reorganize and the right of such creditors (if any) to demand termination or early discharge of obligations. Such right is provided for by the Civil Law of the Russian Federation and the Federal Law “On Joint-Stock Companies”. Thus, pursuant to paragraph 6 of Article 15 of the Federal Law “On Joint-Stock Companies”, RAO UES of Russia’s creditors may, within 30 days from published announcement of such a resolution or within 30 days from delivery of such a notice, give a request in writing for termination or early discharge of the respective obligations of the Company and reimbursement of damage.

RAO UES of Russia will be reorganized in compliance with the Russian Federation regulatory documents, in particular, the Civil Law of the Russian Federation; the Federal Law “On Joint-Stock Companies”; the Federal Law “On the details of performance of power industry in the transition period, and amendments to certain regulatory documents of the Russian Federation and invalidation of certain regulatory documents of the Russian Federation in view of adoption of the Federal Law “On Power Industry””; the Federal Law “On State Registration of Legal Entities”; the Federal Law “On Power Industry”; the Federal Law “On Natural Monopolies”, etc.

