RSM Top-Audit
19.04.05г. № ТОЛ-864/1
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MANAGEMENT LETTER
For MOSENERGO Open Joint Stock Company

following the audit of the Company's business and financial activity for the year, ended 31 December 2004

This Management letter has been prepared following the audit of Mosenergo's operations for the period from 1 January 2004 to 31 December 2004 as part of the audit of 2004 financial statements pursuant to the agreement made between Mosenergo (hereinafter, the Company) and RSM Top-Audit LLC.

We have performed the audit of financial statements prepared under the Russian accounting rules (hereinafter, RAR) and the audit of financial statements prepared under International Accounting Standards (hereinafter, IAS).

We have performed our audit in accordance with International Standards on Auditing and the internal standards of RSM Top-Audit LLC.

The objective of this letter is to bring to the attention of Mosenergo's management the control environment and certain deficiencies and weaknesses in the financial management systems and controls used by the Company in its financial and business operations.

Section 1.

New Developments

JSC Mosenergo is business enterprise established for providing electric power and heat generation and distribution services to the Moscow Region. During the period under review the activities of the Company satisfied the objectives and tasks set forth in its articles of association. During the period under review there were no significant changes in the Company's business lines as compared to the previous reporting period.

JSC Mosenergo is presently undergoing a restructuring process designed to improve the effectiveness of the regional electric power and to create the conditions for the development of regional electric power on the basis of private investments. The reform plan for restructuring the Company was approved by the Board of Directors of RAO UESR on 30 January 2004 and the Board of Directors of

JSC Mosenergo on 4 March 2004. The year of 2004 saw preliminaries for the implementation of the reform plan.

In 2004 the new accounting standard governing the accounting procedure and disclosure of information on participation in joint venture (RAR 20/03) took effect in Russia. In 2004 the Russian tax law underwent a number of significant changes. In particular, there were alterations in determination of tax base for property tax and VAT rate changed from 20 % to 18 %. We have not detected any significant changes in the Company's accounting policy as compared to the previous year.

Pursuant to the Russian law "On Accounting" the Company continuously maintains its books of accounts and prepares its statutory financial statements in accordance with RAR. The Company also prepares its financial statements in accordance with IFRS.

During the audit there were no material amendments to the previously prepared plan caused by new developments in the Company.

Section 2.

Review Analysis

We have reviewed the financial position of JSC Mosenergo's 2004 on the basis of financial statements prepared under RAR as compared to 2003. This Management Letter will set out the main conclusions based on our review and considerable changes in ratios compared to the previous period.

The 2004 gross proceeds from the sale of power grew considerably compared to 2003 because of tariff increases and the growing power consumption in the Moscow Region. The growth of gross proceeds was 136 % as compared to the prior year level. Further, in 2004 total expenses grew insignificantly, i.e. just by 15%, as compared to 2003.

Since the growth rate of proceeds was above the growth rate of expenses, the 2004 operating profit increased by more than six times as compared to 2003. The Company's operating profit share in the Company's total proceeds was 17 % in 2004 as against 2 % in 2003.

The net profit made by the Company in 2004 was RUR 6,135 mln., as compared to RUR 736 mln. in 2003.

The Company's financial position appears to be stable supported by its net assets amounting to RUR 90,308 mln. as of 31 December 2004.

Section 3.

Corporate Governance

The management bodies of JSC Mosenergo are:

- General meeting of shareholders – superior management body;
- Board of Directors – general management of business activities;
- General Director – management of current business activities;
- Managing Board – management of current business activities.

In order to exercise control over the operations of the Company the general meeting of shareholders elects the audit committee on the annual basis. The authorities of the audit committee have been prescribed by the articles of association.

We reviewed the minutes of meetings of Board of Directors and shareholders' meetings, the results of 2003 activities of the audit committee and we obtained an additional information on the Company's management system.

In our opinion, the Board appears to supervise the Company's senior management adequately. This is supported by appropriate controls and a balance of authorities between the Company's management. The Company's managers appear to have sufficient experience in the industry and a reasonable degree of stability prevails among them, which is conducive to the efficient governance of the Company. The Company's structure, therefore, appears to make an appropriate basis for the planning, direction and control of operations and contributes to the circulation of data flows with due efficiency.

Section 4.

Audit Coverage

Based on the review of financial statements prepared under RAR and IFRS we identified the relevant items to be audited:

- property, plant and equipment and construction in progress;
- receivables;
- payables;
- tax liabilities and accruals;
- capital and reserves;
- sales/income;
- costs/expenses.

Planned materiality level in accordance with the internal standard of RSM Top-Audit LLC was established at RUR 664 mln. and makes up 0.5 % of the total assets as of 31.12.2004 and 0.75 % of the 2004 gross proceeds.

We identified the following major audit risk areas for the financial statements prepared under the Russian accounting standards:

- confirming that the facilities have been correctly shown as property, plant and equipment;
- confirming that the receivables are recoverable;
- checking that tax liabilities have been correctly accrued;
- checking that sales of power have been correctly included in the financial statements on the accrual basis.

Major audit risk areas for the financial statements prepared under the International Financial Reporting Standards are:

- fair valuation of property, plant and equipment and construction in progress;
- identification and evaluation of impairment of assets;
- evaluation of allowance for doubtful debtors;
- checking the procedures of consolidating the subsidiaries' financial statements;
- presentation and disclosure of information on the Company's activities in accordance with IFRS.

During the audit we familiarized ourselves with internal documents in respect of design and operation of financial and tax accounting and internal control system. During the audit we performed the tests specified in the audit program and we also gathered and evaluated audit evidence.

Non-statistical sampling was used when checking transactions in the identified critical areas. We were especially focused on the transactions showing large amounts and non-routine transactions.

During the audit we used the following techniques:

- oral discussions of accounting and tax issues with the employees of accounting and other functions of JSC Mosenergo with regard to their competence and job responsibilities;
- performing of analytical procedures and analysis of results of the Company's operations;
- checking compliance with the Russian transaction rules and recording of transactions;
- checking the source documents and confirming their reliability, if necessary;
- checking arithmetical accuracy (recalculation).

We did not suggest any material adjustments following the audit of 2004 financial statements of JSC Mosenergo prepared both under RAR and IFRS.

Following the audit of financial statements prepared under the Russian Accounting Rules we prepared and submitted to JSC Mosenergo's management the Written Information (Report), which comprises a detailed analysis of identified weaknesses in the organization of financial, and tax accounting. In addition, the report includes practical recommendations on corrective actions and measures to improve the systems of financial and tax accounting with regard to the recent changes in the Russian law.

The IFRS financial statements of JSC Mosenergo have been prepared from the RAR accounting data. In order to prepare the financial statements in accordance with IFRS additional calculations were made and initial accounting data were adjusted with regard to IFRS requirements. We reviewed the presented adjustments, the main ones being the following.

1. The cost of fixed assets and construction in progress was adjusted for the corresponding consumer price indices and effect of impairment of fixed assets was calculated. Non-current assets were indexed in accordance with IFRS 29 "Financial Reporting in Hyperinflationary Economies" up to 31 December 2002 inclusively. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the provisions of IFRS 29 "Financial Reporting in Hyperinflationary Economies" are no longer applied.

2. Doubtful debts were provided in accordance with the principles laid down by the International Financial Reporting Standards.

3. Deferred profit tax was adjusted because of differences between RAR and IFRS in the initial recognition and subsequent evaluation of financial statements items.

Based on our 2004 audit of JSC Mosenergo financial statements, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of JSC Mosenergo as of 31 December 2004 and the results of the Company's 2004 operations in accordance with RAR and IFRS.

E.Z. Shokhor
Deputy General Director

«РСМ Топ-Аудит»
МОСКВА

OPEN JOINT STOCK COMPANY
OF POWER ENGINEERING AND ELECTRIFICATION
MOSENERGO

CONSOIDATED FINANCIAL STATEMENTS PREPARED
UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

FOR THE YEAR ENDED 31 DECEMBER 2004

Contents

RSM Top-Audit
19.04.05г. № ВЛ-864
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of **OJSC Mosenergo**

We have audited the accompanying Balance Sheet of **OJSC Mosenergo** as of 31 December 2004, and the related Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended 31 December 2004. These financial statements are the responsibility of the Company'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 financial statements present fairly, in all material respects, the financial position of **OJSC Mosenergo** as of 31 December 2004, and the results of its operations and its cash flows for the year ended 31 December 2004 in accordance with International Financial Reporting Standards.

Without changing our opinion we refer to Note 1 of the financial statements that includes description of the changes the industry is undergoing and discloses information about the planned reforming of JSC Mosenergo.

Eugene Shokhor
Deputy General Director

Mark Wilson, ACA
Audit manager

MSH Wilson

(in millions of Russian Rubles)

	Notes	31 December 2004	31 December 2003
ASSETS			
Non-current assets			
Property, plant and equipment	8	99,141	94,295
Other non-current assets	9	3,466	3,546
Total non-current assets		**102,607**	**97,841**
Current assets			
Cash	10	6,260	3,543
Accounts receivable and prepayments	11	14,221	8,711
Inventories	12	4,888	4,372
Other current assets		1,520	2,091
Total current assets		**26,889**	**18,717**
TOTAL ASSETS		**129,496**	**116,558**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital:			
Ordinary shares (nominal value as at 31.12.2004 – RR 28,249 million, as at 31.12.2003 – RR 28,267)	13	154,624	154,720
Treasury shares		(21)	(9)
		154,603	154,711
Accumulated deficit		(64,568)	(70,140)
Total shareholders' equity		**90,035**	**84, 571**
Minority interest		**273**	**177**
Non-current liabilities			
Deferred profits tax	14	9,777	9,258
Non-current debt	15	1,498	2,726
Other non-current liabilities		-	-
Total non-current liabilities		**11,275**	**11,984**
Current liabilities			
Current debt and current portion of non-current debt	16	10,608	9,213
Accounts payable and accrued charges	17	12,752	7, 702
Taxes payable	18	4,553	2,911
Total current liabilities		**27,913**	**19,826**
Total liabilities		**39,188**	**31,810**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**129,496**	**116,558**

General Director A.V.Yevstafiev

Chief Accountant T.P. Dronova

«20» апреля 2005 г.

(in millions of Russian Rubles)

	Note	Year ended 31 December 2004	Year ended 31 December 2003
Revenues			
Electricity		63,860	47,130
Heating		22,434	19,953
Other		2,556	2,411
Total revenues		**88,850**	**69,494**
Costs and other deductions			
Fuel expenses		27,361	23,660
Wages and payroll taxes		9,835	10,920
Depreciation	8	9,576	8,822
Repairs and maintenance		11,297	8,189
Transmission fees		6,595	5,531
Taxes other than on income		2,608	2,315
Other materials		1,170	1,398
Insurance costs		1,394	1,187
Purchased power		5,239	986
Social expenditures		239	621
Increase / (release) of provision for impairment of receivables		301	598
Water payments		746	450
(Income) / loss on disposal of fixed assets		(4,568)	(859)
Other expenses		6,264	4,228
Total costs and other deductions		**78,057**	**68,046**
Income from operations		**10,793**	**1,448**
Monetary effects and financial items	19	(1,249)	(655)
Income/(loss) before profit tax and minority interest		**9,544**	**793**
Total profit tax benefit / (expense)	14	(3,290)	41
Income before minority		**6,254**	**834**
Minority interest: share of net result		(119)	(98)
Net income / (loss)		**6,135**	**736**
Income / (loss) per share – basic and diluted in RR	20	**0.22**	**0.03**

General Director A.V.Yevstafiev

Chief Accountant T.P. Dronova

«20» апреля 2005 г.

(in millions of Russian Rubles)

	Year ended 31 December 2004	Year ended 31 December 2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Income/(loss) on operations before profit tax	**9,544**	**793**
Adjustments to reconcile profit on operations before taxation to net cash provided by operations:		
Depreciation	9,576	8,822
Increase/(release) of provision for impairment of receivables	301	598
Interest expenses	1,374	885
Income/(loss) on disposals of fixed assets	(4,568)	(859)
Monetary effects and foreign exchange differences	(125)	(230)
Adjustments for non-cash investment activities	4,971	989
Other	(39)	-
Operating profit before working capital changes	**21,034**	**10,998**
Working capital changes:		
(Increase)/decrease in accounts receivable and prepayments	(5,811)	(293)
Increase in other current and non-current assets	631	(2,380)
(Increase)/decrease in inventories	(515)	(1,010)
Increase/(decrease in accounts payable and accrued charges	5,381	1,790
Increase in taxes payable other than profit tax	310	330
Decrease in other long term liabilities	0	(112)
Profit tax paid	(1,440)	(856)
Net cash provided by operating activities	**19,590**	**8,467**
CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(15,410)	(10,290)
Proceeds from sale of property, plant and equipment	515	180
Net cash used in investing activities	**(14,895)**	**(10,110)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from current debt	11,612	11,541
Proceeds from non-current debt	-	-
Repayment of debt	(11,425)	(6,661)
Interest paid	(1,506)	(839)
Dividends paid	(614)	(523)
Purchase of treasury shares	27	(353)
Proceeds from sale of treasury shares	(72)	358
Net cash received from/ (used in) financing activities	**(1,978)**	**3,523**
Effect of inflation on cash and cash equivalents	-	-
Increase/(decrease) in cash and cash equivalents	**2,717**	**1,880**
Cash and cash equivalents at the beginning of period	**3,543**	**1,663**
Cash and cash equivalents at the end of period	**6,260**	**3,543**

General Director A.V.Yevstafiev

Chief Accountant T.P. Dronova

«20» апреля 2005 г.

(in millions of Russian Rubles)

	Share capital, ordinary shares	Treasury shares	Accumulated deficit	Total share-holders' equity
At 31 December 2002				
	154,720	**(14)**	**(70,357)**	**84,349**
Net income	-	-	736	736
Dividends	-	-	(519)	(519)
Purchase of treasury shares	-	(353)	-	(353)
Sale of treasury shares	-	358	-	358
At 31 December 2003	**154,720**	**(9)**	**(70,140)**	**84,571**
At 31 December 2003	154,720	(9)	(70,140)	84,571
Net income	-	-	6,135	6,135
Cancellation of shares	(96)	-	50	(46)
Dividends	-	-	(613)	(613)
Purchase of treasury shares	-	(39)	-	(39)
Sale of treasury shares	-	27	-	27
At 31 December 2004	**154,624**	**(21)**	**(64,568)**	**90,035**

General Director A.V.Yevstafiev

Chief Accountant T.P. Dronova

«20» апреля 2005 г.

Note 1: The Group and its operations

Open Joint-Stock Company Mosenergo (JSC Mosenergo) is a regional utility company providing electric power and heat generation and distribution services to the city of Moscow, Moscow oblast and surrounding regions. Operations of JSC Mosenergo include approximately 14,779 megawatts ("MW") of installed generating capacity for electricity and 34,880 gigacalories ("Gkal") of installed generating capacity for heat. Additionally, JSC Mosenergo purchases electricity from the Federal Wholesale Market for Electricity and Capacity ("FOREM") as determined by the operating needs of JSC Mosenergo.

In 2004 JSC Mosenergo included 61 branches including 21 electricity-generating plants. The principal operating units of JSC Mosenergo are:

- 16 TETS (heat and electricity generating plants);
- 4 GRES (electricity generating plants);
- 1 GAES (hydro accumulation plant);
- 16 Electricity distribution grids;
- 1 Heat distribution grid.

JSC Mosenergo was registered in the Russian Federation on 06 April 1993 in accordance with State Property Management Committee Decree # 169-R dated 26 March 1993. In accordance with the privatization of the Russian electric utility industry, JSC Mosenergo was organized as a joint-stock company and certain assets and liabilities formerly under the control of the Ministry of Energy of the Russian Federation were assumed at their net book value.

At 31 December 2004, 50.9% ownership interest is controlled by the Russian Open Joint Stock Company Unified Energy System of Russia ("RAO UES"), which was created as the holder of certain significant electricity power generation, transmission and distribution assets during the industry privatization. This 50.9% ownership by RAO UES represents 14,379,166,000 of JSC Mosenergo's ordinary shares.

JSC Mosenergo, and the companies controlled by them, its subsidiaries (hereinafter "the Group") are incorporated under the laws of the Russian Federation (the "state"), except for Mosenergo Finance B.V. The principal subsidiaries of the Group are disclosed in Note 6.

At 31 December 2004, the number of employees of the Group was approximately 47 thousand (approximately 48 thousand at 31 December 2003).

The Group's registered office is located at 8 Raushskaya Naberezhnaya, Moscow, 115035, Russia.

Relations with the state. At 31 December 2004, the state owned 52.68% of RAO UES, who owned 50.9% of the voting ordinary shares of JSC Mosenergo (50.87 % at 31.12.2003).

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 Energy Commission ("FEC"), with respect to its wholesale energy purchases, and by the Moscow and Moscow Regional Energy Commissions ("REC's"), with respect to its retail electricity and heat sales. The operations of all generating facilities are coordinated by OAO System Operator-Central Dispatch Unit of Unified Energy System ("SO-CDU") in order to meet system requirements in an efficient manner; SO-CDU is controlled by RAO UES.

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

As a condition to privatization in 1992, the government of the Russian Federation imposed an obligation on regional utility companies to provide connection with respect to the supply of electricity and the supply of heating to customers in the Russian Federation. As part of the state's continuing efforts to collect taxes, Governmental Resolution # 1 was issued on 5 January 1998 and amended on 17 July 1998, which allows the Group to discontinue the supply of electricity and heat to delinquent customers, except for certain governmental and other entities.

As described in Note 22, the government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory and sector restructuring. The Russian electric utilities industry in general and the Group in particular are presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which the Group and its successor companies can raise the capital required to maintain and expand current capacity. The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No. 35-FZ of 26 March 2003 "On the Electric Utilities of the Russian Federation" and Federal Law No. 36-FZ of 26 March 2003 "On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law "On the Electric Utilities of the Russian Federation".

- In April 2003, legislation underlying the electric utilities reform effort took effect. This legislative package, consisting of six laws drafted by the Russian Federation government, defines the key areas in the industry reform program, as well as the terms and conditions under which electric utilities will function both during the transition period and following the reforms.

- At the present stage, bills are being drafted for the specific legislative acts envisioned under the aforementioned laws on electric utilities reform in accordance with 2004-2005 electric utilities reform plan which was approved by the Government Decree No. 865-r dated 27.06.2003.

RAO UES has been playing an active role in drafting these pieces of legislation.

- On 01.09.2003 the Russian Federation government issued Resolution No. 1254-r (p) approving the structures of generating companies in the wholesale electricity market. According to the aforementioned resolution 10 generating companies (4- based on hydro generating power plants and 6 based on heat generating power plants), which will include the electric power plants owned by OAO RAO UES and its subsidiaries, will be established.

- On 24.10.2003 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% of the load 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 conducting auctions for the sale of electricity in the free trading sector. According to the laws underlying the electric utilities reform, in due course free trading will be extended over the whole volume of trading.

• The Federal Grid Company - OAO FGC UES ("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;

• SO-CDU - was established in June 2002 to perform electricity dispatch functions within the unified electricity system of the Russian Federation;

• On 29.05.2003 the Board of Directors of RAO UES approved a Concept of the RAO UES Group's 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 RAO UES Group during the electric utilities reform program, including the various stages in the process of establishing participant entities, based on the RAO UES Group, in both the wholesale and retail electricity markets, and the key areas for further development of the organizations thereby being established.

In September 2003, RAO UES entered into the Agreements on Cooperation in Reorganizing the Energy Complex of the City of Moscow and the Moscow Region with the government of Moscow City and the government of Moscow Region (the "Agreements"), which establish the key provisions for reforming the Moscow City and Moscow Region energy complex as part of the restructuring of the federal energy sector. The Agreements contemplate the reorganization of JSC Mosenergo into various open joint stock companies with a distribution of shares in the newly created companies to the Company's shareholders, on a pro rata basis with their existing shareholding. The Agreements also set forth specific steps that have to be implemented and list all approvals to be obtained in the course of the restructuring.

JSC Mosenergo is engaged in all energy-production related activities, including generation, transmission, distribution and supply of heat and electrical energy. In accordance with the Agreements, JSC Mosenergo adopted certain guidelines for the implementation of its restructuring. These guidelines were approved by the Board of Directors of RAO UES on 30 January 2004 and adopted by the Board of Directors of JSC Mosenergo on 4 March 2004. A formal detailed plan will need to be approved by the Board of Directors of JSC Mosenergo and by the JSC Mosenergo shareholders at the AGM. The first step of the restructuring is to "spin-off" various activities. By means of the spin-off, JSC Mosenergo intends to:

- separate its monopolistic lines of business (transmission, distribution) from competitive lines of business (generation and supply);

- develop competition in the retail (consumer) energy market;

- phase-out cross-subsidies among energy market participants; and

- create real economic incentives for energy generators to reduce costs and expenses, modernize their facilities and network assets and increase management and operational efficiencies.

The annual general meeting of shareholders of Mosenergo held on 29.06.2004 decided to reorganize Mosenergo by spinning-off thirteen independent companies (p. 9 of Minutes No. 1):

- JSC Managing Energy Company;

- JSC Trunk Grid Company;

- JSC Moscow City Electrical Grid Company;

- JSC Moscow Heating Network Company;

- JSC Moscow Regional Electrical Grid Company;

- JSC Mosenergosbyt;

- JSC Specialized Design Office for Repairs and Reconstruction;
- JSC Mosteplosetenergoremont;
- JSC Mosenergosetstroi;
- JSC "GRES-4";
- JSC "GRES -5";
- JSC " GRES -24";
- JSC Zagorsky GAES.

These companies will not be the Group's subsidiaries. They will all be established as open joint stock companies.

JSC Mosenergo will continue to own and operate the key electricity and heat generation assets. Certain other assets and liabilities of JSC Mosenergo will be transferred to each spun-off company.

Neither JSC Mosenergo nor any of the spun-off companies will own any capital stock in any other spun-off company. JSC Mosenergo and each spun-off company will initially have the same shareholders as the Company, and, consequently, they will all continue to be controlled by the same shareholder, RAO UES. In the spin-off, each shareholder of JSC Mosenergo will become a shareholder of each spun-off company.

The shares of newly established companies will be distributed to JSC Mosenergo shareholders pro rata to Mosenergo shares held by them following the above decision on the reorganization of distribution ratios of ordinary shares of each newly established company and their nominal values.

The total number of distributed shares of each newly established company will be equal to the total number of Mosenergo shares (net of shares owned or held by Mosenergo) that remained after the redemption of shares at the request of voters against the decision on reorganization or non-voters.

The number of ordinary shares of each newly established company to be received by each Mosenergo shareholder will be equal to the number of Mosenergo ordinary shares owned by each shareholder.

The shares of newly established companies will be considered distributed among Mosenergo shareholders at the moment of government registration of companies established by way of reorganization, on the basis of Mosenergo register at the relevant date.

The amount of authorized share capital of each newly established company will be determined by multiplying the total number of distributed shares of the relevant company by the nominal value of share.

The authorized share capitals of newly established companies will be created using the additional capital of JSC Mosenergo.

Information about the stages of JSC Mosenergo reforming completed on the date of the closing of the financial statements for the year ended on 31 December 2004 is presented in Note 24 "Post Balance Sheet Events".

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

Note 2. Economic environment in the Russian Federation

Economic environment in the Russian Federation. Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country 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 prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Note 3: Financial condition

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

The Group continues to experience problems in obtaining settlement of old accounts receivable. Management has improved significantly the absolute level of settlements for current sales. Currently substantially all settlements of accounts receivables are made in cash. Despite this success, there still remains a significant level of uncollected accounts receivable from earlier periods. There is legislation enabling the Group to cut off non-payers, but this is only practical to a limited extent. In addition, market reforms have reduced the budgets for many governmental organizations, adversely impacting their ability to pay for old and current supplies. Federal, municipal and other governmental organizations make up a significant proportion of the debtor balance as at 31 December 2003. Such debts went down slightly by 31 December 2004.

Management's continuing efforts to improve the Group's financial position concentrate primarily on the following areas:

- collection of old receivables, including such measures as court action, seizure of debtors' assets, restriction of energy and/or heat supply, etc.;
- restructuring and refinancing liabilities to suppliers, mainly to gas companies. A long-term loan of RR 2,334 million (at historic value) with a 10% rate received from a related party towards the end of 2001 (see Note 7) enabled the Group to fully settle its current liability to the major gas supplier;
- obtaining additional tariff increases:

- In February-March 2003 the average tariffs increased by approximately 19% for electricity and by approximately 15% for heat;
- From 01.01.2004 new tariffs were introduced for JSC Mosenergo’s consumers in Moscow and Moscow region by 12.7% for electricity and 13.6% for heat (tariffs for heat were regulated in Moscow alone; tariffs were not changed in Moscow region).

Management is confident that its continuing efforts will result in improvements in the Group's profitability and liquidity.

(in millions Russian Rubles)

Note 4: Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB ("IFRS"). The Group's parent, RAO UES, similarly prepares consolidated financial statements in accordance with IFRS.

The Group maintains its books of accounts and prepares its statutory financial statements in accordance with RAR. These financial statements are based on the statutory records, which are maintained under the historical cost convention method, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The preparation of consolidated financial statements in accordance with IFRS requires management to make 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 profits 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 hyperinflationary has ceased, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29.

Further, figures, for the year ended 31 December 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Date	Index	Conversion Factor
31 December 1998	1,216,400	2.24
31 December 1999	1,661,481	1.64
31 December 2000	1,995,937	1.37
31 December 2001	2,371,572	1.15
31 December 2002	2,730,154	1.00

The significant guidelines followed in restating these financial statements current at 31.12.2002 in accordance with IFRS are:

- all amounts, including comparative figures, are stated in terms of the measuring unit current at 31.12.2002;
- monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31.12.2002;

- the appraisal values of property, plant and equipment and the impact of any impairment have been restated by applying relevant conversion factors beginning with the appraisal date together with adjustments for additions, disposals and depreciation, all restated by applying the relevant conversion factors;
- non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31.12.2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002;
- all items in the statement of operations and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31.12.2002.

Note 5: Summary of significant accounting policies

Principles of consolidation. These consolidated financial statements comprise the financial statements of JSC Mosenergo and the financial statements of those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency. Monetary assets and liabilities that are held by the Group and denominated in foreign currencies at the balance sheet date are translated into Russian Rubles 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 recognized in the statement of operations.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Ruble and the US Dollar ("US$") at 31 December 2004 was RR 27.75: US$1 (31 December 2003: RR 29,45:US$1). Exchange restrictions and controls exist relating to converting the Russian Ruble into other currencies. At present, the Russian Ruble is not a convertible currency outside of the Russian Federation.

Dividends. Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are 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 as at 31 December 2003 is stated at depreciated replacement cost, based upon values determined by third party valuation at 31 December 1997, and adjusted for subsequent additions at cost, disposals and depreciation, and restated for the impact of inflation. 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 that is determined as the higher of an asset's net selling price or 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 statement of operations. 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.

The amounts determined by the third party valuation represent an estimate of depreciated replacement cost. This 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 capitalized and the assets replaced are retired.

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

Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the 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.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The average useful lives of assets by type of facility are as follows:

Type of facility	Years
Electricity and heat generation	17 to 50
Electricity distribution	11 to 25
Heating networks	14 to 20
Other	10

Social assets are excluded from the financial statements, as they are not expected to result in future economic benefits to the Group. However, costs for social responsibilities are expensed as incurred.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited in banks «payable on demand».

The statement of cash flows has been prepared in accordance with IAS 7 "Cash Flow Statements". The total of operating activities represents actual cash flow transactions from operations. However, individual items within this part 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.

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 impairment of receivables 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. 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 that have not been settled at the balance sheet date (VAT deferred) is recognized 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, 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 realizable 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 realizable value.

Deferred profit taxes. Deferred profit tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method for financial reporting and accounting for deferred profit taxes. Deferred profit taxes are 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 utilized. Deferred profit tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

Debt. Debt is recognized initially at the fair value of the proceeds received, net of transaction costs incurred. Fair value is determined with reference to market interest rates applicable to the Group when the debt was incurred. In subsequent periods, debt is stated at amortized cost; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognized in the Statement of Operations as an interest expense over the period of the debt obligation.

Minority interest. Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity

Pension and post-employment benefits. In the ordinary course of business the Group pays all mandatory contributions to the Pension Fund of the Russian Federation for its employees. Mandatory contributions to the Pension Fund are expensed when incurred. Supplementary pension and other post-employment benefits are included in the wages and payroll expenses in the Statement of Operations. However, this information is not disclosed separately since those expenses are not material.

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

Segment information. The Group operates predominantly in a single geographic area and industry; the generation, distribution and sale of electric power and heat in the City Moscow, Moscow oblast and the surrounding regions. It is not feasible to identify distinguishable business segments for electric power and heat production.

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

Treasury shares. Where JSC Mosenergo or its subsidiaries purchase JSC Mosenergo's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Treasury shares are stated at weighted average cost, restated for inflation as at the balance sheet date.

(in millions Russian Rubles)

Note 6. Principal subsidiaries

The principal subsidiaries under JSC Mosenergo's direct or indirect control as of 31.12.2004 are disclosed in the table below. Those companies are consolidated in the Group's Financial Statements.

Name	Location	Share in authorized capital, %	Activity
KB Transinvestbank	Russian Federation, Moscow	72.44	Banking
Mosenergo Finance B.V.	Netherlands	100	Operations with securities
ZAO Electricity Sales Servicing Centre	Russian Federation, Moscow	72	Electricity and heat sales services

Note 7. Related parties

RAO UES of Russia owns 50.9 % of the ordinary voting shares of JSC Mosenergo and has effective control over the Group's operations. RAO UES of Russia charges the Group a subscription fee at the tariffs approved by the FEC, for the use of the electricity grids. The Group also has a loan due to RAO UES of Russia, which is payable in quarterly instalments between 2002 and 2005. The loan was used in full for the repayment of liabilities to OOO Mezhregiongas (a subsidiary of OAO Gazprom).

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

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

Balances and transactions with related parties of the Group consist of the following:

	Volumes of transactions for the year ended		Accounts receivable / (payable) as at	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Subscription fee				
RAO UES of Russia	(2,620)	(4,904)	-	-
SO-CDU	(2,198)	-	(61)	(7)
Federal Grid Company	(693)	-	(65)	(59)
FOREM transactions				
Electricity purchases	(4,165)	(1,673)	(428)	(211)
Electricity sales	14	12	452	648
Other				
Settlements on loan obtained from RAO UES of Russia	583	1 167	583	1,167
Settlements with insurance company Leader	(1,198)	(339)	(49)	-

Directors' remuneration. Total remuneration paid to the members of the Board of Directors and Management Board in 2004 was RR 97,807 thousand, in 2003 – RR 42,624 thousand.

(in millions Russian Rubles)

Note 8. Property, plant and equipment

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 31.12.2003	89,345	44,141	20,655	5,118	42,747	202,006
Additions	15	60	-	15,265	184	15,524
Transfers	2,782	5,522	3,872	(12,568)	392	0
Disposals	(643)	(312)	(990)	(478)	(526)	(2,949)
Closing balance as at 31.12.2004	91,499	49,411	23,537	7,337	42,797	214,581
Accumulated depreciation *(including impairment):*						
Opening balance as at 31.12.2003	45,496	20,355	12,564	-	29,296	107,711
Additions	15	-	-	-	183	198
Charge for the period	3,398	2,129	1,120	-	2,929	9,576
Disposals	(454)	(257)	(869)	-	(465)	(2,045)
Closing balance as at 31.12.2004	48,455	22,227	12,815	-	31,943	115,440
Net book value as at 31.12.2003	43,849	23,786	8,091	5,118	13,451	94,295
Net book value as at 31.12.2004	43,044	27,184	10,722	7,337	10,854	99,141

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into production. Depreciation of these assets starts after they are put into operation.

Other fixed assets include motor vehicles, computer equipment, office fixtures and other assets not included in categories mentioned above.

A portion of property, plant and equipment additions has been settled through offset, barter and other non-cash means. Non-cash transactions related to property, plant and equipment are disclosed below:

	For the year ended 31.12.2004	For the year ended 31.12.2003
Acquisitions through non-cash transactions	5	34
Non-cash proceeds from the sale of property, plant and equipment	5,990	871

Impairment. For the period ended 31 December 2004, management has assessed the adequacy of its existing impairment provision and concluded that the amount is appropriate. Accordingly, no further adjustment has been recorded in consolidated financial statements for the year ended 31 December 2004. The impairment provision included in the accumulated depreciation balance as at 31 December 2004 is RR 31,420 million (at 31 December 2003 – RR 35 830 million).

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.

(in millions Russian Rubles)

Note 9. Other non-current assets

	At 31.12.2004	At 31.12.2003
Advances to contractors	1,162	2,424
Long-term trade receivables (Net of provision for impairment of receivables of RR 108 million as at 31.12.2004 and RR 287 million as at 31.12.2003)	230	360
Investments	67	87
Other	2,007	675
	3,466	3,546

Advances to contractors in the balance sheet as at 31 December 2004 and as at 31 December 2003 include advances to JSC Moscapstroi for the construction under a Moscow government investment program. A loan from Alfa Bank received in 2003 was used to finance this construction (see Note 16).

Note 10. Cash

	At 31.12.2004	At 31.12.2003
Cash at bank and in hand	6,251	3,531
Foreign currency bank accounts	9	12
	6,260	3,543

Cash and cash equivalents balances do not include balances on special accounts in JSC ABN AMRO bank and JSC KB Citibank in amounts of RR 149 million and RR 152 million as at 31 December 2004 and 31 December 2003 respectively. Such balances are allotted for the purpose of repayment of principal amount of a debt and interest on EBRD and IFC loans. Such balances are classified within other current assets.

Note 11. Accounts receivable and prepayments

	At 31.12.2004	At 31.12.2003
Trade receivables (Net of provision for impairment of receivables of RR 2 954 million as at 31.12.2004; RR 3 117 million as at 31.12.2003)	9,310	4,157
Advances given to suppliers	734	1,747
Value added tax recoverable	2,652	1,688
Prepayments	293	216
Other receivables (Net of provision for impairment of receivables of RR 334 million as at 31.12.2004; RR 575 million as at 31.12.2003)	1,232	903
	14,221	8,711

At 31 December 2004, "Other receivables" include tax advances in the amount of RR 836 million (at 31 December 2003 – RR 501 million). Those advances are to be settled against future tax liabilities.

Management has determined the provision for impairment of receivables based on specific customer identification, payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Based on the expected collection rate, discount rates of 10% - 19% have been used in the estimate of fair value of future cash flows. The effects of discounting are reflected in the provision for impairment of receivables and expense. Management believes that the Group will be able to realize the net receivable amount through direct collections and other non-cash settlements and that therefore the recorded value approximates their fair value.

(in millions Russian Rubles)

Note 12. Inventories

	At 31.12.2004	At 31.12.2003
Fuel	2,608	2,782
Materials and supplies	1,344	1,485
Other inventories	936	105
	4,888	4,372

Materials and supplies are shown net of provision for obsolete stock of RR 413 million as at 31 December 2004 and RR 457 million as at 31 December 2003.

Note 13: Shareholders' equity

Share capital	Number of shares issued and fully paid/shares		31.12.2004	31.12.2003
	31.12.2004	31.12.2003		
Ordinary shares	28 249 359 700	28 267 726 000	154 624	154 720
Total	28 249 359 700	28 267 726 000	154 624	154 720

At the period beginning the authorised number of ordinary shares was 28 267 726 000 with a nominal value per share of 1 Russian Rouble. Following the decision of the annual shareholders meeting of JSC Mosenergo on the reorganization of the Company, 18 366 300 shares were bought out and cancelled during the period. The number of remaining shares as at the reporting date is 28 249 359 700.

The value of the share capital is stated in terms of the purchasing power of the Russian Rouble at the balance sheet date. During the period the amount of the Company’s share capital changed due to the reduction of the number of outstanding shares.

The decision on the payment of dividends following the 2003 Company results was taken on 29.06.2004. The size of declared (accrued) dividends on the issuer’s shares of each category (type) was RR 0.002169 per share, total amount of dividends is RR 613 million.

Treasury shares. At 31 December 2004 KB Transinvestbank (OOO), a 72% owned subsidiary of the Group, owned 0.02 % of the ordinary shares of JSC Mosenergo. These ordinary shares carry voting rights in the same proportion as other ordinary shares of JSC Mosenergo. Voting rights carried by these shares are effectively controlled by the management of the Group. Treasury shares as at 31 December 2004 represent 5 074 526 ordinary shares.

(in millions Russian Rubles)

Note 14. Profit tax

	For the year ended 31.12.2004	For the year ended 31.12.2003
Current profit tax	(2 771)	(1 176)
Deferred profit tax (charge) / benefit	(519)	1 217
Total profit tax (charge) / benefit	(3 290)	41

Loss before profit tax for financial reporting purposes is reconciled to the profit tax (charge) / benefit as follows:

	For the year ended 31.12.2004	For the year ended 31.12.2003
Income before profit tax	9,544	793
Theoretical profit tax charge at an average statutory tax rate of 24%	(2,291)	(190)
Tax effect of items which are not deductible or assessable for taxation purposes:		
effect of change in tax base of accounts receivable	(2)	564
other charges that do not decrease the tax base, net	(821)	(302)
Other effects	(176)	(31)
Total profit tax (charge) / benefit	(3,290)	41

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%, the rate applicable when the asset or liability will reverse.

Deferred profit tax liabilities

	At 31.12.2004	Movement for the period	At 31.12.2003
Property, plant and equipment	9,525	(643)	10,168
Trade receivables	356	1,125	(769)
Other	(104)	37	(141)
	9,777	519	9,258

(in millions Russian Rubles)

Note 15. Non-current debt

	Currency	Interest rate	Due	31 December 2004	31 December 2003
IFC	USD	LIBOR + 3,5%	2004-2009	468	397
EBRD	USD	LIBOR + 3,5%	2004-2009	312	596
EBRD	USD	LIBOR + 4.0%	2004-2007	1,260	1,716
RAO UES (see Note 7)	RR	23,1-23,2%	2004-2005	646	1,122
Total non-current debt				2,686	3,831
Less current portion				(1,188)	(1,105)
				1,498	2,726

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

Certain equipment with net book value of RR 951 million of one of JSC Mosenergo's principal operating units is pledged as collateral for the loans.

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

RAO UES loan. This loan was obtained from CARES for the repayment of debt to a gas supplier. The loan was obtained from CARES on 25 December 2001 in the amount of RR 2,334 million (at historic value) bearing interest of 10%. Subsequently CARES assigned the right of demand to RAO UES. The debt to RAO UES has been recorded at fair value, calculated at a discount rate of 23.1% - 23.2% (see Note 19).

The long-term loans have the following maturity profile:

Maturity table

Due for payment	**31 December 2004**	**31 December 2003**
Between one and two years	575	1,136
Between two and five years	923	1,424
After 5 years	-	166
	1,498	**2,726**

(in millions Russian Rubles)

Note 16. Current debt and current portion of non-current debt

	Currency	Interest rate, %	31 December 2004	31 December 2003
Agropromkredit	RR	16-17	-	1 500
Alfa Bank		14-15	1 500	3 407
Eurofinance	RR	15	1 300	701
Bank of Moscow	RR	12.5-15	2 100	1 500
International Industrial Bank	RR	15	-	1 000
Vneshtorgbank	RR	12-15	4 500	-
Interest			20	
Current portion of non-current debt			1 188	1 105
Total			**10 608**	**9 213**

The loans from the Bank of Moscow are secured by fuel inventory.

Alfa Bank. The first tranche of the loan from Alfa Bank was obtained in September 2003 to finance construction undertaken under a Moscow government investment program. The loan was received under a revolving line of credit agreement, limited to RR 2,000 million in total. Interest on the loan is paid on a monthly basis and capitalized. The interest rate for the line of credit is 14% - 15%. Other loans from Alfa Bank were obtained for working capital financing.

Note 17. Accounts payable and accrued charges

	31 December 2004	31 December 2003
Trade payables	4,031	2,767
Financing from Moscow Government	2,029	1,997
Accrued liabilities and other creditors	6,692	2,938
	12,752	7,702

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

(in millions Russian Rubles)

Note 18. Taxes payable

	31 December 2004	31 December 2003
Value added tax	2 580	1 917
Profit tax	1 677	549
Property tax	77	246
Employee taxes payable	102	92
Other taxes	116	107
Penalties	1	-
	4 553	2 911

Included within total taxes payable at 31 December 2004 is RR 1,460 million (at 31 December 2003: RR 1,355 million) of value added tax that is only payable to the tax authorities when the underlying receivable is recovered or written off.

Prior to 2003, the Group did not intend to write off certain doubtful debtors for tax reporting purposes and as a result the Group did not record a deferred profit tax asset in respect of such debtors, as it was not probable that this asset would be realized. In addition, as VAT is payable when cash is collected or receivables are written off for tax reporting purposes, the VAT related to these doubtful debtors was not deemed payable and was therefore not recognized as a liability. During 2003, these positions were reconsidered by management and doubtful debts are now being written off for tax reporting purposes. Consequently, an additional deferred tax asset and an additional liability for VAT of RR 564 million and RR 547 million, respectively, have been recognized in the consolidated balance sheet as at 31 December 2003. The additional VAT was recognized as an expense within the doubtful debtors expense, and the additional deferred tax recognized as a deferred profit tax benefit, in the consolidated statement of operations for the year.

Note 19. Monetary effects and financing items

	Year ended 31 December 2004	Year ended 31 December 2003
Interest expense	(1,374)	(885)
Foreign exchange gain/ (loss)	125	230
	(1,249)	(655)

The fair value of loan received from RAO UES (see Note 15) at inception was estimated at a discount rate of 23.1% - 23.2% that resulted in recognition of a gain of RR 797 million in the year ended 31 December 2001. In the period ended 31 December 2004 the Group's statement of operation showed interest expense in the amount of RR 107 million (31 December 2003: RR 237 million).

Prior to 31 December 2002 Russian Federation was deemed to be a hyperinflationary economy and, consequently, the Group calculated monetary gains and losses in accordance with IFRS 29.

(in millions Russian Rubles)

Note 20. Earnings per share

Earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares outstanding during the period.

	Year ended 31 December 2004	**Year ended 31 December 2003**
Weighted average number of ordinary shares outstanding	28,261,604	28,267,726
Adjusted for weighted average number of treasury shares	(1,891)	(6,883)
Weighted average number of ordinary shares outstanding	28,259,713	28,260,843
Net income (RR million)	6,135	736
Income per ordinary share - basic and diluted, in Russian Rubles	0.22	0.03

Note 21. Commitments

Fuel commitments. The Group has a number of outstanding fuel contracts. Gas supplies are mostly received from OOO Mezhregiongas, a subsidiary of OAO Gazprom. The gas is supplied under a framework agreement, which was entered into during 2003 and extends until 2007. The quantity of gas to be supplied each year is determined annually. The purchase price of the contract is fixed at the level determined by FEC resolution.

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

Capital commitments. Future capital expenditure for which contracts have been signed amount to RR 4,476 million at 31 December 2004 (at 31 December 2003: RR 3,789 million).

Note 22: Contingencies and operating risks

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.

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

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

Taxation. 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 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 reviews may cover longer periods.

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.

Industry changes. As described in Note 1, the Russian Federation Government has passed several resolutions in respect of restructuring the electricity sector in Russia. Management currently is unable to estimate the effects of reforms or the resulting future impact on the financial position of the Group.

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

Note 23. 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 to hedge its financial exposures.

Credit risk. Financial assets, which potentially subject the Group 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 provision for impairment of receivables already recorded.

Foreign exchange risk. The Group primarily operates within the Russian Federation. The majority of the Group's purchases are denominated in Russian Rubles. The major concentration of foreign exchange risk is in relation to foreign currency denominated borrowings as disclosed in Note 15.

Interest rate risk. Although significant part of long-term borrowings is at variable interest rates, the largest part of the Group's current debt is at fixed rates (see notes 15 and 16). Assets are generally non-interest bearing.

(in millions Russian Rubles)

Note 24. Post balance sheet events

On 28 February 2005, general shareholders' meetings of companies, being established following the reorganization of JSC Mosenergo, approved the Articles of Associations of 13 independent joint stock companies split off from JSC Mosenergo. Each Company's Authorized Capital is composed of nominal value of the Company's shares purchased by shareholders (distributed shares). Each Company has a total of 28,249,359,700 ordinary registered shares (corresponds to the number of shares in JSC Mosenergo's Authorized Capital as at 31.12.2004).

The following Companies have been split off during the reorganization:

Company name	Authorized capital, RR million
JSC Managing Energy Company	0.1
JSC Trunk Grid Company	1,412
JSC Moscow City Electrical Grid Company	5,650
JSC Moscow Heating Network Company	8,475
JSC Moscow Regional Electrical Grid Company	56,499
JSC Mosenergosbyt	282
JSC Specialized Design Office for Repairs and Reconstruction	3
JSC Mosteplosetenergoremont	282
JSC Mosenergosetstroi	28
JSC GRES-4	1,412
JSC GRES-5	1,412
JSC GRES-24	565
JSC Zagorsky GAES	2,825

The Meetings also elected General Directors, members of the Boards of Directors, and members of the Audit Committees of these newly established companies.

The registration of Companies being split off from JSC Mosenergo has been scheduled on 1 April 2005.

The size of dividend per share will be approved by JSC Mosenergo shareholders' general meeting on 28 June 2005. In May 2005 the JSC Mosenergo Board meeting will discuss the 2004 dividend and recommended it for approval by the shareholders' general meeting.