OAO MOSENERGO

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008

(UNAUDITED)

OAO Mosenergo
Consolidated Interim Balance Sheet as at 30 June 2008
(in millions of Russian Roubles)

	Note	*30 June 2008 (Unaudited)*	*31 December 2007*
Non-current assets			
Property, plant and equipment	7	139,618	131,036
Investment property	8	1,225	1,288
Investments in associates	9	1,061	1,246
Other non-current assets		395	347
Total non-current assets		**142,299**	**133,917**
Current assets			
Inventories	11	4,077	4,444
Trade and other receivables	12	9,813	11,566
Current income tax prepayments		1,990	41
Held-to-maturity investments	10	13,815	15,201
Cash and cash equivalents	13	7,146	11,136
Other current assets	14	2,711	8,720
Total current assets		**39,552**	**51,108**
TOTAL ASSETS		**181,851**	**185,025**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	166,124	166,124
Accumulated deficit		(115, 478)	(117,211)
Treasury stock		(969)	-
Share premium		49,213	49,213
Revaluation surplus		37,534	37,534
Total equity		**136,424**	**135,660**
Non-current liabilities			
Non-current borrowings	16	15 ,566	129
Deferred income tax liabilities	25	17,876	17,427
Retirement benefit obligations	18	1,230	1,279
Total non-current liabilities		**34,672**	**18,835**
Current liabilities			
Current borrowings and current portion of non-current borrowings	16	1,377	17,476
Trade and other payables	20	8,510	10,950
Current income tax payable	25	152	478
Other taxes payable	17	685	611
Other provisions for liabilities and charges	19	31	1,015
Total current liabilities		**10,755**	**30,530**
Total liabilities		**45,427**	**49,365**
TOTAL EQUITY AND LIABILITIES		**181,851**	**185,025**

General Director V.G. Yakovlev

Acting Chief Accountant S.V. Kaplya

19 September 2008

(in millions of Russian Roubles)

	Note	*Six months ended 30 June 2008*	*Six months ended 30 June 2007*
Revenue	21	48,065	39,522
Operating expenses	22	(47,673)	(39,528)
Other operating income		316	191
Operating profit		**708**	**185**
Finance income	23	**883**	**316**
Finance costs	24	**(529)**	**(555)**
Share of result of associates	9	(14)	29
Loss on change in fair value of investment property	8	(63)	-
Profit /(loss) before income tax		**985**	**(25)**
Income tax expense	25	(221)	(477)
Profit /(loss) for the period		**764**	**(502)**
Earnings per ordinary share– basic and diluted (in Russian Roubles)	26	**0,02**	**(0,02)**

General Director V.G.Yakovlev

Acting Chief Accountant S.V. Kaplya

19 September 2008

OAO Mosenergo
Consolidated Interim Statement of Cash Flows for six months ended 30 June 2008 (Unaudited)
(in millions of Russian Roubles)

	Note	*Six months ended 30 June 2008*	*Six months ended 30 June 2007*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		**985**	**(25)**
Adjustments for:			
Depreciation of property, plant and equipment	7	3,377	3,384
Interest income	23	(875)	(305)
Interest expense		530	555
Foreign exchange gain	24	(8)	(11)
Impairment of trade and other receivables		482	279
Release of other provisions	19	(15)	-
Share in result of associates		14	(29)
Losses on disposal of property, plant and equipment	22	295	44
Impairment loss of investment property and inventory		143	-
Operating cash flows before working capital changes		**4,928**	**3,892**
Decrease/(increase) in trade debtors and other receivables		2,097	(4,942)
Decrease/(increase) in inventories		283	(23)
(Decrease)/increase in trade creditos and other payables		(2,534)	205
Increase/(decrease) in taxes payable, other than income tax		97	(176)
(Decrease)/increase in retirement benefit obligations		(147)	444
Cash from operations before interest payment and income tax		**4,724**	**(600)**
Income tax		(2,069)	(2,069)
Interest paid		(286)	(494)
Net cash from operating activities		**2,369**	**(3,163)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of short-term investments		-	(26,907)
Purchase of property, plant and equipment		(12,038)	(9,494)
Proceeds from sale of property, plant and equipment		29	9
Purchase of held-to-maturity investments		(13,580)	-
Proceeds from redemption of held-to-maturity investments and other current assets	10, 14	20,975	54
Interest paid and capitalised	24	(291)	(396)
Dividends received		171	17
Net cash from investing activities		**(4,734)**	**(36,717)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	1,213
Repayment of borrowings		(656)	(4,495)
Issue of ordinary shares	15	-	60,720
Buy-out of treasury shares		(969)	-
Others		-	(16)
Net cash from financing activities		**(1,625)**	**57,422**
(Decrease)/increase in cash and cash equivalents		**(3,990)**	**17,542**
Cash and cash equivalents at the beginning of the period	13	**11,136**	**5,729**
Cash and cash equivalents at the end of the period	13	**7,146**	**23,271**

General Director — V.G. Yakovlev

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19 September 2008

(in millions of Russian Roubles)

	Share capital	*Share premium*	*Treasury stock*	*Accumulated loss*	*Revaluation surplus*	*Total*
At 31 December 2006 as previously reported	**154,624**	**-**	**-**	**(115,510)**	**-**	**39,114**
Correction of prior period error	-	-	-	(884)	-	(884)
At 31 December 2006	**154,624**	**-**	**-**	**(116,394)**	**-**	**38,230**
Revaluation of property, plant and equipment	-	-	-	-	37,534	37,534
Total recognised income and expenses						37,032
Loss for the year	-	-	-	(502)	-	(502)
Issue of ordinary shares	11,500	49,213	-	-	-	60,713
Dividends to the shareholders	-	-	-	(896)	-	(896)
At 30 June 2007	**166,124**	**49,213**	**-**	**(117,792)**	**37,534**	**135,079**
At 31 December 2007	**166,124**	**49,213**	**-**	**(117,211)**	**37,534**	**135,660**
Profit for the year	-	-	-	764	-	764
Total recognised income and expenses						764
Purchase of treasury stock (Note 15)	-	-	(969)	969	-	-
At 30 June 2008	**166,124**	**49,213**	**(969)**	**(115,478)**	**37,534**	**136,424**

General Director V.G. Yakovlev

Acting Chief Accountant S.V. Kaplya

19 September 2008

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for three months ended 30 June 2008 for OAO Mosenergo (the "Company") and its subsidiaries (together referred to as the "Group" or "Mosenergo Group").

"Mosenergo group" 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 11,097 megawatts ("MW") of installed generating capacity for electricity and 34,286 gigacalories ("Gkal") of installed generating capacity for heat.

OAO Mosenergo was registered in the Russian Federation on 6 April 1993 in accordance with State Property Management Committee Decree № 169-R dated 26 March 1993. In accordance with the privatisation of the Russian electric utility industry, OAO Mosenergo was organised as a joint stock company.

In 2004 the general shareholders' meeting of OAO Mosenergo approved the entity's restructuring, which entailed the creation of 13 new companies. Before restructuring OAO Mosenergo operated as a vertically integrated utility with primary focus on generation of electricity and heat. Restructuring consisted in spin-off of the following lines of business:

- transmission and distribution of electricity and heat – monopolistic;
- retail sales of electricity, repair and construction – non-core activities;
- four power plants.

As result of the restructuring, in April 2005 each shareholder of OAO Mosenergo received ordinary shares of each of the 13 companies - shares in the companies were distributed among the shareholders of OAO Mosenergo pro rata to OAO Mosenergo shares held by them prior to spin-off.

As of 20 December 2006, the general shareholders' meeting of OAO Mosenergo approved an increase of share capital of OAO Mosenergo via additional issue of ordinary shares by closed subscription in favour of OAO Gazprom and its affiliates ("Gazprom Group"). After subscription for the new shares Gazprom Group became the majority shareholder of OAO Mosenergo.

On 26 October 2007, the Extraordinary General Meeting of Shareholders of RAO UES of Russia took a decision to spin-off OAO Mosenergo from RAO UES of Russia.

OAO Mosenergo's registered office is located at 8, Raushskaya Naberezhnaya, Moscow, 115035, Russian Federation.

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.

Relations with the state and current regulation. As at 30 June 2008, the Russian Federation owned (including both direct and indirect ownership) over 50% in OAO Gazprom (the "Parent"), which in turn owned (including both direct and indirect ownership) over 53.47% in OAO Mosenergo. The Russian government is the ultimate controlling party of the Group.

The Group's customer base includes a large number of entities controlled by, or related to the state. Furthermore, the State controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal service on tariffs ("FST"), with respect to its wholesale energy 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 – the Central Despatch Unit of Unified Energy System ("SO-CDU").

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations 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, a basis of accounting which significantly differs from International Financial Reporting Standards ("IFRS").

As described in Notes 6 and 27, the government's economic, social and other policies could have material effects on the operations of the Group.

Industry restructuring. The Russian electric utilities industry is presently undergoing a restructuring process designed to introduce competition into the electricity sector and to create an environment in which the successor companies of RAO UES Group (including OAO Mosenergo) can raise the capital required to maintain and expand current capacity.

A crucial step in developing a competitive wholesale electricity (capacity) market was the adoption of the new Wholesale Electric Power (capacity) Market (NOREM) Rules of the Transitional Period approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 and which came into force on September 1, 2006. Under the new wholesale market framework, electricity and power purchase-and-sale transactions in the regulated market sector are to be governed by a regulated bilateral contract system. From 1 September 2006, regulated contracts covered all volumes of electricity and power produced and consumed.

From 2007, the volumes of electricity (power) traded in the wholesale market at regulated prices began to be reduced. The pace of reduction was set by the Russian Federation Government according to socio-economic development forecasts. In 2007 up to 90% of the forecasted produced electricity volumes and 100% of capacity were traded at regulated prices. The period from 2006 to approximately 2011 is a transition period. After that, it is expected that a fully competitive wholesale market will be formed.

At the 28 of June 2008 a Resolution of the Russian Government № 476 "About introduction of alterations in some Russian Federation government Resolutions in point of settlement of competitive trade of generating capacity in the Wholesale Electric Rower (capacity) Market" was issued on the launch of the capacity market where available capacity volumes will be allowed to be traded at the transition auctions providing for the supplies during 2009-2011 and long-term auctions for 10 years supplies, given they pass through the competitive selection procedure in their respective free power flow zone. For the first time, the wholesale market agents will have the possibility of concluding non-regulated contracts for capacity supply.

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group will be able to raise needed capital to sustain the business.

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

Note 2. Summary of significant accounting policies

(a) Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards IAS 34. They have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

(b) Functional and presentation currency. The national currency of the Russian Federation is the Russian rouble ("RR"), which is the functional currency of each of the Group's entities and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest million.

(c) Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, prior to the adoption of revaluation as a basis for accounting for property, plant and equipment (See Note 2(i)) on 1 January 2007, the amounts expressed in the measuring unit current at 31 December 2002 were treated as the basis for the carrying amounts of these financial statements.

(d) Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

(e) Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

(g) Held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

(h) Embedded derivatives. The Group enters into purchase agreement for fuel within ordinary course of business. The contracts were entered into and continue to be held for the purpose of receipt or delivery of commodities in accordance with the Group's expected usage requirements and they are not within the scope of IAS 39 but need to be assessed at inception to determine if they contain embedded derivatives.

An embedded derivative is one or more implicit or explicit terms in a contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument. Any embedded derivative that meets the separation criterion should be separated from its host contracts and measured as if it was stand-alone derivative (fair value through profit or loss) if its economic characteristics are not closely related to those of the host contract.

(i) Property, plant and equipment. Until 31 December 2006, property, plant and equipment are stated at cost value net accumulated depriciation. Deemed cost was initially determined by a third party valuation as at 31 December 1997 and restated for the impact of inflation until 31 December 2002.

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 statements. 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 with the carrying amount of the component being 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.

(in millions of Russian Roubles)

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.

Starting from 1 January 2008 the Group changed the classification of items of property, plant and equipment and their useful lives. Useful lives (in years) are given below by PP&E types:

• Production buildings	30-70 years
• Hydrotechnical facilities	15-25 years
• Heat and electricity production machinery and equipment of power stations	15-35 years
• Machinery and equipment of power substations	16-25 years
• Electricity transmission lines	20-35 years
• Installations	11-35 years
• Heating networks	7-20 years
• Pumps, compressors, electric motors	10-20 years
• Construction machinery, special vehicles	9-15 years
• Control and measuring tools	6-15 years
• Other	3-15 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.

(j) Investment property. Investment property is property held by the Group to earn rental income and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Valuation of investment property as at the date of transfer it from property, plant and equipment is done by the Company's staff. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented separately.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

The Group determined the fair value of investment property using indices based on market data on the fair value for similar items of property.

(k) Income tax. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax expense/(benefit) comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders' equity. In this case deferred taxes are recorded as part of the shareholders' equity.

Deferred tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognized in these financial statements.

(l) Inventories. Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(m) Trade and other receivables. Accounts receivable are recorded inclusive of value added taxes. Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of provision for impairment account. When a trade receivable is uncollectible, it is written off against the provision for impairment of trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the income statement.

(n) Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement.

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

(p) Value added tax on purchases and sales. Value added taxes ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (deferred VAT) is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

(q) Borrowings. Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

(r) Trade and other payables. Accounts payable are stated inclusive of value added tax. Trade payables are accrued when counterparty performed its obligation under the contract and are carried at amortised cost using the effective interest method.

(s) Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

(t) 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.

The Group calculated its pension plan liability by extrapolating the data included in the consolidated financial statements for the year ended 31 December 2007 using assumptions described in Note 18.

(u) Financial assets. The Group holds financial assets classified as held-to-maturity and loans and receivables.

Held-to-maturity assets include non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(v) Foreign currencies. Transactions in foreign currencies are remeasured to RR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured to RR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are remeasured to RR at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are remeasured to RR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on remeasurement are recognised in the income statement.

At 30 June 2008 the official rates of exchange, as determined by the Central Bank of the Russian Federation, were:

- RR 23.4573: US Dollar (US$) 1.00 (31 December 2007: RR 24.5462: US$ 1.00);
- RR 36.9077: Euro 1.00 (31 December 2007: RR 35.9332: Euro 1.00).

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

(w) Revenues. Revenues are recognised 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.

(x) Earnings per share. The earnings per share is determined by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period.

(y) Segment reporting. The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in the city of Moscow, Moscow region and the surrounding regions. It is not feasible to identify distinguishable business segments for electric power and heat production. The generation of electricity and heat are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(z) Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

(aa) Changes in presentation.

Categories of property, plant and equipment as of 31 December 2007 were changed in these financial statements in order to align them with respective structure of useful economies lives.

New categories of property, plant and equipment are as follows:

- Buildings and installations
- Machinery and equipment
- Heating networks
- Construction in progress
- Other

Buildings and installations include production buildings, hydrotechnical facilities, and installations.

Machinery and equipment include machinery and equipment to produce heat and electricity of power stations and machinery and equipment of power substations, and construction machinery.

Heating networks include electricity transmission lines and heating networks.

Due to immateriality of amounts for pumps, compressors, electric motors, control and measuring tools, computer equipment, office furniture and other equipment which were not included within the above groups they are grouped in "Other".

Note 3. Critical Accounting Estimates, and Judgments in Applying Accounting Policies

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

Useful lives of property, plant and equipment. Fair value of property, plant and equipment has been determined by an independent appraiser based on the depreciated replacement cost method. Further, management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group. Carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost, residual value and remaining useful lives, and actual results could differ from these estimates.

Provision for impairment of trade and other receivables. Provision for impairment of trade and other receivables is based on the Group's assessment of whether the collectibility of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and judgments in Note 12.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these IFRS financial statements. See effect of these critical accounting estimates and judgments in Note 27.

Going concern. The Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying Financial Statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 4. Adoption of New or Revised Standards and Interpretations

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. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2007, unless otherwise described below.

- 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 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

The effect of adoption of the above new standards and interpretations on the Company's financial position at 31 March 2008 and 31 December 2007 and on the results of its operations for the six month ended 30 June 2008 and 30 June 2007 was not significant.

Note 5. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (issued in November 2006; 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 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. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (issued in February 2008; effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 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. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset.

IAS 1, Presentation of Financial Statements (revised September 2007; 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 a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. 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.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should