

**MOSENERGO GROUP**

**CONSOLIDATED INTERIM  
CONDENSED FINANCIAL INFORMATION  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007**

**(UNAUDITED)**

**REPORT ON REVIEW OF CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION**

To the Shareholders and the Board of Directors of OAO Mosenergo:

*Introduction*

We have reviewed the accompanying consolidated interim condensed balance sheet of OAO Mosenergo and its subsidiaries (the "Mosenergo Group") as of 30 September 2007 and the related consolidated interim condensed income statement, statements of cash flows and of changes in equity for the nine months then ended. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review. Management has issued consolidated interim condensed financial information for the first time as of and for the period ended 30 September 2007 and hence we did not perform a review of interim financial information as of and for the period ended 30 September 2006.

*Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

*Emphasis of Matter*

Without qualifying our conclusion, we draw your attention to Note 23 to the consolidated interim condensed financial information. The Government of the Russian Federation has an ultimate controlling interest in OAO Mosenergo and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

*ZAO PricewaterhouseCoopers Audit*

Moscow, Russian Federation

18 February 2008

**Mosenergo Group**  
**Consolidated Interim Condensed Balance Sheet**  
**as at 30 September 2007 (Unaudited)**  
(in millions of Russian Roubles)

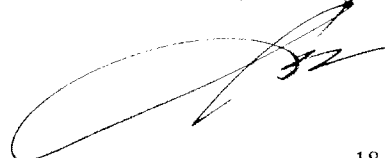
	Note	30 September 2007	As restated (see Note 3(a)) 31 December 2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	123,690	59,679
Investments in associates	6	1,276	346
Other non-current assets		297	215
<b>Total non-current assets</b>		<b>125,263</b>	<b>60,240</b>
<b>Current assets</b>			
Inventories	7	4,646	4,346
Trade and other receivables	8	10,629	4,921
Current income tax prepayments		1,564	56
Held-to-maturity investments	9	16,647	-
Cash and cash equivalents	10	16,768	5,729
Other current assets	11	5,565	666
<b>Total current assets</b>		<b>55,819</b>	<b>15,718</b>
<b>TOTAL ASSETS</b>		<b>181,082</b>	<b>75,958</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	166,124	154,624
Share premium	12	49,213	-
Accumulated loss		(119,462)	(116,394)
Revaluation surplus	12	37,534	-
<b>Total equity</b>		<b>133,409</b>	<b>38,230</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	13	17,653	6,012
Non-current borrowings	14	17,051	20,438
Retirement benefit obligations	15	1,212	1,163
<b>Total non-current liabilities</b>		<b>35,916</b>	<b>27,613</b>
<b>Current liabilities</b>			
Current borrowings and current portion of non-current borrowings	14	591	580
Trade and other payables	16	9,588	7,347
Current income tax payable		578	723
Other taxes payable	17	768	1,075
Provisions for other liabilities and charges	18	232	390
<b>Total current liabilities</b>		<b>11,757</b>	<b>10,115</b>
<b>Total liabilities</b>		<b>47,673</b>	<b>37,728</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>181,082</b>	<b>75,958</b>

Chairman of the Management Board

Chief Accountant



A.Y. Kopsov




T.P. Dronova

18 February 2008

**Mosenergo Group**  
**Consolidated Interim Condensed Income Statement**  
**for the nine months ended 30 September 2007 (Unaudited)**  
(in millions of Russian Roubles, except for earning per ordinary share information)

	Note	Nine months ended 30 September 2007	Nine months ended 30 September 2006 (Not reviewed)
Revenues	19	50,982	46,452
Operating expenses	20	(53,581)	(46,941)
Other operating income		249	39
<b>Operating loss</b>		<b>(2,350)</b>	<b>(450)</b>
Finance income		859	69
Finance costs		(551)	(332)
Finance costs – net		308	(263)
Share of result of associates	6	22	26
<b>Loss before income tax</b>		<b>(2,020)</b>	<b>(687)</b>
Income tax (charge)/benefit	13	(152)	80
<b>Loss for the period</b>		<b>(2,172)</b>	<b>(607)</b>
<b>Earnings per ordinary share – basic and diluted (in Russian Roubles)</b>	21	<b>(0.07)</b>	<b>(0.02)</b>

Chairman of the Management Board

 A.Y. Kopsov

Chief Accountant

 T.P. Dronova


18 February 2008

**Mosenergo Group**  
**Consolidated Interim Condensed Statement of Cash Flows**  
**for the nine months ended 30 September 2007 (Unaudited)**  
(in millions of Russian Roubles)

	Note	Nine months ended 30 September 2007	Nine months ended 30 September 2006 (Not reviewed)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Loss before income tax</b>		<b>(2,020)</b>	<b>(687)</b>
Adjustments for:			
Depreciation of property, plant and equipment and impairment	5	5,052	2,144
Interest income		(859)	(69)
Interest expense		574	420
Foreign exchange gain		(23)	(88)
Charge for impairment of trade and other receivables		234	3
Release of other provisions	18	158	82
Share of result of associates	6	(22)	(26)
Loss/(gain) on disposal of property, plant and equipment		571	(3)
Other non-cash items		31	(158)
<b>Operating cash flows before working capital changes</b>		<b>3,696</b>	<b>1,618</b>
Increase in inventories		(330)	(1,008)
(Increase)/decrease in trade and other receivables		(5,083)	1,306
Decrease/(increase) in other current assets		101	(84)
Increase in trade and other payables		1,807	1,400
Decrease in taxes payable, other than income tax		(255)	(1,020)
Increase in retirement benefit obligations	15	195	19
<b>Cash (used for)/generated from operations</b>		<b>131</b>	<b>2,231</b>
Income tax paid in cash		(2,069)	(566)
Payments under the pension schemes	15	(282)	(60)
<b>Net cash (used for)/generated from operating activities</b>		<b>(2,220)</b>	<b>1,605</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment and other non-current assets		(19,569)	(9,579)
Proceeds from sale of property, plant and equipment		25	21
Purchase of held-to-maturity investments	9	(16,647)	-
Increase in deposits in banks		(5,000)	-
Interest paid and capitalised	5	(786)	(360)
Dividends received		49	1
<b>Net cash used in investing activities</b>		<b>(41,928)</b>	<b>(9,917)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from non-current borrowings		1,213	14,800
Proceeds from current borrowings		6,226	15,645
Repayment of borrowings		(10,797)	(20,199)
Issue of ordinary shares	12	60,720	-
Costs of issuing ordinary shares	12	(7)	-
Interest paid		(1,425)	(259)
Dividends paid by the Group to the shareholders of OAO Mosenergo		(743)	(222)
<b>Net cash generated from financing activities</b>		<b>55,187</b>	<b>9,765</b>
<b>Increase in cash and cash equivalents</b>		<b>11,039</b>	<b>1,453</b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>5,729</b>	<b>2,383</b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b>16,768</b>	<b>3,836</b>

Chairman of the Management Board

Chief Accountant

 A.Y. Kopsov

 T.P. Dronova

18 February 2008

**Mosenergo Group****Consolidated Interim Condensed Statement of Changes in Equity  
for the nine months ended 30 September 2007 (Unaudited)**

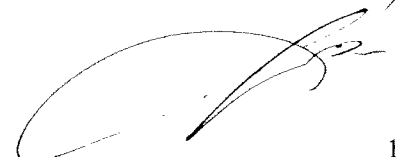
(in millions of Russian Roubles)

	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated loss</u>	<u>Revaluation surplus</u>	<u>Total</u>
<b><u>Nine months ended 30 September 2006 (Not reviewed)</u></b>					
<b>At 31 December 2005 as previously reported</b>	<b>154,624</b>	<b>-</b>	<b>(123,633)</b>	<b>-</b>	<b>30,991</b>
Correction of prior period error (Note 3 (a))	-	-	(914)	-	(914)
<b>At 31 December 2005 (as restated - see Note 3(a))</b>	<b>154,624</b>	<b>-</b>	<b>(124,547)</b>	<b>-</b>	<b>(30,077)</b>
Loss for the period	-	-	(607)	-	(607)
<b>Total recognised loss for the period</b>	<b>-</b>	<b>-</b>	<b>(607)</b>	<b>-</b>	<b>(607)</b>
Dividends to the shareholders (Note 12)	-	-	(454)	-	(454)
<b>At 30 September 2006</b>	<b>154,624</b>	<b>-</b>	<b>(124,694)</b>	<b>-</b>	<b>29,930</b>
<b><u>Nine months ended 30 September 2007</u></b>					
<b>At 31 December 2006 as previously reported</b>	<b>154,624</b>	<b>-</b>	<b>(115,510)</b>	<b>-</b>	<b>39,114</b>
Correction of prior period error (Note 3 (a))	-	-	(884)	-	(884)
<b>At 31 December 2006 (as restated - see Note 3(a))</b>	<b>154,624</b>	<b>-</b>	<b>(116,394)</b>	<b>-</b>	<b>38,230</b>
Revaluation of property, plant and equipment (Note 5)	-	-	-	37,534	37,534
Loss for the period	-	-	(2,172)	-	(2,172)
<b>Total recognised income for the period</b>	<b>-</b>	<b>-</b>	<b>(2,172)</b>	<b>37,534</b>	<b>35,362</b>
Issue of ordinary shares (Note 12)	11,500	49,213	-	-	60,713
Dividends to the shareholders (Note 12)	-	-	(896)	-	(896)
<b>At 30 September 2007</b>	<b>166,124</b>	<b>49,213</b>	<b>(119,462)</b>	<b>37,534</b>	<b>133,409</b>

Chairman of the Management Board

 A.Y. Kopsov

Chief Accountant

 T.P. Dronova

18 February 2008

## **Mosenergo Group**

### **Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)**

(in millions of Russian Roubles)

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#### **Note 1. The Group and its operations**

OAO Mosenergo (“OAO Mosenergo” or the “Company”) and its subsidiaries (the “Group”) and associates is a regional utility generating electric power and heat and also providing heat distribution services to the city of Moscow and Moscow region. The Group’s asset base includes 17 power stations. The overall operational capacity of OAO Mosenergo is approximately 10,643 megawatts (“MW”) of installed generating capacity for electricity and 34,097 gigacalories (“Gkal”) of installed generating capacity for heat.

#### **Note 2. Operating environment**

Whilst there have been improvements in economic trends in the Russian Federation, 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 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.

#### **Note 3. Basis of preparation**

The Condensed Consolidated Interim Financial Information is prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). This financial information should be read together with consolidated financial statements for the year ended 31 December 2006 prepared in accordance International Financial Reporting Standards (“IFRS”).

##### **(a) Restatement of comparatives**

In the consolidated interim condensed financial information for the nine months ended 30 September 2007, the comparative Balance Sheet at 31 December 2006 and the comparative balances at 31 December 2006 and 31 December 2005 in the Statement of Changes in Equity for the nine months ended 30 September 2007 have been restated. The restatement has been made to report the effect of recognizing certain post-retirement benefit obligations at 31 December 2006 and 31 December 2005 which had not previously been recognized in the consolidated financial statements for those years.

In 2007, the Group engaged a qualified actuary to assess the Group’s post-retirement benefit obligations. Pursuant to this actuarial assessment and through the application of IAS 19, the Group believes that material post-retirement obligations of RR 1,163 million and RR 1,203 million should have been recognized in the consolidated financial statements for the years ended 31 December 2006 and 31 December 2005, respectively. Accordingly, the Group has restated certain of the comparative financial information included in the consolidated interim condensed financial information for the nine months ended 30 September 2007.

The effect of the recognition of these obligations is to increase the accumulated loss at 31 December 2006 by RR 884 million and at 31 December 2005 by RR 914 million with an increase in post-retirement benefit obligations at 31 December 2006 by RR 1,163 million and at 31 December 2005 by RR 1,203 million. Deferred tax liabilities have been similarly adjusted by RR 279 million and 289 million at 31 December 2006 and 31 December 2005, respectively.

The Group applied the corridor approach from 1 January 2006, as it was impracticable to apply that approach from an earlier date as the information for earlier periods was not available.

##### **(b) Reclassifications**

Certain reclassifications have been made to prior period data to conform to the current period presentation. None of the reclassifications made were material.

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

(in millions of Russian Roubles)

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#### (c) Foreign currencies

At 30 September 2007 the official rates of exchange, as determined by the Central Bank of the Russian Federation, were:

- RR 24.9493: US Dollar (US\$) 1.00 (31 December 2006: RR 26.3311: US\$ 1.00);
- RR 35.3457: Euro 1.00 (31 December 2006: RR 34.6965: Euro 1.00).

The RR is not freely convertible in most countries outside the Russian Federation.

#### **Note 4. Summary of significant accounting policies and critical accounting estimates**

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2006, except for the policies regarding the measurement of the property, plant and equipment, which were changed voluntarily.

The following accounting policy for property, plant and equipment has been extracted from the related accounting policy included in the consolidated financial statements for the year ended 31 December 2006 and modified for the revaluation of property plant and equipment.

**Property, plant and equipment.** Until 31 December 2006, property, plant and equipment are stated at depreciated cost net of impairment losses.

The Group changed its accounting policy to revaluing its property, plant and equipment from 1 January 2007. Management believes that it would result in a more meaningful presentation of the Group's financial position and financial performance.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserves in equity, unless the decrease of the reserve previously recognized in the income statement. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement.

Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset.

The Group charges deferred tax liabilities in respect of revaluation of property, plant and equipment directly to equity.

The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Interest on borrowings to finance the construction of property, plant and equipment is capitalized during the period of time that is required to complete and prepare the asset for its intended use. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised and the carrying amount of the component is written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets when it is available for use. Depreciation commences on the date of acquisition, or in respect of internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives are as follows:

- Electricity and heat generation 17 to 50 years



## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

(in millions of Russian Roubles)

- |                            |                |
|----------------------------|----------------|
| • Electricity distribution | 11 to 25 years |
| • Heating networks         | 14 to 20 years |
| • Other                    | 15 years       |

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

**Pension and post-employment benefits.** In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

OAO Mosenergo operates a number of defined benefit plans: lump-sum payments at retirement, old age life pension program and death benefits. Defined benefits plans, except old-age life pensions, are paid on a pay-as-you-go basis. For old-age life pensions payments OAO Mosenergo has contracted with a non-state pension fund. OAO Mosenergo settles its obligation in relation to former employees when they retire from OAO Mosenergo by purchasing annuity policies in the fund. All defined benefits plans are considered to be fully unfunded. When the pension obligation is settled via a non-state pension fund, the employer buys an annuity with the amount of contributions allocated to individual accounts held by the non-state pension fund and any additional contributions that may be required from the employer to meet the cost of the benefit promise.

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to the income statement over the employees' expected average remaining working lives.

**New accounting developments.** Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

Effective 1 January 2007 the Group adopted IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. New IFRS 7 introduces new disclosures to improve the information about financial instruments. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group will disclose in its annual consolidated financial statements the complete information required by IFRS 7.

The adoption of IFRIC 7, Applying the Restatement Approach under IAS 29 and IFRIC 8, Scope of IFRS 2 effective 1 January 2007 did not have a material effect on the consolidated financial statements of the Group.

**Other new standards or interpretations.** The Group has not early adopted the following other new standards or interpretations, which are not effective for the annual financial statements for 2007:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation

## **Mosenergo Group**

### **Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)**

(in millions of Russian Roubles)

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for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information;

- Amendment to IAS 23, Borrowing Cost (applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009). The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale;
- Amendment to IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by the statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-of-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors;
- Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 2, Share-based Payment on vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009);
- IAS 27 (Revised), Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009);
- IFRS 3 (Revised), Business Combinations (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 - Defined Benefit Assets and Minimum Funding Requirements (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements, except for the revised IAS 1, which will affect the presentation of its consolidated financial statements but have no impact on the recognition or measurement of specific transactions and balances.

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

(in millions of Russian Roubles)

#### Note 5. Property, plant and equipment

	Electricity and heat generation	Electricity distribution	Heating networks	Construction in progress	Other	Total
<b>As at</b>						
<b>31 December 2005</b>						
Cost	60,298	3,161	4,421	2,182	27,227	97,289
Accumulated depreciation	(33,613)	(1,427)	(2,693)	-	(21,401)	(59,134)
<b>Net book value as at</b>						
<b>31 December 2005</b>	26,685	1,734	1,728	2,182	5,826	38,155
<b>Nine months ended</b>						
<b>30 September 2006</b>						
Net book value as at 31 December 2005	26,685	1,734	1,728	2,182	5,826	38,155
Depreciation	(874)	(76)	(172)	-	(1,022)	(2,144)
Additions	11	-	-	9,144	39	9,194
Transfers	73	87	-	(279)	119	-
Disposals	-	-	-	(18)	-	(18)
<b>Net book value as at</b>						
<b>30 September 2006</b>	25,895	1,745	1,556	11,029	4,962	45,187
<b>Three months</b>						
<b>ended</b>						
<b>31 December 2006</b>						
Net book value as at 30 September 2006	25,895	1,745	1,556	11,029	4,962	45,187
Reversal of impairment	8,312	569	483	-	1,168	10,532
Depreciation	(721)	(77)	(135)	(20)	(715)	(1,668)
Additions	-	-	-	5,614	26	5,640
Transfers	2,670	637	-	(4,294)	987	-
Disposals	(1)	-	-	(10)	(1)	(12)
<b>Net book value as at</b>						
<b>31 December 2006</b>	36,155	2,874	1,904	12,319	6,427	59,679
<b>As at</b>						
<b>31 December 2006</b>						
Cost	62,768	3,861	4,421	12,339	28,160	111,549
Accumulated depreciation	(26,613)	(987)	(2,517)	(20)	(21,733)	(51,870)
<b>Net book value as at</b>						
<b>31 December 2006</b>	36,155	2,874	1,904	12,319	6,427	59,679
<b>Nine months ended</b>						
<b>30 September 2007</b>						
Net book value as at 31 December 2006	36,155	2,874	1,904	12,319	6,427	59,679
Reclassification	9,429	921	499	-	(10,849)	-
Revaluation	26,695	1,540	9,738	2,248	9,166	49,387
Depreciation	(2,393)	(208)	(1,489)	-	(962)	(5,052)
Additions	5	-	-	20,227	40	20,272
Transfers	243	176	175	(688)	94	-
Disposals	(192)	(307)	-	(6)	(91)	(596)
<b>Net book value as at</b>						
<b>30 September 2007</b>	69,942	4,996	10,827	34,100	3,825	123,690

Included in additions above is capitalized interest of RR 786 million and RR 360 million for the periods ended 30 September 2007 and 2006, respectively. Capitalization rates of 6,40% and 6,16% were used

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

(in millions of Russian Roubles)

representing the weight average actual borrowing cost of the relevant borrowings for the nine months ended 30 September 2007 and for the nine months ended 30 September 2006, respectively.

Construction in progress includes advances to construction companies and suppliers of property, plant and equipment of RR 9,466 million (net of VAT) and RR 5,042 million (net of VAT) as of 30 September 2007 and 31 December 2006 respectively.

Other property, plant and equipment are comprised of motor vehicles, computer equipment, office fixtures and other assets not included in categories mentioned above.

The Group changed its accounting policy to revaluing its property, plant and equipment from 1 January 2007. The Group contracted independent appraisers to estimate fair value of the Group's property, plant and equipment at 1 January 2007. New fair value as at 1 January 2007 amounted to RR 104,547 million. This change was accounted for prospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", therefore comparatives were not restated.

Fair values were determined primarily based on the depreciated replacement cost method. The replacement cost of buildings, constructions and transfer devices has been estimated based on technical characteristics, unit construction cost and construction estimates. The replacement cost of equipment was estimated based on data of aggregative replacement cost of heat-power station, current purchase contracts and price-list of producers and trading companies. The economic obsolescence was estimated based on profitability test results for each cash-generating unit. The discount rate used was 11.28%, the forecast period - 19 years, long-term growth - 3%.

As a result of the revaluation, the Group's equity increased by RR 37,534 million, comprising in increase in carrying value of property, plant and equipment of RR 49,387 million, net of related deferred tax of RR 11,853 million.

For each revalued class of property, plant and equipment stated at revalued amount in these financial statements, the carrying amount that would have been recognized had the assets been carried under the cost model is following:

	<u>Electricity and heat generation</u>	<u>Electricity distribution</u>	<u>Heating networks</u>	<u>Construction in progress</u>	<u>Other</u>	<u>Total</u>
Cost						
Net book value as at 30 September 2007	35,503	2,852	1,725	31,571	5,642	77,293

#### (a) Impairment provision for property, plant and equipment

The carrying value of property, plant and equipment at 31 December 2005 is stated net of an impairment loss of RR 11,250 million. As at 31 December 2006, the Group assessed whether there is any indication that an impairment loss recognised in prior periods for property, plant and equipment may no longer exist.

These developments have resulted in a change to the assumptions that were used to determine the value in use of the assets and a reversal of the previously recognised impairment loss in the amount of RR 10,532 million at 31 December 2006. A respective gain together with a corresponding deferred tax expense of RR 2,528 million were recognised in the income statement for the year ended 31 December 2006.

Management believes that there were no indications of impairment of the Group's principal operating assets at 30 September 2007, as prices for gas, tariffs for electric energy and heat (in regulated sector), approved for 2007 by corresponding regulating bodies, have grown by 15.0 %, 15.0 % and 16.5 % respectively in comparison with the year ended 31 December 2006.

#### (b) Operating lease

The Group leases a number of land areas owned by local governments under operating lease. Land lease payments are determined by lease agreements.

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Operating lease rentals are payable as follows:

	<u>30 September 2007</u>
Less than one year	280
Between one and five years	1,402
More than five years	11,986
	<u>13,668</u>

The land areas leased by the Group are the territories on which the Group's electric power stations, heating stations and other assets are located. The leases typically run for an initial period of 5 to 45 years with an option to renew the lease after that date. Leased payments are reviewed regularly to reflect market rentals.

#### Note 6. Investments in associates

The Group has the following investments in associate:

	<u>Country</u>	<u>Ownership</u> <u>30 September 2007</u>	<u>Ownership</u> <u>31 December 2006</u>
OOO KB Transinvestbank	Russia	72.44%	24.61%

In this reporting period following the registration with the Central Bank of Russia and Tax Authorities, the Group has recognized an increase in its ownership in OOO KB Transinvestbank to 72.44%. The increase was the result of litigation with former owners of the associate. The accounting for the increase is provisional as the Group is in the process of ascertaining the fair value of identifiable assets and liabilities. Following the court decision RR 957 million are payable by the Group to the former owners of a 47.83% interest in the associate (see Note 16).

In accordance with the Articles of OOO KB Transinvestbank, its charter capital is divided between three participants, including OAO Mosenergo, and each participant has one equal vote. The majority of significant decisions should be approved by 2/3 of votes.

The table below summarise the movements in the carrying amount of the Group's investments in associates:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Carrying amount at 1 January	346	328
Share of result of associates	22	42
Dividends received from associates	(49)	(24)
Increase in share of associates	957	-
Carrying amount at the end of reporting period	<u>1,276</u>	<u>346</u>

At 30 September 2007 and 31 December 2006 summarized financial information of associate, including total assets, liabilities, revenues and profit were as follows:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Assets	3,282	3,829
Liabilities	(1,838)	(2,423)
Total equity	<u>1,444</u>	<u>1,406</u>

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	Nine months ended 30 September 2007	Nine months ended 30 September 2006
Revenues	559	610
Expenses	(449)	(505)
Profit for the period	<b>110</b>	<b>105</b>

#### Note 7. Inventories

	30 September 2007	31 December 2006
Fuel production stocks	2,624	2,998
Materials and supplies	1,984	1,322
Other inventories	38	26
	<b>4,646</b>	<b>4,346</b>

Materials and supplies are shown net of a provision for obsolete inventory and for slow-moving inventory of RR 16 million as at 30 September 2007 and RR 17 million as at 31 December 2006.

#### Note 8. Trade and other receivables

	30 September 2007	31 December 2006
Trade receivables (Net of provision for impairment of receivables of RR 1,194 million as at 30 September 2007 and RR 1,161 million as at 31 December 2006)	5,445	2,066
Value Added Tax recoverable	2,128	1,492
Tax prepayments (other than current income tax prepayments)	1,567	76
Advances to suppliers and prepayments	618	500
Other receivables (Net of provision for impairment of receivables of RR 270 million as at 30 September 2007 and RR 255 million as at 31 December 2006)	871	787
	<b>10,629</b>	<b>4,921</b>

Management has determined the allowance for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The management of the Group believes that the Group will be able to realize the net receivable amount through direct collections and other non-cash settlements, and because of their short term nature, therefore the recorded value approximates their fair value.

#### Note 9. Held-to-maturity investments

In May 2007 the Company purchased a number of promissory notes of AB Gazprombank (ZAO) maturing in 2008. Yield to maturity for promissory notes are within 4.75 – 6.7% per annum.

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#### Note 10. Cash and cash equivalents

	<u>30 September 2007</u>	<u>31 December 2006</u>
Cash at bank and in hand	10,759	5,720
RR term deposits (interest rate: 5,7%-6,3% p.a.; 2006: n/a)	6,000	-
Foreign currency bank accounts	9	9
	<u>16,768</u>	<u>5,729</u>

Cash and cash equivalents balances do not include balances on special accounts in OAO ABN AMRO bank and OAO KB Citibank in the aggregate amounts of RR 42 million and RR 143 million as at 30 September 2007 and 31 December 2006 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.

Term deposits have original maturities of less than three months.

#### Note 11. Other current assets

	<u>30 September 2007</u>	<u>31 December 2006</u>
Assets constructed under financing from Moscow Government (Note 16)	523	523
Other current assets	5,042	143
	<u>5,565</u>	<u>666</u>

As at 30 September 2007 other current assets include deposits in banks that have original maturities of more than three months in the amount of RR 5,000 million.

#### Note 12. Equity

##### (a) Share capital

The total authorised number of ordinary shares is 39,749,359,700 shares with a par value of RR 1.00 per share. All issued ordinary shares are fully paid.

The carrying amount of share capital has been adjusted to take into account the effects of hyperinflation that existed in Russian Federation until the end of 2002.

On 20 December 2006 the shareholders' meeting of OAO Mosenergo approved increase of share capital of OAO Mosenergo via additional issue of 11,500,000,000 of ordinary shares with nominal value equal to RR 1.00 per share by private offering in favour of OAO Gazprom and its affiliates. Offering price was approved at RR 5.28 per share (determined based on quoted price of OAO Mosenergo shares during the period of 19 June 2006 – 19 December 2006). The Report on additional issue of securities was registered by the Federal Securities Commission of Russian Federation on 5 July 2007. Shares were paid during March-May 2007.

##### (b) Share premium

Total amount of cash proceeds from the issuance of 11,500,000,000 of ordinary shares at price of RR 5.28 per each share was RR 60,720 million. Share premium received in excess of par value was RR 49,220 million. Total costs of issuing shares accounted for as a deduction from equity amounted to RR 7 million in the period.

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#### (c) Revaluation surplus

Revaluation surplus represents the result of the revaluation of property, plant and equipment performed as at 1 January 2007 (Note 5).

#### (d) Dividends

A decision in respect of the payment of dividends following OAO Mosenergo's 2005 results was taken on 26 May 2006. The amount of declared (accrued) dividends on the issuer's shares was RR 0.01607 per share, total amount of dividends is RR 454 million.

In May 2007 the Company declared dividends for the year ended 31 December 2006 of RR 0.02116389 per share for the total of RR 600 million.

In July 2007 the Company declared dividends for the three months ended 31 March 2007 of RR 0.0104408508 per share for the total of RR 296 million.

During the period ended 30 September 2007 the Group paid dividends in the amount of RR 743 million.

## Note 13. Income tax

#### (a) Income tax expense

The Group's applicable tax rate is the corporate income tax rate of 24% (2006: 24%).

	Nine months ended 30 September 2007	Nine months ended 30 September 2006
<i>Income tax benefit/(charge)</i>		
Current income tax charge	(364)	(349)
Deferred income tax benefit	212	429
	<u>(152)</u>	<u>80</u>

In the consolidated financial statements for the year ended 31 December 2006 the Group accrued RR 576 million related to certain tax matters in response to claims made by tax authorities following their audits of the years 2002 – 2003. The Group is in litigation with tax authorities in relation to these matters. Profit before tax for the financial reporting purposes is reconciled to the income tax as follows:

	Nine months ended 30 September 2007	Nine months ended 30 September 2006
Loss before tax	<u>(2,020)</u>	<u>(687)</u>
Theoretical tax benefit at the statutory tax rate of 24%	485	165
Non-deductible/non-taxable items	(637)	(85)
	<u>152</u>	<u>(80)</u>

#### (b) Deferred income tax

##### (i) *Recognised deferred tax assets and liabilities*

Difference 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 income tax purposes. Deferred income tax assets and liabilities are measured at 24%, the rate applicable when the asset or liability will reverse.



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**(ii) Movements for the periods**

	<u>31 December 2006</u>	<u>Movement for the period recognized in the income statement</u>	<u>Movement for the period recognized in the statement of changes in equity</u>	<u>30 September 2007</u>
Property, plant and equipment	(6,768)	571	(11,853)	(18,050)
Trade and other receivables	173	(114)	-	59
Retirement benefit obligations (as restated, see Note 3(a))	279	12	-	291
Other	304	(257)	-	47
	<u>(6,012)</u>	<u>212</u>	<u>(11,853)</u>	<u>(17,653)</u>

	<u>31 December 2005</u>	<u>Movement for the period recognized in the income statement</u>	<u>30 September 2006</u>
Property, plant and equipment	(4,425)	61	(4,364)
Trade and other receivables	62	496	558
Retirement benefit obligations (as restated, see Note 3(a))	289	5	294
Other	370	(133)	237
	<u>(3,704)</u>	<u>429</u>	<u>(3,275)</u>

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

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## Note 14. Borrowings

	Currency	Effective interest rate	30 September 2007	31 December 2006
<b>Non-current borrowings</b>				
<i>Secured bank loans</i>				
EBRD	RR	MosPrime+ from 2.5% to 3.5%	6,889	7,200
EBRD	USD	LIBOR+3.5%	-	178
IFC	USD	LIBOR+3.5%	-	118
<i>Unsecured bank loans</i>				
Vneshtorgbank	RR	8,50%	-	2,787
<i>Unsecured bonds</i>				
Unsecured bond issue #1	RR	7,54%	5,000	5,000
Unsecured bond issue #2	RR	7,65%	5,000	5,000
<i>Other non-current borrowings</i>				
	RR		162	155
Total			<u>17,051</u>	<u>20,438</u>
<b>Current borrowings and current portion of non-current borrowings</b>				
<i>Secured bank loans</i>				
EBRD	RR	MosPrime+ from 2.5% to 3.5%	311	-
EBRD	USD	LIBOR+3.5%	168	89
IFC	USD	LIBOR+3.5%	112	59
EBRD	USD	LIBOR+4%	-	432
Total			<u>591</u>	<u>580</u>
			<u>17,642</u>	<u>21,018</u>

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

Borrowings include fixed rate loans with a carrying value of RR 10,162 million and RR 12,942 million and fair value of RR 10,314 million and RR 12,949 million as of 30 September 2007 and 31 December 2006, respectively. All other borrowings generally have variable interest rates linked to LIBOR or MosPrime, and the carrying amounts approximate fair value.

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

#### (a) EBRD and IFC loans

In April and June 1998 OAO Mosenergo entered into loan agreements with EBRD and IFC, respectively, to finance capital expenditures. Loans from EBRD and IFC were received under non-revolving lines of credit (loan amount not to exceed USD 50 million in total). The full amount available under the agreements was 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.

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In December 2005 the Group concluded a loan agreement with EBRD to open a credit line in the total amount of RR 7,200 million for more than 10 years. The arrangement consists of two credit lines in amounts of RR 2,900 million and RR 4,300 million, respectively. The loan was obtained for the purpose of acquiring additional equipment for the Group. The interest on loans is determined on a Mosprime plus basis.

Interest payments on the loan are made on a quarterly basis, and the principal amount is being repaid in 40 and 18 equal installments for the first and second credit lines, respectively, starting from 31 December 2007.

Net book value of property, plant and equipment pledged as security for loans was RR 2,081 million and RR 679 million as of 30 September 2007 and 31 December 2006, respectively.

#### (b) Unsecured bonds

On 2 March 2006 the placement of OAO Mosenergo's unconvertible fixed interest rate bearing bonds took place through underwriter Gazprombank on the trading floor of Moscow Interbank Currency Exchange. The total amount of placement equaled RR 5 billion. The face value of each bond is RR 1,000 and term of maturity of ten years. Interest of 7.65% will be paid to the bond holders semiannually.

The bonds may become subject for early redemption only upon the decision of the issuer to grant such option to the bond holders. The main purpose of bond issues is to refinance short-term bank loans.

On 19 September 2006 OAO Mosenergo registered the second issue of fixed interest rate bearing bonds with the face value of RR 1,000 and term of maturity of five years. The total amount of placement equaled RR 5 billion. Interest of 7.54% will be paid to the bond holders semiannually.

#### (c) Other borrowings

During the period ended 30 September 2007 OAO Mosenergo has early repaid the loan of Vneshtorgbank.

#### (d) Borrowings maturity

As of 30 September 2007, OAO Mosenergo did not comply with the debt service coverage requirements as stated in the 1998 loan agreements with the EBRD and IFC. Breach of the covenant to maintain the debt service coverage ratio at the specified level, would, upon notice to Mosenergo from EBRD and IFC, respectively, and if not cured or otherwise waived within thirty days of such notice being provided, give EBRD and IFC the right to demand repayment, it being noted that EBRD and IFC are both free to waive any consequences of such breach at any time. Therefore, in accordance with IAS 1, these loans amounting to RR 140 million were reclassified to current debt at 30 September 2007. After the balance sheet date EBRD permanently waived the requirement of provision of covenant compliance reports based on any financial statements of OAO Mosenergo other than Russian statutory semi-annual financial statements (see Note 24(c)).

As of 30 September 2007 the maturity portfolio of long-term borrowings is presented below:

	<u>30 September 2007</u>
Between one and two years	1,281
Between two and five years	13,864
After five years	<u>1,906</u>
	<u><u>17,051</u></u>

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#### Note 15. Retirement benefit obligations

The tables below provide information about post-employment benefits and actuarial assumptions used for the period ended 30 September 2007. Amounts recognized in the consolidated balance sheet:

	<u>30 September 2007</u>	<u>As restated (see Note 3(a)) 31 December 2006</u>
Present value of defined benefit obligations (DBO)	2,812	1,149
Unrecognised actuarial (loss)/gain	(82)	14
Unrecognised past service cost	(1,518)	-
	<u>1,212</u>	<u>1,163</u>

Benefit expenses recognised in the consolidated income statement:

	<u>Nine months ended 30 September 2007</u>	<u>Nine months ended 30 September 2006</u>
Current service cost	84	19
Interest cost	136	62
Amortisation of past service cost	111	-
	<u>331</u>	<u>81</u>

Changes in the present value of the Group's defined benefit obligation are as follows:

	<u>30 September 2007</u>	<u>As restated (see Note 3(a)) 31 December 2006</u>
Present value of defined benefit obligations (DBO) at 1 January (as restated see Note 3(a))	1,149	1,203
Current service cost	84	26
Interest cost	136	83
Actuarial loss/(gain)	96	(6)
Past service cost	1,629	-
Benefits paid	(282)	(80)
Curtailement gain	-	(77)
<b>Present value of defined benefit obligations (DBO) at the end of period</b>	<u><b>2,812</b></u>	<u><b>1,149</b></u>

Starting 1 January 2007 the Group established new pension plan. Payments under this new plan are made within agreements with non-state pension fund NPF Elektroenergetiki and non-state pension fund Gazfund. The new pension plan was introduced only for active employees.

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Principal actuarial assumptions are as follows:

	<u>30 September 2007</u>	<u>31 December 2006</u>
Nominal discount rate	6.75%	7.00%
Inflation rate	5.00%	5.00%
Wage growth rate p.a.	7.00%	7.00%
Benefits increase	5.00%	5.00%

The actuarial loss arose during this period reflected experience adjustments and the effect of change in actuarial assumptions.

	<u>30 September 2007</u>	<u>31 December 2006</u>
Present value of defined benefit obligations (DBO)	2,812	1,149
Deficit in plan	2,812	1,149
(Losses)/gains arising from experience adjustments on plan liabilities	(96)	32

Expected payments under the pension plan in the period starting 1 October 2007 till 31 December 2007 are RR 115 million.

### Note 16. Trade and other payables

	<u>30 September 2007</u>	<u>31 December 2006</u>
Trade payables	3,171	2,581
Account payable for acquisition of property, plant and equipment	3,090	1,987
Accrued liabilities and other payables	1,761	1,227
Advances received	889	1,028
Financing from Moscow Government	523	523
Dividends payable	154	1
	<u>9,588</u>	<u>7,347</u>

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

Accrued liabilities and other payables at 30 September 2007 include payables in the amount of RR 957 million accrued in relation to increase of Mosenergo's shareholding in OOO KB Transinvestbank (see Note 6).

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#### Note 17. Other taxes payable

	<u>30 September 2007</u>	<u>31 December 2006</u>
Property tax	276	174
VAT payable	250	527
Payroll taxes payable	111	203
Other taxes payable	131	171
	<u>768</u>	<u>1,075</u>

#### Note 18. Provisions for other liabilities and charges

	<u>As at 1 January 2007</u>	<u>Additional provisions</u>	<u>Unused amount reversed</u>	<u>Utilised during the period</u>	<u>As at 30 September 2007</u>
Legal claims	390	155	(1)	(312)	232
	<u>390</u>	<u>155</u>	<u>(1)</u>	<u>(312)</u>	<u>232</u>
	<u>As at 1 January 2006</u>	<u>Additional provisions</u>	<u>Unused amount reversed</u>	<u>Utilised during the period</u>	<u>As at 30 September 2006</u>
Legal claims	553	150	(117)	(260)	326
	<u>553</u>	<u>150</u>	<u>(117)</u>	<u>(260)</u>	<u>326</u>

#### Note 19. Revenues

	<u>Nine months ended 30 September 2007</u>	<u>Nine months ended 30 September 2006</u>
Electricity	26,187	21,840
Heating	21,549	22,131
Other	3,246	2,481
	<u>50,982</u>	<u>46,452</u>

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**Note 20. Operating expenses**

	<u>Nine months ended 30 September 2007</u>	<u>Nine months ended 30 September 2006</u>
Fuel expenses	25,876	24,170
Transmission fees	8,205	7,917
Employee benefits	5,444	4,793
Depreciation of property, plant and equipment and impairment (Note 5)	5,052	2,144
Repairs and maintenance	1,912	1,806
Taxes other than income and payroll taxes	1,167	831
Loss/(gain) on disposal of property, plant and equipment	571	(3)
Other materials	562	569
Insurance cost	526	337
Services of NP ATS, ZAO CFR, OAO SO CDU	427	414
Water usage expenses	299	279
Charge for impairment of trade and other receivables	234	3
Social expenditures	50	31
Other	3,256	3,650
	<u><b>53,581</b></u>	<u><b>46,941</b></u>
Employee benefits expenses comprise the following:		
	<u>Nine months ended 30 September 2007</u>	<u>Nine months ended 30 September 2006</u>
Salaries and wages, accrued bonuses, benefits and payroll taxes	5,249	4,774
Non-governmental pension fund expenses	195	19
<b>Employee benefits</b>	<u><b>5,444</b></u>	<u><b>4,793</b></u>

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#### Note 21. Earnings per share

The calculation of earnings per share is the net profit for the period divided by the weighted average number of ordinary shares outstanding during the period, calculated as shown below. OAO Mosenergo does not have dilutive potential ordinary shares.

<i>In thousands of shares</i>	<u>Nine months ended 30 September 2007</u>	<u>Nine months ended 30 September 2006</u>
Weighted average number of ordinary shares issued (thousands)	32,519,580	28,249,360
Loss for the period	<u>(2,172)</u>	<u>(607)</u>
<b>Earnings per ordinary share – basic and diluted (in Russian Roubles)</b>	<b><u>(0.07)</u></b>	<b><u>(0.02)</u></b>

#### Note 22. Commitments, contingencies and operating risks

##### (a) Capital commitments

Future capital expenditure for which contracts have been signed amounted to RR 19,944 million at 30 September 2007 (RR 21,921 million as of 31 December 2006). RR 3,770 million of capital commitments as of 30 September 2007 are denominated in foreign currencies, mainly Euro and Swiss francs.

##### (b) Taxation

Russian tax 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 30 September 2007 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax 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.

As at 30 September 2007 management estimates that the Group has the number of possible tax obligations (other than remote) in amount of RR 674 million (RR 422 million as of 31 December 2006). These possible obligations primarily relate to the deductibility of electric power losses for income tax purposes. The Tax Authorities decision in respect of this amount dated 9 January 2008 was received by OAO Mosenergo on 7 February 2008. OAO Mosenergo has appealed the decision.

##### (c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In general those legal proceedings relate to application of tariffs. 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.

As of the date of issuing these consolidated financial statements management believes that it has adequately provided for all significant potential losses that may result from any such claims being asserted and contested.



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**(d) Compliance with covenants**

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and an ultimate declaration of default (see Note 14).

**(e) Environmental matters**

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, 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.

**(f) Guarantees**

The Group issued guarantees for mortgage loans of employees of RR 307 million as of 30 September 2007 (RR 212 million as of 31 December 2006).

**Note 23. Related parties**

For the purposes of this condensed consolidated interim financial information, 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 as defined by IAS 24 Related Parties Disclosures.

**(a) Parent company and its subsidiaries**

As of 30 September 2007 Gazprom Group owns over 50% in OAO Mosenergo and has effective control over the Group's operations. The Government of the Russian Federation is the ultimate controlling party of OAO Gazprom and has controlling interest (including both direct and indirect ownership) of over 50% in OAO Gazprom.

In June 2007 Gazprom Group acquired additional shares of OAO Mosenergo and increased its interest in OAO Mosenergo to controlling stake. Therefore, information for periods ended 30 June 2007 and 30 September 2006 and as of 31 December 2006 are disclosed in the Note 23 (d) below.

For the three months ended 30 September 2007 and as of 30 September 2007, the Group had the following significant transactions and balances with Gazprom Group:

	<b>Three months ended</b> <b>30 September 2007</b>
Revenue – other	43
Fuel expenses	(6,232)
Interest income	415
Interest expense	(3)
Proceeds from current borrowings	2,197
Repayment of borrowings	2,197

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

(in millions of Russian Roubles)

	<u>30 September 2007</u>
Cash and cash equivalents	9,510
Other current assets	16,429
Trade receivables	10
Trade payables	32
Advances to suppliers and prepayments	858

As of 31 December 2006 and till the end of May 2007 RAO UES of Russia owned 50.9% of the ordinary voting shares of OAO Mosenergo and had effective control over the Group's operations. The Russian Government was the ultimate controlling party of the Group, owning 52.7 % of RAO UES of Russia.

During periods ended 30 June 2007 and 30 September 2006 Group accrued dividends to RAO UES of Russia in the amount of RR 415 million and RR 231 million, respectively.

For periods ended 30 June 2007 and 30 September 2006 and as of 31 December 2006, the Group had the following significant transactions and balances with subsidiaries of RAO UES of Russia:

	<u>Six months ended 30 June 2007</u>	<u>Nine months ended 30 September 2006</u>
Revenue - Electricity	16,789	19,200
Revenue – Heating	621	904
Revenue – Other	1,240	3,609
	<u>18,650</u>	<u>23,713</u>
Transmission fees	7,350	7,917
Subscription fees/Electricity and heat distribution expenses	286	414
Other	12	6
	<u>7,648</u>	<u>8,337</u>

	<u>31 December 2006</u>
Trade receivables	866
Other receivables	285
Advances to suppliers and prepayments	2,213
	<u>3,364</u>
Trade payables	1,041
Other payables	97
Advances received	32
	<u>1,170</u>

Information for transactions with RAO UES of Russia and its subsidiaries for the three months ended 30 September 2007 and as of 30 September 2007 is disclosed in the Note 23 (d) below.

#### **(b) Transactions with associates (OOO KB Transinvestbank)**

During the periods ended 30 September 2007 and 2006 the Group leased premises to OOO KB Transinvestbank for RR 4 million and RR 2 million, respectively.

During the periods ended 30 September 2007 and 2006 the Group received bank services from OOO KB Transinvestbank for RR 81 million and RR 72 million respectively.

Included in cash and cash equivalents of the Group are cash accounts with OOO KB Transinvestbank of RR 327 million and RR 587 million as of 30 September 2007 and 31 December 2006, respectively.

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

(in millions of Russian Roubles)

#### (c) Transactions with key management

Key management personnel (the members of the Board of Directors and Management Committee of OAO Mosenergo) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The remuneration for serving on the Board of Directors is subject to approval by the General Meeting of Shareholders, compensation of key management personnel (other than remuneration for serving as members of Board of Directors) is determined by the terms of the employment contracts.

Total remuneration accrued and paid to the members of the Board of Directors and Management Committee for the periods ended 30 September 2007 and 2006 was as follows:

	Nine months ended 30 September 2007		Nine months ended 30 September 2006	
	Expense	Accrued liability	Expense	Accrued liability
Short-term compensation, including salary and bonuses	135	37	71	4
Remuneration for serving on the Board of Directors and Management Committee	14	2	12	2
Post-employment benefits	-	34	-	3

Short-term compensation include personal income tax and are net of unified social tax.

At 30 September 2007 and at 31 December 2006 there were 13 members of the Board of Directors and 13 members of the Management Board. The total amount of key management personal is 24 persons at 30 September 2007 and 24 at 31 December 2006.

#### (d) Other state-controlled entities

Information provided below excludes transactions and balances with OAO Gazprom and its subsidiaries for the three months ended 30 September 2007 and as of 30 September 2007 that are disclosed in Note 23 (a) above.

For periods ended 30 June 2007 and 30 September 2006 and as of 31 December 2006, the Group had the following significant transactions and balances with Gazprom Group:

	Six months ended 30 June 2007	Nine months ended 30 September 2006
Revenue – other	87	140
Fuel expenses	(16,578)	(20,395)
Interest income	243	2
Interest expense	(1)	(199)
Proceeds from current borrowings	1,170	9,645
Repayment of borrowings	1,170	15,995
	<b>31 December 2006</b>	
Cash and cash equivalents	2,347	
Trade payables	501	
Advances to suppliers and prepayments	37	

During the period ended 30 June 2007 OAO Mosenergo placed and withdrew cash on short-term deposit in AB Gazprombank (ZAO) for RR 6,300 and 7,200 million, respectively. During the period ended

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

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30 September 2006 OAO Mosenergo placed and withdrew cash on short-term deposit in AB Gazprombank (ZAO) for RR 3,300 million.

During the period ended 30 June 2007 OAO Mosenergo purchased short-term promissory notes of AB Gazprombank (ZAO) for RR 16,301 million.

During periods ended 30 June 2007 and 30 September 2006 Group accrued dividends to Gazprom Group in the amount of RR 223 million and RR 0 million, respectively.

Information provided below excludes transactions and balances with RAO UES of Russia and its subsidiaries for the periods ended 30 June 2007 and 30 September 2006 and as of 31 December 2006 that are disclosed in Note 23 (a) above.

During period ended 30 September 2007 Group paid dividends to RAO UES of Russia in the amount of RR 265 million.

For periods ended 30 June 2007 and 30 September 2006 and as of 31 December 2006, the Group had the following significant transactions and balances with subsidiaries of RAO UES of Russia:

	<b>Three months ended 30 September 2007</b>
Revenue - Electricity	7,231
Revenue - Heating	164
Revenue - Other	285
	<b>7,680</b>
Transmission fees	855
Subscription fees/Electricity and heat distribution expenses	142
Other	9
	<b>1,006</b>
	<b>30 September 2007</b>
Trade receivables	3,616
Other receivables	50
Advances to suppliers and prepayments	36
	<b>3,702</b>
Trade payables	1,800
Other payables	4
Advances received	316
	<b>2,120</b>

In the normal course of business the Group enters into transactions with other entities under Government control.

Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation. Tax balances are disclosed in Note 17. Tax transactions are disclosed in the income statement.

## Mosenergo Group

### Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)

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For the periods ended 30 September 2007 and 2006 and as of 30 September 2007 and 31 December 2006, respectively, the Group had the following significant transactions and balances with Government and parties under control of the Government:

	Nine months ended 30 September 2007	Nine months ended 30 September 2006
Revenue - heat	14,003	14,676
Operating expenses, including:		
<i>Fuel expenses</i>	(2,225)	(2,267)
<i>Water usage expenses</i>	(1,797)	(1,361)
<i>Other expense</i>	(243)	(167)
Interest expense	(185)	(739)
Proceeds from non-current borrowings	(159)	(55)
Proceeds from current borrowings	2,787	-
Repayment of borrowings	2,859	6,000
	5,646	2,000
	<u>30 September 2007</u>	<u>31 December 2006</u>
Cash and cash equivalents	484	2 404
Trade receivables (Net of provision for impairment of receivables of RR 134 million as at 30 September 2007 and RR 843 million as at 31 December 2006)	196	1,316
Other receivables (Net of provision for impairment of receivables of RR 79 million as at 30 September 2007 and RR 255 as at 31 December 2006)	7	285
Advances to suppliers and prepayments	115	2,213
Trade payables	106	1,078
Accrued liabilities and other payables	-	279
Advances received	-	32
Non-current borrowings	-	2 787

## Note 24. Events subsequent to the balance sheet date

### (a) Investments

In September 2007 the Board of Directors of OAO Mosenergo took the decision to set-up new 100% subsidiary – OAO Teploenergeticheskaya kompaniya Mosenergo. At the date of signing of these financial statements the package of documents for state registration are under the state authority consideration.

### (b) Unsecured bonds

Subsequent to the reporting date the Group made a decision on merging of OAO Mosenergo Holding into the Group. As the result owners of OAO Mosenergo unsecured bonds (see Note 14(b)) can present the bonds for early redemption until 28 February 2008.

## **Mosenergo Group**

### **Notes to the Consolidated Interim Condensed Financial Information for the nine months ended 30 September 2007 (Unaudited)**

(in millions of Russian Roubles)

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#### **(c) Compliance with covenants**

With respect to the loan agreement dated 7 April 1998 between OAO Mosenergo and EBRD, on 9 November 2007 EBRD permanently waived the requirement for the provision of covenant compliance reports based on any financial statements of OAO Mosenergo other than Russian statutory semi-annual financial statements, and consented to making all financial calculations under, or for the purposes of, that loan agreement on the basis of the then most recently issued statutory semi-annual financial statements of OAO Mosenergo. As at 30 September 2007 the Group did not comply with covenants of the agreement dated 7 April 1998 between OAO Mosenergo and EBRD (see Note 14(d)).

#### **(d) Changing in shareholders of OAO Mosenergo**

Subsequent to the reporting date the Property Department of Moscow City Government acquired shares of OAO Mosenergo from RAO UES of Russia and now owns 21.16% of OAO Mosenergo's share capital.

### **Note 25. Seasonality**

Demand for both electricity and heat is influenced by both the season of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, though less severe, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. For the nine months ended 30 September 2007, the level of electricity and heat revenues represented 76% (nine months ended 30 September 2006: 64%) of the annual electricity and heat revenues in the year ended 31 December 2006.