

**OPEN JOINT STOCK COMPANY
“INTERREGIONAL DISTRIBUTIVE GRID COMPANY
OF CENTRAL RUSSIA AND NORTHERN CAUCASUS”**

**IFRS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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AUDITORS' REPORT

To the shareholders of Open Joint Stock Company "Interregional Distributive Grid Company of Central Russia and Northern Caucasus"

- 1 We have audited the accompanying balance sheet of OJSC " Interregional Distributive Grid Company of Central Russia and Northern Caucasus" (the "Company") as of 31 December 2005, and the related statements of operations, of cash flow and of changes in shareholders' equity for the year then ended. These financial statements (as set out on pages 4 to 24) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
21 July 2006

OJSC "Interregional Distributive Grid Company of Central Russia and Northern Caucasus"
 Balance sheet as at 31 December 2005
 (in thousands of Russian Roubles)

	Notes	31 December 2005	31 December 2004
ASSETS			
Non-current assets			
Property, plant and equipment	6	11,085	-
Deferred tax assets	10	8,815	-
Total non-current assets		19,900	-
Current assets			
Cash and cash equivalents	7	7,988	4,999
Accounts receivable and prepayments	8	108,503	5,000
Inventories		370	-
Total current assets		116,861	9,999
TOTAL ASSETS		136,761	9,999
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	9	10,000	10,000
Retained earnings/(Accumulated loss)	9	55	(1)
Total shareholders' equity		10,055	9,999
Non-current liabilities			
Deferred tax liabilities	10	409	-
Total non-current liabilities		409	-
Current liabilities			
Account payable and accrued charges	11	113,277	-
Taxes payable	12	13,020	-
Total current liabilities		126,297	-
Total liabilities		126,706	-
TOTAL EQUITY AND LIABILITIES		136,761	9,999

Director on Economics and Finance
 (under Power of Attorney)

Chief Accountant



E.A. Bronnikov

S.Y. Puzenko

E.A. Bronnikov

S.Y. Puzenko

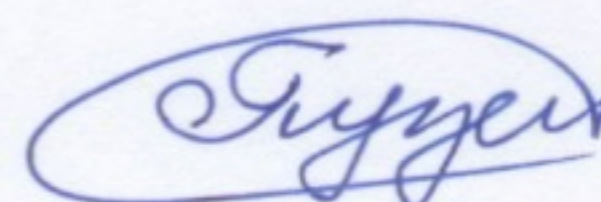
21 July 2006

OJSC "Interregional Distributive Grid Company of Central Russia and Northern Caucasus"
Income Statement for the year ended 31 December 2005
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2005	Period from 17 December 2004 to 31 December 2004
Revenues			
Consulting and information services	5	348,538	-
Total revenues		348,538	-
Operating expenses			
Staff costs		(188,315)	-
Depreciation of property, plant and equipment		(402)	-
Lease expense	6	(21,379)	-
Other materials		(2,722)	-
Outsourcing treasury and accounting services		(4,285)	-
Telecommunication services		(2,916)	-
Consulting, legal and information services		(114,927)	-
Other expenses	13	(10,103)	(1)
Total operating expenses		(345,049)	(1)
Operating profit/(loss)		3,489	(1)
Financial income – net		63	-
Profit/(loss) before profit tax		3,552	(1)
Profit tax expense	10	(3,496)	-
Profit/(loss) for the period		56	(1)

Director on Economics and Finance
(under Power of Attorney)

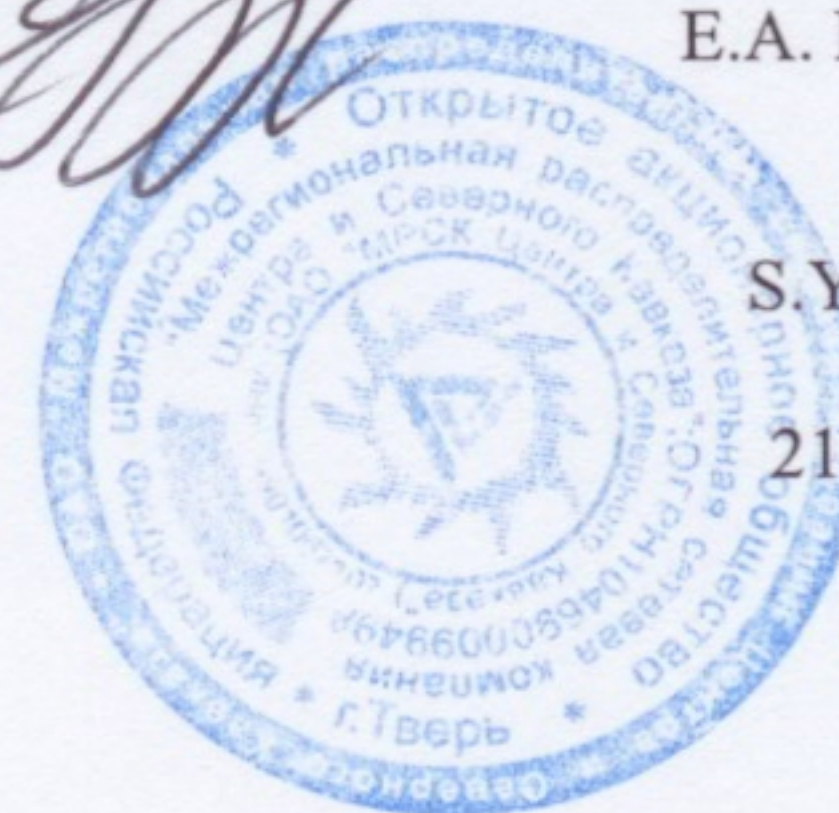
Chief Accountant




E.A. Bronnikov

S.Y. Puzenko

21 July 2006



OJSC "Interregional Distributive Grid Company of Central Russia and Northern Caucasus"
Cash Flow Statement for the year ended 31 December 2005
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2005	Period from 17 December 2004 to 31 December 2004
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit/(loss) before profit tax		3,552	(1)
Adjustments to reconcile profit/(loss) before profit tax to net cash provided by operations:			
Depreciation of property, plant and equipment		402	-
Provisions		88,574	-
Net operating cash flow before changes in working capital and profit tax paid			
Working capital changes:			
Increase in accounts receivable and prepayments		(88,068)	-
Increase in inventories		(370)	-
Increase in accounts payable and accrued charges		24,703	-
Increase in taxes payable, other than profits tax		13,020	-
Profit tax paid		(32,337)	-
Net cash generated by operating activities		9,476	(1)
CASH FLOW FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	6	(11,487)	-
Net cash used for investing activities		(11,487)	-
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from issuance of ordinary shares	9	5,000	5,000
Net cash generated by financing activities		5,000	5,000
Increase in cash and cash equivalents		2,989	4,999
Cash and cash equivalents at the beginning of the period		4,999	-
Cash and cash equivalents at the end of period	7	7,988	4,999

Director on Economics and Finance
(under Power of Attorney)

Chief Accountant

E.A. Bronnikov

S.Y. Puzenko

21 July 2006



OJSC "Interregional Distributive Grid Company of Central Russia and Northern Caucasus"
 Statement of Changes in Shareholders' Equity for the year ended 31 December 2005
 (in thousands of Russian Roubles)

	Notes	Share capital	Retained earnings/ Accumulated loss	Total equity
Balance as at 17 December 2004		-	-	-
Loss for the period		-	(1)	(1)
Issue of ordinary shares	9	10,000	-	10,000
Balance as at 31 December 2004		10,000	(1)	9,999
Balance as at 31 December 2004		10,000	(1)	9,999
Profit for the period		-	56	56
Balance as at 31 December 2005		10,000	55	10,055

Director on Economics and Finance
 (under Power of Attorney)

Chief Accountant



E.A. Bronnikov

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S.Y. Puzenko

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21 July 2006

Note 1: General information

Open Joint Stock Company "Interregional Distributive Grid Company of Central Russia and Northern Caucasus" (the "Company") was created on 17 December 2004 following Directive No. 154r of the Russian Joint Stock Company for Energy and Electrification United Energy Systems of Russia ("RAO UES") of 09 December 2004 and in pursuance of resolution of the Board of Directors of RAO UES (minutes No. 178 of 1 October 2004) and resolution of the Management Board of RAO UES (minutes No. 1102pr/b of 15 November 2004).

The Company's registered office is located at 55 Kalinina prospect, 170001 Tver, Russia.

The Company is a subsidiary of RAO UES which owns 100% of the Company's voting stock.

The creation of the Company is an integral part of the approved reformation plan of Russian electricity power sector which provides for interregional integration of newly incorporated entities after the unbundling of energy companies by types of activities.

The Company performs its activities on the territory of 1,464 mln. sq. km.

The structure of the Company includes 4 branches – Chernozhemny, Zapadny, Yuzhny and Verkhnevolzhsky. The Company's main office is located at 4/2 Glukharev pereulok, 129090, Moscow, Russia.

The Company's major task is to effectively manage the distribution grid of energy systems of Central Region and Northern Caucasus ensuring safe operation and development of distribution grids.

In accordance with the resolution of the Board of Directors of RAO UES No. 168 of 23 April 2004 the Company will include 32 regional grid companies of Central Region and North Caucasus.

(a) Relations with the state and current regulation

At 31 December 2005 the Government of the Russian Federation owned 52.7 percent of RAO UES, which represents 55.0 percent of the ordinary shares issued. At 31 December 2005 RAO UES in its turn owned 100 percent of voting stock of the Company. In view of the above, the government's economic, social and other policies could have material effects on the operations of the Company.

(b) Regulatory and sector restructuring

The Russian electric utilities industry is presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which energy companies can raise the capital required to maintain and expand their 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 after the completion of reforms, is set forth in the following legislation: Federal Law No.35-FZ of 26 March 2003 "On Electric Utilities" and Federal Law No.36-FZ of 26 March 2003 "On the

Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation" ("Federal Law No.36-FZ").

- In 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 in the European part of Russia and the Ural. Starting from May 2005 the free trading sector was extended to include Siberia. Starting from October 2005 competitive sector of deviations began to work. According to the laws underlying the electric utilities reform, free trading will subsequently be extended over the whole volume of trading.

- 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, distribution grid companies ("DGCs") will be established and their shares will be exchanged for the shares of IDGCs.

- In accordance with the decree of the Government of Russian Federation the Company plans to complete the restructuring process before 31 December 2007. The restructuring process implies an additional share issue of the Company paid in by RAO UES with the shares of the grid companies of Central region and Northern Caucasus. Initial public offering of the Company is scheduled for 2008.

At this time the impact of the industry changes on both the financial results and position of the Company cannot be readily assessed because the specific, detailed mechanisms to effect the restructuring are still being determined. Accordingly, no provision has been recognized for the effects of the restructuring process.

During its first year of operations which ended on 31 December 2005 the Company rendered consulting and information services on improvement of the management system of regional grid companies ("RGCs") of Central region and Northern Caucasus for which the Company is responsible with the aim of further establishing a unified approach to financial reporting and collection of full and fair information on the financial position, operating results and cash flows of the RGCs which will subsequently form the OJSC "Interregional Distributive Grid Company of Central Russia and Northern Caucasus" group.

Note 2: Basis of presentation

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

The Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS. As the Company was incorporated on 17 December 2004, these financial statements incorporate two periods. Period from 17 December 2004 up to 31 December 2004 is treated as a separate financial year. During that financial year the Company was registered, part of its share capital was paid in and the only expense incurred was bank charges for current bank account.

(a) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR) which is the functional currency of the Company and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

(b) Accrual basis

In preparation of these Financial Statements results of operations and other business events were recognized and recorded as they occurred and in the periods when they occurred.

(c) New accounting developments

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

- IFRS 7 "Financial Instruments: Disclosures" which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.
- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.
- Amendment to IAS 19 "Employee Benefits" which is effective for annual periods beginning on or after 1 January 2006. The amendment to IAS 19 introduces an additional option to recognize actuarial gains and losses arising in post-employment benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employees.
- Amendment to IAS 21 "Net Investment in a Foreign Operation" which is effective for annual periods beginning on or after 1 January 2006. This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends

the definition of 'net investment in a foreign operation' to include loans between sister companies.

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – the Fair Value Option" which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss". The Company has not yet completed its analysis of the impact on the amendment.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions" which is effective for annual periods beginning on or after 1 January 2006. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts", which is effective for annual periods beginning on or after 1 January 2006. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.
- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" which are effective for annual periods beginning on or after 1 January 2006. This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.
- IFRS 6 "Exploration for and Evaluation of Mineral Resources" which is effective for annual periods beginning on or after 1 January 2006. IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.
- IFRIC 4 "Determining whether an Arrangement Contains a Lease" which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease. The Company has not yet completed its analysis of the impact of the new Interpretation.
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" which is effective for annual periods beginning on or after 1 January 2006. Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.
- IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment" which is effective for annual periods beginning on or after 1 December 2005, that is from 1 January 2006. The Interpretation states that a liability shared among market

participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

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

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

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

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

Note 3: Summary of significant accounting policies

(a) Property, plant and equipment

Property, plant and equipment are initially recognized when the title and associated property risks are transferred to the Company in accordance with contracts.

After the initial recognition as an asset the item of property, plant and equipment is carried at its historical cost less accumulated depreciation and impairment loss (if any).

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the Income statement. An impairment loss recognized in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount. In 2005 no such indicators have been identified.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation commences starting with the month following the one in which the asset was transferred into operation. The estimated useful lives of the Company's assets are as follows:

	Years
Computers	3-5 years
Communication equipment	10-15 years
Furniture	5-15 years
Other	3-20 years

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(b) Cash and cash equivalents

Cash comprises cash in hand and cash deposited on demand in banks. Cash equivalents comprise short-term highly liquid investments, bank promissory notes and deposit certificates which are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value. The Company had no cash equivalents as at 31 December 2005 and 2004.

(c) Foreign currency translation

Monetary assets and liabilities are translated into the Company's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Company's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

In 2005 and 2004 the Company had no significant foreign currency transactions.

(d) Accounts receivable and prepayments

Accounts receivable and prepayments include receivables from customers and clients, advance payments to suppliers, prepaid taxes and recoverable VAT, cash advances to employees and other receivables.

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 Company 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. No allowance for doubtful debtors was created by the Company as at 31 December 2005.

(e) Shareholders' equity

Shareholders' equity is the share of the Company's assets after deduction of all its liabilities which includes share capital and accumulated loss.

(f) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

(g) Accounts payable and accrued charges

Accounts payable are the Company's payables to other entities or individuals (creditors). Payables are recognized on a gross basis by each counterparty and contract. If under a contract the Company simultaneously has prepayments and accounts payable at the reporting date, such amounts are stated net.

Accounts payable are stated at the cost of inventories acquired, services received or work performed as specified in the respective contract or at the amount of cash obtained as an advance (prepayment) and recorded inclusive of VAT. Payables are recognized at the moment of transfer to the Company of title and associated risks under the relevant inventories contract or acceptance by the Company of services (work) or upon receipt of the counterparty's advance.

(h) Payables to personnel

The Company creates a provision for annual leave of personnel. The provision for future payables for annual leaves is determined based on the number of vacation days outstanding, weighted average payroll costs and obligatory payments of the unified social tax. Previously recognized provisions are reduced by the amount of amounts actually paid.

Staff bonuses comprise periodic payments, the amount and payment procedure of which is determined by the Company management.

(i) Value added tax on purchases and sales

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (deferred VAT) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability.

(j) Tax settlements

Expenses, assets and liabilities on taxes and levies and tax penalties are recognized in accordance with regulations on accounting and reporting of the Russian Federation.

Settlements on personal income tax of employees are recorded in the "Staff costs" line of the Income Statement.

Other tax expenses (except for profit tax) are recorded in "Taxes other than on income" line of the Income Statement.

(k) Operating revenue

Revenue is recognized on the rendering of consulting services to regional grid companies. Revenue amounts are presented exclusively of value added taxes. Revenue is recognized in the amount of the cost of services purchased from third parties and own expenses of the Company multiplied by a profitability ratio set by the decision of the parent company.

(l) Profit tax

Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

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

(m) Provisions and contingent liabilities

Provisions, including provisions for tax claims, environmental liabilities and asset retirement obligations, are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognized immediately based on the present value of the expected future cash flows arising from the obligations and recorded within either other long-term or current liabilities.

(n) Dividends

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

(o) Fair value measurement

The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrowers at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments. The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the close of business on the reporting date.

Note 4: Critical Accounting Estimates and Professional Judgments in Applying Accounting Policies

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

(a) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 14.

(b) Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on Financial year 2005 taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Note 5: Related parties

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

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

(a) Parent

RAO UES of Russia owns 100% of the ordinary voting shares of the Company and has effective control over the Company's operations. The Russian Government is the ultimate controlling party of the Company, owning 52.6 % of RAO UES of Russia.

In the reporting period the Company did not have transactions with RAO UES of Russia.

(b) Other related parties (entities under common control)

The Company's income during the reporting period was received from regional grid companies ("RGCs"), which are owned by RAO UES of Russia, for consulting and information services on improvement of governance systems rendered under respective contracts. Pricing policy for consulting services is disclosed in Note 3.

Recognized expenses on related party transactions include expenses for the lease of non-residential premises and accounting services rendered. Lease rates and prices for services rendered are market-based.

All receivables and payables on transactions with related parties are current assets and liabilities.

OJSC "Interregional Distributive Grid Company of Central Russia and Northern Caucasus"
 Notes to the Financial statements for the year ended 31 December 2005
 (in thousands of Russian Roubles)

The Company's balances and transactions with related parties were as follows:

Related parties	Income in 2005	Expense in 2005	Accounts receivable at 31 December 2005	Accounts payable at 31 December 2005
OAo Vladimirenergo	8,965	-	2,064	-
OAo Volgogradenergo	23,271	-	7,844	-
OAo Voronezhenergo	8,470	-	5,000	-
OAo Ivenergo	6,406	-	1,080	-
OAo Kalugaenergo	8,656	-	1,149	-
OAo Kurskenergo	15,579	-	1,974	-
OAo Lipetskenergo	19,799	-	6,675	-
OAo Corporate Service Systems	-	(19,377)	-	5,182
OAo Nizhnovenergo	23,946	-	2,537	-
OAo Tverenergo	18,234	-	6,147	-
OAo Tulaenergo	15,448	-	2,604	-
OAo Yarenergo	13,970	-	2,355	-
OAo Bryanskenergo	7,477	-	101	-
OAo Smolenskenergo	15,109	-	2,547	-
OAo Rostovenergo	28,881	-	4,431	804
OAo Stavropolenergo	14,083	-	2,374	-
OAo Moskovskaya Oblastnaya Power Grid Company	42,295	-	1,940	-
OAo Belgorodenergo	39,192	(8,949)	14,558	2,930
OAo Orelenergo	8,123	-	-	-
OAo Astrakhanenergo	5,916	-	-	-
OAo Kostromaenergo	6,837	-	-	-
OAo Ryazanenergo	9,594	-	-	-
OAo Tambovenergo	8,251	-	-	-
	348,502	(28,326)	65,380	8,916

(c) State-controlled entities

In the normal course of business the Company enters into transactions with other entities under Government control, including RAO UES of Russia and its subsidiaries, state-controlled banks and various governmental bodies. Taxes are accrued and settled in accordance with the Russian tax legislation. Bank services are provided on the basis of market rates.

As at 31 December 2005 and 2004 the cash and cash equivalents balance included RR 2,471 thousands and RR 4,999 thousands, respectively, of cash held in OAO Vneshtorgbank. See also Note 7.

(d) Directors' compensation

In 2005 the Board of Directors of the Company comprised nine members (2004 – nine members). According to the Regulation on Compensations to the Members of the Board of Directors, compensations and remunerations are paid to the Board members for participation in the Board meetings and based on the performance for the period. No remuneration was paid to members of the Board of Directors for 2005.

The Company paid to key management personnel (comprised four individuals) salary and bonuses in the total amount of RR 18,427 thousands for the year ended 31 December 2005 (no salary and bonuses were paid during the period from 17 December 2004 to 31 December 2004). Salary and bonus compensation paid to key management are determined by the terms of employment contracts.

Note 6: Property, plant and equipment

	Furniture	Computers	Communication equipment	Other	Total
Historic cost					
Opening balance as at 1 January 2005	-	-	-	-	-
Additions	5,281	5,149	245	812	11,487
Closing balance as at 31 December 2005	5,281	5,149	245	812	11,487
Accumulated depreciation					
Opening balance as at 1 January 2005	-	-	-	-	-
Charge for the period	(142)	(193)	(18)	(49)	(402)
Closing balance as at 31 December 2005	(142)	(193)	(18)	(49)	(402)
Net book value as at 1 January 2005	-	-	-	-	-
Net book value as at 31 December 2005	5,139	4,956	227	763	11,085

No indicators of possible impairment of property, plant and equipment were identified.

(a) Operating lease

The Company uses office premises and vehicles under operating lease. Lease payments are established in lease contracts and are as follows:

	Amount of lease payments for 12 months of 2005	Amount of lease payments for the period from 17 December 2004 to 31 December 2004
Lease agreements under 1 year	21,379	-

In 2004 and 2005 the Company did not enter into any non-cancellable operating lease contracts.

Note 7: Cash and cash equivalents

Cash and cash equivalents as at 31 December 2005 and 2004 mainly comprise balances on current accounts in the following banks:

	As at 31 December 2005	As at 31 December 2004
OAo Vneshtorgbank	2,471	4,999
AKB Evrofinance	5,517	
	7,988	4,999

As at 31 December 2005 and 2004 the Company had no foreign currency balances.

Note 8: Accounts receivable and prepayments

	As at 31 December 2005	As at 31 December 2004
Trade receivables	65,380	-
Advances to suppliers and prepayments	7,270	-
Overpayment on current profit tax	20,435	-
Overpayment of VAT to the budget	11,725	-
VAT recoverable	2,648	-
Prepaid expense	711	-
Overpayment of charges to the non- budgetary funds	23	-
Other receivables	311	5,000
	108,503	5,000

Trade receivables by customers is presented in Note 5. Other receivables as at 31 December 2005 include amounts of advances issued to employees of the Company, and as at 31 December 2004 include unpaid part of share capital.

Management believes that the Company will be able to realize the net receivable amount through direct collections and therefore the recorded value approximates their fair value. No allowance for doubtful debtors has been provided for by the Company.

Note 9: Shareholders' Equity

(a) Share capital

Share capital authorized and issued as at 31 December 2005 and 2004 consists of 100,000,000 ordinary shares respectively, each with a nominal par value of RR 0.1. All issued ordinary shares are fully paid as at 31 December 2005. Number of ordinary shares issued but not fully paid was 50,000,000 as at 31 December 2004.

(b) Retained earnings

The statutory accounts of the Company are the basis for profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit for the year. For 2005 the statutory profit for the Company as reported in the published statutory reporting forms was RR 2,446 thousand.

Note 10: Profit tax

(a) Profit tax expense

	For the year ended 31 December 2005	For the period from 17 December 2004 to 31 December 2004
Current profit tax expense	(11,902)	-
Deferred profit tax benefit	8,406	-
Total profit tax expense	(3,496)	-

During the year ended 31 December 2005 and the period from 17 December 2004 to 31 December 2004 the Company was subject to profit tax rate of 24 percent on taxable profit.

(b) Reconciliation between net profit before profit tax for financial reporting purposes and profit tax expenses

	For the year ended 31 December 2005	For the period from 17 December 2004 to 31 December 2004
Profit/ (loss) before profit tax	3,552	(1)
Theoretical profit tax benefit/(expense) at an average statutory tax rate of 24 percent	(853)	-
Tax effect of items which are not deductible for taxation purposes:		
Other non-deductible and non-taxable items, net (permanent profit tax liability)	(2,643)	-
Total profit tax charge	(3,496)	-

(c) 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.

Movements in deferred profit tax assets and liabilities for the year ended on 31 December 2005 recognized in Income Statement were as follows:

	As at 31 December 2004	Movement in temporary differences	As at 31 December 2005
Deferred tax assets			
Provisions for staff costs	-	8,745	8,745
Other	-	70	70
Deferred tax liabilities			
Property, plant and equipment	-	(409)	(409)
Net deferred tax assets	-	8,406	8,406

Note 11: Accounts payable and accrued charges

	As at 31 December 2005	As at 31 December 2004
Trade payables	17,856	-
Payables to employees	6,608	-
Provision for unutilized vacation	4,850	-
Provision for future payables on annual bonuses to staff	83,724	-
Accrued liabilities and other creditors	239	-
	113,277	-

Trade payables include balances of related party settlements of RR 8,916 thousand (see Note 5). The Company created provision for future payables for annual leaves based on the number of vacation days outstanding, weighted average payroll costs and obligatory payments of the unified social tax. An additional provision was created for bonuses payable within the first 6 months of the following year.

Note 12: Taxes payable

	As at 31 December 2005	As at 31 December 2004
Value added tax	9,973	-
Unified Social Tax	1,814	-
Personal income tax	1,193	-
Property tax	40	-
	13,020	-

Note 13: Other expenses

	For the year ended 31 December 2005	For the period from 17 December 2004 to 31 December 2004
Business trip expenses	2,949	-
Transportation services	1,016	-
Charity expenses	1,000	-
Representative expenses	977	-
Taxes, other than on income	788	-
Postal, telegraph and stationery expenses	633	-
Advertising and marketing expenses	431	-
Repairs and maintenance	309	-
Insurance expense	278	-
Bank services	228	1
Other	1,494	-
	10,103	1

Note 14: Contingencies

(a) Operating environment

Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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.

(b) Taxation contingency

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company 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, and it is possible that transactions and activities that have not been challenged in the past may be challenged. 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 reviews may cover longer periods.

The Company's Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision).

Note 15: Financial risk factors

(a) Financial risk factors

The Company'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 Company does not have a risk policy in order to hedge its financial exposures.

(b) Credit risk

Financial assets which potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company. No allowance for doubtful debtors has been created.

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

Note 16: Subsequent events

On 24 June 2006 an Annual General Meeting of Shareholders declared a dividend on ordinary shares of RR 1,549 thousand (RR 0.01549 per ordinary share).