MOSENERGO GROUP

CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2008

(UNAUDITED)

Mosenergo Group
Consolidated Interim Balance Sheet as at 31 March 2008 (Unaudited)
(in millions of Russian Roubles)

	Note	*31 March 2008*	*31 December 2007*
ASSETS			
Non-current assets			
Property, plant and equipment	7	133,970	131,036
Investment property	8	1,1 08	1,288
Investments in associates	9	1,299	1,246
Other non-current assets	14	3,384	347
Total non-current assets		**139,761**	**133,917**
Current assets			
Inventories	11	4,453	4,444
Trade and other receivables	12	13,135	11,566
Current income tax prepayments		40	41
Held-to-maturity investments	10	6,025	15,201
Cash and cash equivalents	13	21,784	11,136
Other current assets	14	1,658	8,720
Total current assets		**47,095**	**51,108**
TOTAL ASSETS		**186,856**	**185,025**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	166,124	166,124
Accumulated deficit		(155,206)	(117,211)
Share premium	15	49,213	49,213
Revaluation surplus	15	37,534	37,534
Total equity		**137,665**	**135,660**
Non-current liabilities			
Non-current borrowings	16	10,131	129
Deferred income tax liabilities	25	18,116	17,427
Retirement benefit obligations	18	1,335	1,279
Total non-current liabilities		**29,582**	**18,835**
Current liabilities			
Current borrowings and current portion of non-current borrowings	16	7,398	17,476
Trade and other payables	20	10,785	10,950
Current income tax payable	25	88	478
Other taxes payable	17	973	611
Other provisions for liabilities and charges	19	365	1,015
Total current liabilities		**19,609**	**30,530**
Total liabilities		**49,191**	**49,365**
TOTAL EQUITY AND LIABILITIES		**186,856**	**185,025**

General Director V.G. Yakovlev

Chief Accountant T.P. Dronova

20 May 2008

(in millions of Russian Roubles)

	Note	*The months ended 31 March 2008*	*The months ended 31 March 2007*
Revenues	21, 2(aa)	31,010	25,141
Operating expenses (excluding reversal of impairment of property, plant and equipment)	22, 2(aa)	(28,018)	(23,478)
Other operating income		179	75
Operating profit		**3,171**	**1,738**
Finance income	23	**467**	**15**
Finance costs	24	**(160)**	**(255)**
Share of result of associates	9	53	5
Loss for revaluation of investment property	8	(180)	-
Profit before income tax		**3,351**	**1,504**
Income tax expense	25	(1,346)	(911)
Profit for the period		**2,005**	**594**
Attributable to:			
Shareholders of OAO Mosenergo		**2,005**	**594**
Earnings per ordinary share for profit attributable to the shareholders of OAO Mosenergo – basic and diluted (in Russian Roubles)	26	**0.05**	**0.02**

General Director V.G.Yakovlev

Chief Accountant T.P. Dronova

20 May 2008

Mosenergo Group

Consolidated Interim Statement of Cash Flows for three months ended 31 March 2008 (Unaudited)

(in millions of Russian Roubles)

	Note	*Three months ended 31 March 2008*	*Three months ended 31 March 2007*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**3,351**	**1,504**
Adjustments for:			
Depreciation of property, plant and equipment	7	1,662	1,591
Finance income	23	(467)	(15)
Interest expense	24	167	263
Foreign exchange gain	24	(7)	(8)
Impairment of trade and other receivables	12	156	366
Release of other provisions	19	(11)	292
Share of result of associates	9	(53)	(5)
Losses less gains on disposal of property, plant and equipment	7	(26)	(3)
Other non-cash operating costs		184	43
Operating cash flows before working capital changes		**4,956**	**4,028**
(Increase)/decrease in trade and other receivables		(1,258)	(2,624)
Increase in inventories		(14)	333
(Increase)/decrease in other current assets		6,411	(88)
Increase in trade and other payables		1,011	1,458
Decrease in taxes payable, other than income tax		75	145
Increase in retirement benefit obligations		70	69
Cash (used for)/generated from operations		**11,251**	**3,321**
Income tax paid in cash		(759)	(946)
Payments under the pension schemes		**(64)**	-
Interest paid		(309)	(397)
Net cash (used for)/generated from operating activities		**10,119**	**1,978**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(4,364)	(6,504)
Proceeds from sale of property, plant and equipment		43	8
Proceeds for redemption of investments helt-to-maturity	10	9,176	-
Increase in deposits in banks		(3,037)	-
Interest paid and capitalised	7	(248)	(239)
Dividends received		-	-
Net cash used in investing activities		**1,570**	**(6,735)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		538	3,071
Repayment of borrowings		(610)	(448)
Issue of ordinary shares	15	-	532
Costs of issuing ordinary shares	15	-	-
Dividends paid to the Company's shareholders		-	-
Buy-out of treasury shares		**(969)**	-
Net cash generated from financing activities		**(1,041)**	**3,155**
Increase in cash and cash equivalents		**10,648**	**(1,602)**
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	**21,784**	**4,127**

General Director V.G. Yakovlev

Chief Accountant T.P. Dronova

20 May 2008

(in millions of Russian Roubles)

	Attributable to the shareholders of OAO Mosenergo				
	Share capital	***Share premium***	***Accumulated loss***	***Revaluation surplus***	***Total***
At 31 December 2006 as previously reported	**154,624**	**-**	**(115,510)**	**-**	**39,114**
Correction of prior period error	-	-	(885)	-	(885)
At 31 December 2006	**154,624**	**-**	**(116,395)**	**-**	**38,229**
Revaluation of property, plant and equipment	-	-	-	37,534	37,534
Profit for the year	-	-	594	-	594
Total recognised loss for the period	**-**	**-**	**594**	**37,534**	**38,128**
Dividends to the shareholders	-	-	-	-	-
Shares issue costs	-	-	-	-	-
At 31 march 2007	**154,624**	**-**	**(115,801)**	**37,534**	**76,357**
At 31 December 2007 as previously reported	**166,124**	**49,213**	**(117,211)**	**37,534**	**135,660**
At 31 December 2007	**166,124**	**49,213**	**(117,211)**	**37,534**	**135,660**
Profit for the year	-	-	2,005	-	2,005
Total recognised income for the period	**-**	**-**	**2,005**		**2,005**
Dividends to the shareholders	-	-		-	
At 31 March 2008	**166,124**	**49,213**	**(115,206)**	**37,534**	**137,665**

General Director V.G. Yakovlev

Chief Accountant T.P. Dronova

20 May 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 31 March 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 11,117 megawatts ("MW") of installed generating capacity for electricity and 34,297 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.

On 28 December 2007, shareholders of OAO Mosenergo approved additional number of authorized shares in the quantity of 16,477,961 shares with a par value of RR 1.00 each. The reason for this decision was the share swap which should take place during the merger of OAO "Mosenergo Holding" with and into OAO Mosenergo (see also Note 16).

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 31 March 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"). SO-CDU is controlled by RAO UES of Russia.

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 RAO UES Group and its successor companies (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 August 31, 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.

It is expected that in 2008 a Resolution of the Russian Government will be 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. However, there can be no assurance in this regard.

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 ("IFRS"). 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 there 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 depreciated cost. 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 or for capital appreciation 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 31 March 2008 the official rates of exchange, as determined by the Central Bank of the Russian Federation, were:

- RR 23.5156: US Dollar (US$) 1.00 (31 December 2007: RR 24.5462: US$ 1.00);
- RR 37.0676: 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.

Property, plant and equipment presented in the balance sheet for the three months ended 31 March 2008 were reclassified in the consolidated financial statements for the year ended 31 December 2007. The reclassification was performed for the purpose of recognizing the effect of the structural changes in the groups of PPE.

The new format of PPE grouping is given below:

- 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. See effect of these critical accounting estimates and judgments in Note 7.

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.

Provision for impairment of other assets. At each balance sheet date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of income in the period in which the reduction is identified, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16 Property, Plant and Equipment). Impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard. If conditions change and management determines that the value of an asset other than goodwill has increased, the impairment provision previously recorded in the consolidated statement of income will be fully or partially reversed. See effect of these critical accounting estimates and judgments in Note 7.

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 three month ended 31 March 2008 and 31 March 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 (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 (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. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

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. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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 measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer may have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

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

(in millions of Russian Roubles)

Note 6. Balance and transactions with related parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three months ended 31 March 2008 and the three months ended 31 March 2007 or had significant balances outstanding at 31 March 2008 and 31 December 2007 are detailed below.

(a) Parent company and its subsidiaries

As of 31 March 2008, Gazprom Group owns of 53.47% 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 a controlling stake. Therefore, information for periods ended 31 March 2007 and as of 31 March 2007 is disclosed in the Note 6 (d) below.

For three months ended 31 March 2008 and as of 31 December 2007, the Group had the following significant transactions and balances with Gazprom Group:

	Three months ended 31 March 2008	
Revenues - other	113	
Operating expenses, including:	(13,833)	
Fuel expenses	*(13,794)*	
Finance income	*(39)*	
Interest expense	266	
Proceeds from current borrowings	538	
Repayment of borrowings	(538)	
	31 March 2008	**31 December 2007**
Cash and cash equivalents	18,429	5,354
Held to maturity investments	6,025	15,201
Trade receivables	132	52
Trade payables	1	50
Total	**24,587**	**20,657**

Until 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 is the ultimate controlling party of the Group, owning 52.68 % of RAO UES of Russia.

During three months ended 31 March 2007 Group accrued dividends to RAO UES of Russia in the amount of RR 137 million.

For periods ended 31 March 2007 and as of 31 March 2007, the Group had the following significant transactions and balances with subsidiaries of RAO UES of Russia:

(in millions of Russian Roubles)

	Three months ended 31 March 2007
Revenue - Electricity	9,219
Revenue - Heating	450
Revenue - Other	847
Total revenues	**10,516**
Transmission fees	(5,354)
Services OAO "SO CDU ES	(134)
Othe	(2)
Total operating expenses	**(5,490)**

	31 March 2007
Trade receivables	2,020
Other receivables	250
Advances to suppliers and prepayments	40
	2,310
Trade payables	3,400
Other payables	10
Advances received	605
	4,015

(b) Transactions with associates (OOO KB Transinvestbank)

During the three months ended 31 March 2008 and 31 March 2007 the Group provided rent services to OOO KB Transinvestbank for RR 1.2 million and RR 1.1 million, respectively. During the three months ended 31 March 2008 and 31 March 2008 the Group received bank services from OOO KB Transinvestbank for RR 36 million and RR 45 million respectively.

Included in cash and cash equivalents of the Group are cash accounts with OOO KB Transinvestbank of RR 1,296 million and RR 1,145 million as of 31 March 2008 and 31 December 2007, respectively.

(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 then 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 three months ended 31 March 2008 and 31 March 2007 was as follows:

	Three months ended 31 March 2008		Three months ended 31 March 2007	
	Expense	Accrued liability	Expense	Accrued liability
Short-term compensation, including salary and bonuses	56	45	61	50
Remuneration for serving on the Board of Directors and Management Committee	3	2	2	2
Post-employment benefits	-	-	4	4

(in millions of Russian Roubles)

In March 2008 it was decided to terminate the contracts of several members of key management personnel with effect from 1 April 2008. Details are disclosed in the Note 30.

(d) Other state-controlled entities

Information provided below excludes transactions and balances with OAO Gazprom and its subsidiaries for the three months ended 31 March 2008 that is disclosed in Note 6 (a) above.

For three months ended 31 March 2007 the Group had the following significant transactions and balances with Gazprom Group:

	Three months ended 31 March 2007
Revenues - other	45
Operating expenses, including:	(9,981)
Fuel expenses	*(9,981)*

	31 March 2007
Cash and cash equivalents	1,263
Trade payables	41
	1,304

During the three months ended 31 March 2007 OAO Mosenergo placed and withdrew cash on short-term deposit in AB Gazprombank (ZAO) for RR 5,400 million and RR 6,300 million, respectively.

During three months ended 31 March 2007 Group accrued dividends to Gazprom group in the amount of RR 67 million.

The information below does not include balances and transactions with RAO UES of Russia and its subsidiaries as of 31 December 2007 and for the period ended 31 March 2008. These balances and transactions are disclosed in Note 6(a) above.

The Group's significant balances and transactions with RAO UES of Russia as of 31 March 2008 and 31 December 2007 and for the periods then ended were as follows:

	Three months ended 31 March 2008
Revenue - Electricity	10,021
Revenue - Heating	660
Revenue - Other	887
Total Revenue	**11,568**
Transmission fees	6,380
Services OAO "SO CDU ES	176
Purchased electricity other "	617
Other	2
Total operating expenses	**7,175**

	31 March 2008	**31 December 2007**
Trade receivables	1,948	1,837
Other receivables	22	37
Advances issued	207	209
	2,177	**2,083**
Trade payables	4,366	2,854
Other payables	146	2
Advances received	60	6
	4,572	**2,862**

(in millions of Russian Roubles)

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 25. Tax transactions are disclosed in the income statement.

For the periods ended 31 March 2008 and 31 March 2007 and as of 31 March 2008 and 31 March 2007, respectively, the Group had the following significant transactions and balances with Government and parties under control of the Government:

	Three months ended 31 March 2008	**Three months ended 31 March 2007**
Revenue - Heating	2,499	2,176
Revenue - Other	251	235
Operating expenses, including:	(308)	(999)
Fuel expenses	*(41)*	*(749)*
Water usage expenses	*(131)*	*(67)*
Security costs	*(66)*	*(62)*
Other expenses	*(70)*	*(121)*
Interest income	201	15
Interest expense	-	(87)
Proceeds from non-current borrowings	-	1,213
Proceeds from current borrowings	-	1,888
Repayment of borrowings	-	(374)

	31 March 2008	**31 December 2007**
Cash and cash equivalents	320	4,503
Trade and other receivables (Net of provision for impairment of receivables of RR 514 million as at 31 March 2008 and RR 0 million as at 31 March 2007)	476	334
Trade and other payables	169	155
Non-current borrowings	**965**	**4,992**

Deposits held in state-controlled banks and disclosed within other current assets:

	31 March 2008	**31 December 2007**
AKB Srednerusskiy bank SB RF	-	5,000
OAO Bank VTB	1,000	6,000
Total	**1,000**	**11,000**

(in millions of Russian Roubles)

Note 7. Property, plant and equipment

	Buildings and installations	Machinery and equipment	Heating networks	Construction in progress	Other	Total
Valuation						
Balance as of 31 December 2007	49,049	39,271	12,221	33,378	3,625	137,544
Additions	-	-	-	4,597	8	4,605
Transfers	4,174	4	240	(5,433)	1,015	-
Disposals	-	(5)	-	(6)	(1)	(12)
Balance as of 31 March 2008	53,223	39,270	12,461	32,536	4,647	142,136

Accumulated depreciation

	Buildings and installations	Machinery and equipment	Heating networks	Construction in progress	Other	Total
Balance as of 31 December 2007	(2,145)	(2,223)	(1,793)	-	(347)	(6,508)
Depreciation for the period	(477)	(561)	(444)	-	(180)	(1,662)
Disposals	-	4	-	-	-	4
Balance as of 31 March 2008	(2,622)	(2,780)	(2,237)	-	(527)	(8,166)
Net book value as of 31 December 2007	46,904	37,048	10,428	33,378	3,278	131,036
Net book value as of 31 March 2008	50,601	36,490	10,224	32,536	4,120	133,970

(in millions of Russian Roubles)

	Buildings and installations	Machinery and equipment	Heating networks	Construction in progress	Other	Total
Valuation						
Balance as of 31 December 2006	50,925	31,818	4,393	12,339	12,074	97,289
Elimination of accrued depreciation	(27,550)	(13,647)	(2,437)	(20)	(8,215)	(51,870)
Revaluation	20,304	13,293	9,308	2,248	4,234	49,387
Additions	-	-	-	6,809	6	6,815
Transfers	-	-	-	(202)	202	-
Disposals	-	-	-	(5)	-	(5)
Balance as of 31 March 2007	43,679	31,464	11,264	21,169	8,301	115,877

Accumulated depreciation

	Buildings and installations	Machinery and equipment	Heating networks	Construction in progress	Other	Total
Balance as of 31 December 2006	(27,550)	(13,647)	(2,437)	(20)	(8,215)	(51,870)
Elimination of accrued depreciation	27,550	13,647	2,437	20	8,215	51,870
Depreciation for the period	(579)	(437)	(455)	-	(127)	(1,598)
Disposals	-	-	-	-	-	-
Balance as of 31 March 2007	(579)	(437)	(455)	-	(127)	(1,598)
Net book value as of 31 December 2006	23,375	18,171	1,956	12,319	3,859	59,679
Net book value as of 31 March 2007	43,100	31,027	10,809	21,169	8,175	114,279

(in millions of Russian Roubles)

Included in additions above is capitalized interest of RR 248 million and RR 239 million for the periods ended 31 March 2008 and 2007, respectively. Capitalization rates of 2.55% and 2.21% were used representing the weighted average actual borrowing cost of the relevant borrowings for three months ended 31 March 2008 and for three months ended 31 March 2007 respectively.

Construction in progress includes advances to construction companies and suppliers of property, plant and equipment of RR 7,794 million (net of VAT) and RR 9,560 million (net of VAT) as of 31 March 2008 and 31 March 2007 respectively.

The Group changed its accounting policy to revaluing its property, plant and equipment from 1 January 2007. The Group contracted independent appraisers to estimate the 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 an increase in the carrying value of property, plant and equipment of RR 49,387 million, net of related deferred tax of RR 11,853 million.

For each 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:

Cost	Buildings and installations	Machinery and equipment	Heating networks	Construction in progress	Other	Total
Net book value as at 31 March 2008	28 701	21 928	2010	28 638	2 009	83 286
Net book value as at 31 December 2007	26 475	22 263	1 924	29 480	1 626	81 768

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

Operating lease rentals are payable as follows:

	31 March 2008
Less than one year	359
Between one and five years	1,797
More than five years	15,454
	17,418

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.

(in millions of Russian Roubles)

Note 8. Investment property

	31 March 2008
Investment properties at fair value as at 1 January 2008	**1,288**
Fair value gains (losses)	(180)
Investment properties at fair value as at 31 March 2008	**1,108**

The Group has reclassed certain leased properties to investment property from property, plant and equipment effective 1 October 2007. Management considers this treatment to better present the nature of the underlying asset. At the time of transfer from property, plant and equipment and 31 March 2008 investment properties were valued by method of index numbers by the Company's staff. The determination of fair value was supported by market evidence.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 March 2008
Not later than 1 year	202
Later than 1 year and not later than 5 years	806
Later than 5 years	237
Total operating lease payments receivable	**1,245**

Note 9. Investments in associates

The Group has the following investments in associates:

	Country	Ownership as at 31 March 2007	Ownership as at 31 December 2007
OOO KB Transinvestbank	Russia	72.44%	72.44 %

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 ⅔ of votes. Following the court decision RR 957 million are payable by the Group (see Note 20 and 27(c)).

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

	31 March 2008	31 December 2007
Carrying amount at 1 January	1,246	346
Share of result of associates	53	64
Dividends received from associates	-	(121)
Increase of share in associates	-	957
Carrying amount at the end of reporting period	**1,299**	**1,246**

The accounting for the increase is provisional as the Group is in the process of ascertaining the fair value of identifiable assets and liabilities and contingent liabilities.

(in millions of Russian Roubles)

At 31 March 2008 and 31 December 2007 summarized financial information of associates, including total assets, liabilities, revenues and profit were as follows:

	31 March 2008	31 December 2007
Assets	4,791	4,934
Liabilities	(3,231)	(3,242)
Total equity	**1,560**	**1,692**

	Three months ended 31 March 2008	Three months ended 31 March 2007
Revenues	195	178
Expenses	(95)	(145)
Profit for the year	**100**	**33**

Note 10. Held-to-maturity investments

In May 2007 the Company purchased several promissory notes of AB Gazprombank (ZAO) maturing in 2008. Total amount of promissory notes as at 31 March 2008 RR 5,721 million.

In Oktober 2007 The Company purchased several promissory notes of ZAO "Gazenergoprombank" maturing in 2008. Total amount of promissory notes at 31 March 2008 RR 9,335 million.

In February 2008 The Group purchased promissory notes of ZAO "Gazenergoprombank" maturing in 2009. in addition Total amount of promissory notes purchased RR 68 million

The table in Note 13 shows the ratings of AB Gazprombank (ZAO) and ZAO "Gazenergoprombank" at the balance sheet date.

In February 2008 ZAO "Gazenergoprombank" offered good conditions for early redemption of promissory notes and The Group accepted this offer and redeemed some promissory notes RR 7,607 million.

Note 11. Inventories

	31 March 2008	31 December 2007
Fuel	2,544	2,754
Materials and supplies	1,836	1,646
Other inventories	73	44
Total inventories	**4,453**	**4,444**

Materials and supplies are shown net of a provision for obsolete inventory and an adjustment for non-moving inventory in the amount of RR 8 million as at 31 March 2008 and RR 7 million as at 31 December 2007.

(in millions of Russian Roubles)

Note 12. Trade and other receivables

	31 March 2008	31 December 2007
Trade receivables (Net of provision for impairment of receivables of RR 1,723 as at 31 March 2008 and RR 1,654 as at 31 December 2007)	7,311	4,691
Other receivables (Net profit for impairment of receivables of RR 324 as at 31 March 2008 and RR 276 as at 31 December 2007)	875	786
Total financial assets	**8,186**	**5,477**
Advances to suppliers and prepayments	3,262	3,364
VAT recoverable	1,662	1,769
Tax prepayments (other than current profit tax prepayments)	25	956
Total trade and other receivables	**13,135**	**11,566**

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. Management of the Company believes that the Company will be able to realize the net receivable amount through direct collections and other non-cash settlements, and therefore the recorded value approximates their fair value.

The Group manages repayments on accounts receivable and analyses of contractors' credit risks, the management of the Group analyses its debt by the classes presented in the table below. Management determines two main classes – Electricity and Heat. Electricity is sold in an open and highly regulated market to other energy companies that sell that electricity further to the final customers. Heat is sold to resellers and also to final customers. Debtors within these classes are quite homogeneous regarding their credit quality and concentration of credit risk.

Accounts receivable current and not impaired:

	31 March 2008	31 December 2007
Electricity	522	498
Heat	5,149	2,057
Other	1,296	1,940
Total current and not impaired	**6,967**	**4,495**

As at 31 March 2008 trade and other receivables of RR 1,219 million (as at 31 December 2007: RR 982 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is shown in the table below.

(in millions of Russian Roubles)

Trade and other receivables past due but not impaired:

	1 month	2 months	3 months	4 months	5-12 months	More than 1 year
Electricity	96	26	-	140	-	-
Heat	-	392	196	-	-	195
Other	-	31	20	13	76	34
Total past due but not impaired	**96**	**449**	**216**	**153**	**76**	**229**

Trade and other receivables individually determined to be impaired (gross):

	31 March 2008	31 December 2007
Electricity	1,060	1,268
Heat	422	573
Other	565	434
Total individually impaired	**2,047**	**2,275**

All impaired trade and other receivables are made provision for. The movement of the provision is shown in the table below.

Impairment of trade and other receivables:

	2008	2007
Opening balance	1,930	1,416
Charge for the year	44	1,679
Trade and other receivables written-off during the year as uncollectible	(35)	(234)
Unused amounts reversed	(8)	(1,066)
Discounting effect	116	135
Closing balance	**2,047**	**1,930**

All impaired trade and other receivables are older than 1 year. The individually impaired receivables mainly relate to wholesalers, which are located in the Caucasus region and are in unexpectedly difficult economic situation. It was assessed that a portion of the receivables is expected to be recovered.

Management assesses that counterparties, balances of which fall into trade receivables and other receivables, and which are neither past due nor impaired, have approximately the same credit quality.

The Group does not hold any collateral as security.

(in millions of Russian Roubles)

Note 13. Cash and cash equivalents

	31 March 2008	31 December 2007
Cash at bank and in hand	21,769	7,992
RR term deposits (interest rate: 5,7% - 6,3% p.a.; 2006: n/a)	-	3,135
Foreign currency bank accounts	15	9
Total cash and cash equivalents	**21,784**	**11,136**

Cash and cash equivalents balances do not include balances on special accounts in OAO "ABN AMRO Bank", OAO "KB "Citibank" and OOO KB Transinvestbank in the aggregate amounts of RR 37 million and RR 82 million as at 31 March 2008 and 31 December 2007 respectively. Such balances are destined for the purpose of repayment of principal amount of 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. All the bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

Name of the bank	Rating agency	Rating	2008 Balance as at 31 March 2008	Rating	2007 Balance as at 31 December 2007
OAO Gazprombank	Moody's Investor's Service	BBB-	18,434	BB+	5,291
Sberbank RF	Fitch Ratings	BBB+	313	BBB+	1,243
OAO Bank VTB	Fitch Ratings	BBB+	7	BBB+	3,006
ZAO Gazenergoprombank	Moody's Interfax	Aa3.ru	1	-	63
OOO KB Transinvestbank	-	-	1,289	-	1,145
Bank of Moscow	Fitch Ratings	BBB	1,693	BBB	254
OAO AKB Evrofinans Mosnarbank	Fitch Ratings	BBB	3	BBB	21
Other	-	-	44	-	113
			21,784		**11,136**

The Company pursues the policy of cooperation with a number of the first-rate banks, which is approved by the Board of Directors. Temporarily surplus monetary assets are placed in different financial instruments such as deposits, promissory notes. Investments are made depending on approved credit limit.

According to the decisions of Board of Directors of OAO Mosenergo held in February 2008 an authorised banks list and the program of temporarily surplus funds for the period since 1 January 2008 to 31 March 2008 were validated as an addendum to investment plan of the Group for 2008 year.

(in millions of Russian Roubles)

Note 14. Other current assets

	31 March 2008	31 December 2007
Assets constructed under financing from Moscow Government	**523**	523
VAT from advances received	**97**	114
Other current assets	**1,038**	8,083
Total other current assets	**1,658**	**8,720**

As at 31.03.2008 Other Current Assets include deposits in Vneshtorgbank that have original maturities of more than 3 months in the amount of RR 1,000 million, see Note 6 (d))

As at 31.12.2007 Other Current Assets include deposits in bank that have original maturities of more than 3 months in the amount of RR 8,000 million (including deposits in banks: AKB Srednerusskiy Bank - Sberbank – RR 5,000 million and Vneshtorgbank – RR 3,000 million, see Note 6 (d)).

As at 31.03.2008 Other Non-Current Assets include deposits in AKB Srednerusskiy Bank -Sberbank that have original maturities of more than 12 months in the amount of RR 3,000 million

Note 15. 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.

As of 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 closed subscription 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.

On 28 December 2007 the extraordinary shareholders' meeting of OAO Mosenergo approved increase of share capital of OAO Mosenergo via additional issue of 16,477,961 of ordinary shares with nominal value equal to RR 1.00 as a result of merge of OAO "Mosenergo Holding" into the Group (see Note 1,3 and 16 (b)).

(b) Dividends

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.

(c) Revaluation surplus

Revaluation surplus represents the result of the revaluation of property, plant and equipment performed as at 1 January 2007 (Note 7).

(in millions of Russian Roubles)

Note 16. Borrowings

	Currency	Effective interest rate	31 March 2008	31 December 2007
Non-current borrowings				
Unsecured bonds			-	-
Unsecured bond issue #1	RR	7,54%	5 000	-
Unsecured bond issue #2	RR	7,65%	5 000	-
Other non-current borrowings	RR		131	129
Total non-current borrowings			**10 131**	**129**
Current borrowings and current portion of non-current borrowings				
Secured bank loans				
EBRD	RR	Range of MosPrime+2.5% and MosPrime+3.5%	7,200	7,200
EBRD	USD	LIBOR+3.5%	119	166
IFC	USD	LIBOR+3.5%	79	110
Unsecured bonds				
Unsecured bond issue #1	RR	7,54%	-	5,000
Unsecured bond issue #2	RR	7,65%	-	5,000
Total ccurrent borrowings and *current portion of non-current borrowings*			**7,398**	**17,476**
Total borrowings			**17,529**	**17,605**

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 10,131 million and RR 10,129 million and fair value of RR 9,984 million and RR 9,989 million as of 31 March 2008 and 31 December 2007, 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

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

On 23 December 2005 the Group concluded the agreement with EBRD to open a credit line in the total amount of RR 7,200 million for more than 10 years. The credit line consisted of two credit lines in amounts of RR 2,900 million and RR 4,300 million respectively. The loan was obtained for the purchase of acquiring additional equipment for the Group. The loan interest on loans is determined on Mosprime plus basis.

(in millions of Russian Roubles)

The payment of interest on the loan is carried out on a quarterly basis, and the principal amount is to be repaid by 40 and 18 equal installments for the first and second credit lines respectively starting after 31 December 2007.

Net book value of fixed assets pledged as security for loans was RR 1,813 million as of 31 March 2008.

(b) Unsecured bonds

On 2 March 2006 the placement of OAO Mosenergo's 5,000,000 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 5,000,000 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.

At the Extraordinary General Shareholders' meeting on 28 December 2007 the Group made a decision on merging of OAO Mosenergo Holding into the Group (see Notes 1, 3 and 30). Following that decision and in accordance with Russian legislation owners of OAO Mosenergo unsecured bonds could present the bonds for early redemption until 28 February 2008. Therefore, in accordance with IAS 1, these bonds on total amount RR 10,000 million were reclassified to current debt at 31 December 2007.

Subsequently to 31 December 2007 a report on bonds presented for early redemption was issued by OAO Mosenergo. According to that report only bonds on amount RR 588 million were presented for early redemption. Details are disclosed in the Note 30.

As of the reporting date, 31 March 2008, all bonds presented for early redemption were paid for but they were not redeemed due to on-going redemption legal procedures. Therefore, OAO Mosenergo's bonds for the amount of RR 10,000 million were recognized as non-current borrowings in the financial statements (Note 16(b)).

(c) Borrowings maturity

As of 31 December 2007, OAO Mosenergo did not comply with the debt service coverage requirement as stated in 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 OAO 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 on total amount RR 6,715 million were reclassified to current debt at 31 December 2007.

As of 31 March 2008 loans for the amount of RR 6,332 million were reclassified to current borrowings as no temporary waiver for non-compliance with the debt service ratio requirement was received by OAO Mosenergo from EBRD as of the date of issue of financial statements; the ratio was calculated based on the statement as of 31 December 2007.

As of 31 March 2008 the maturity portfolio of long-term borrowings is presented below:

	31 March 2008
Between one and two years	-
Between two and five years	131
After five years	10,000
	10,131

(in millions of Russian Roubles)

Note 17. Other Taxes payable

	31 March 2008	31 December 2007
VAT payable	218	238
Payroll taxes payable	269	150
Property tax	317	82
Other taxes payable	169	141
	973	**611**

Note 18. Retirement benefit obligations

The tables below provide information about post-employment benefits and actuarial assumptions used for the period ended 31 March 2008. Amounts recognized in the consolidated balance sheet:

	31 March 2008	31 December 2007
Present value of defined benefit obligations (DBO)	3,027	2,923
Unrecognised actuarial (loss)/gain	(248)	(51)
Unrecognised past service cost	(1,444)	(1,592)
	1,335	**1,280**

Benefit expenses recognised in the consolidated income statement:

	Three months ended 31 March 2008	Three months ended 31 March 2007
Current service cost	32	32
Interest cost	50	47
Amortisation of past service cost	37	**37**
	119	**116**

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

	31 March 2008	31 December 2007
Present value of defined benefit obligations (DBO) at 1 January	3,009	1,149
Current service cost	32	32
Interest cost	50	47
Actuarial loss/(gain)	-	66
Past service cost	-	1,629
Benefits paid	(64)	-
Present value of defined benefit obligations (DBO) at the end of period	**3,027**	**2,923**

(in millions of Russian Roubles)

Starting 1 January 2007 the Group accepted new pension plan. Payments under this new plan are made within agreements with NPF Elektroenergetiki and NPF Gazfund. The new pension plan was introduced only for active employees. The appearance of the new plan was connected with the change of OAO Mosenergo's immediate parent (Gazprom instead of RAO UES).

Principal actuarial assumptions are as follows:

	31 March 2008	31 March 2007
Nominal discount rate	6.75%	6.75%
Inflation rate	5.00%	5.00%
Wage growth rate p.a.	7.00%	7.00%
Benefits increase	5.00%	5.00%

There were changes in actuarial assumptions during the reporting period, thus actuarial loss arose during this period reflected experience adjustments and the effect of change in actuarial assumptions.

	31 March 2008	31 March 2007
Present value of defined benefit obligations (DBO)	3,027	2,923
Deficit in plan	3,027	2,923
(Losses)/gains arising from experience adjustments on plan liabilities	-	(52)

Note 19. Other provisions for Liabilities and Charges

	As at 1 January 2008	Additional provisions	Unused amount reversed	Utilised during the period	As at 31 March 2008
Legal claims	46	31	(20)	-	57
	46	**31**	**(20)**	**-**	**57**

At the Extraordinary General Shareholders' meeting on 28 December 2007 the Group made a decision on merging of OAO Mosenergo Holding into the Group. On 21 February 2008 report on results of shares presented for buy-out was issued. According to that report 156,101,884 shares of OAO Mosenergo were presented for buy-out at 6.21 RR per share on total amount RR 969 million and the whole amount was bought-out in March 2008.

	As at 1 January 2007	Additional provisions	Unused amount reversed	Utilised during the period	As at 31 December 2007
Provision for buy-out of treasury shares	-	969	-	-	**969**
Legal claims	390	38	(51)	(331)	46
	390	**1,007**	**(51)**	**(331)**	**1,015**

(in millions of Russian Roubles)

Note 20. Trade and other payables

	31 March 2008	31 December 2007
Trade payables	7,136	3,637
Account payable for acquisition of property, plant and equipment	-	3,636
Dividends payable	1	1
Total financial liabilities	**7,274**	**7,274**
Accrued liabilities and other payables	2,428	2,298
Advances received	697	855
Financing from Moscow Government	523	523
Total trade and other payables	**10,785**	**10,950**

Trade payables are classified as financial liabilities. Total amount of financial liabilities as at 31 March 2008 comprises RR 24,665 million (as at 31 December 2007: RR 21,242 million) and includes, beside trade payables, non-current borrowing (Note 16) and current borrowings and current portion of non-current borrowings (Note 16).

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise the single class, as they bear the same characteristics. Those suppliers are mainly providers of repair and maintenance services.

Note 21. Revenues

	Three months ended 31 March 2008	Three months ended 31 March 2007
Electricity	13,706	10,419
Heating	16,149	13,952
Other	1,155	770
Total revenues	**31,010**	**25,141**

Approximately 4% of sales of electricity for three months ended 31 March 2008 relates to resale of purchased power on wholesale market NOREM (for three months ended 31 March 2007 – 7%)..

(in millions of Russian Roubles)

Note 22. Operating expenses

	Three months ended 31 March 2008	Three months ended 31 March 2007
Fuel expenses	14,516	11,618
Transmission fees	6,380	5,354
Employee benefits	2,478	1,974
Depreciation of property, plant and equipment (Note 7)	1,662	1,591
Purchased heat and electricity	801	698
Repairs and maintenance	260	441
Taxes other than income and payroll taxes	388	341
Charge for impairment of trade and other receivables	156	366
Other materials	194	167
Water usage expenses	160	145
Services of NP ATS, ZAO "CFR", OAO "SO CDU ES"	184	142
Losses less gains on disposals of property, plant and equipment	(26)	(3)
Insurance cost	64	114
Social expenditures	10	11
Other	792	519
Total operating expenses	**28,018**	**23,478**

Employee benefits expenses comprise the following:

	Three months ended 31 March 2008	Three months ended 31 March 2007
Salaries and wages, accrued bonuses, benefits and payroll taxes	2 409	1 905
Non-governmental pension fund expenses	69	69
Total employee benefits	**2 478**	**1 974**

Note 23. Finance income

	Three months ended 31 March 2008	Three months ended 31 March 2007
Interest income from held-to-maturity investments	467	15
Total finance income	**467**	**15**

(in millions of Russian Roubles)

Note 24. Finance costs

	Three months ended 31 March 2008	Three months ended 31 March 2007
Interest expense	(365)	(455)
Foreign exchange gains from borrowings	7	8
Provisions for post employment benefits	(50)	(47)
Total finance costs	**(408)**	**(494)**
Less capitalised finance costs	248	239
Total finance costs recognised in the consolidated income statement	**(160)**	**(255)**

All finance costs relate to financial liabilities measured at amortised cost.

Note 25. Income tax

(a) Income tax expense

The Group's applicable tax rate is the corporate income tax rate of 24% (2007: 24%).

	Three months ended 31 March 2008	Three months ended 31 March 2007
Income tax benefit/(charge)		
Current income tax charge	(657)	(573)
Deferred income tax benefit	(689)	(337)
	(1,346)	**(911)**

During December 2006 the Federal Tax Authority declared its decision concerning tax inspection for 2002 and 2003 years. In accordance with this decision OAO Mosenergo was exposed to additional income tax amounting to RR 576 million, which has been accrued for in consolidated financial statements for three months ended 31 March 2007 and is presented within current income tax payable at 31 December 2006. At the year end of 2007 the Group performed reassessment of probability of unfavourable outcome. And the Management believes that only 50% of that obligation in amount of RR 288 million should be provided.

Profit before tax for the financial reporting purposes is reconciled to the income tax as follows:

	Three months ended 31 March 2008	Three months ended 31 March 2007
Profit before tax	3,351	1,504
Theoretical tax (charge)/benefit at the statutory tax rate of 24%	(804)	(361)
Non-deductible/non-taxable items	(542)	(550)
	(1,346)	**(911)**

(in millions of Russian Roubles)

(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.

(ii) Movements for the periods

	31 December 2007	Movement for the period recognized in the income statement	Movement for the period recognized in the statement of changes in equity	31 March 2008
Property, plant and equipment	(18,019)	(288)	-	(18,307)
Investment property	(67)	43	-	(24)
Trade and other receivables	207	(166)	-	41
Retirement benefit obligations (see Note 2(bb))	307	13	-	320
Other	145	(291)	-	(146)
	(17,427)	**(689)**		**(18,116)**

	31 December 2006	Movement for the period recognized in the income statement	Movement for the period recognized in the statement of changes in equity	31 March 2007
Property, plant and equipment	(6,768)	67	(11,853)	(18,554)
Trade and other receivables	173	(221)	-	48
Retirement benefit obligations	279	28	-	307
Other	304	(211)	-	93
	(6,012)	**(337)**	**(11,853)**	**(18,202)**

(in millions of Russian Roubles)

Note 26. 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.

	Three months ended 31 March 2008	**Three months ended 31 March 2007**
Weighted average number of ordinary shares issued (thousands)	39,705,998,066	28,350,179,975
Profit attributable to the shareholders of OAO Mosenergo for the period	2,005	594
Earnings per ordinary share for profit attributable to the shareholders of OAO Mosenergo – basic and diluted (in Russian Roubles)	**0.05**	**0.02**

Note 27. Contingencies, Commitments and operating risks

(a) Capital commitments

Future capital expenditure for which contracts have been signed amounted to RR 28,937 million at 31 March 2008 (RR 20,406 million as of 31 December 2007). RR 3,273 million of capital commitments are denominated in foreign currencies, mainly Euro and Swiss francs.

(b) Tax and currency legislation

Russian tax and currency 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, in particular the way of accounting for tax purposes of tariff imbalance, deductibility of certain expenses. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 March 2008 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency 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.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganization related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganization and reform process.

(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 unreasonable 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.

In March 2008, OOO "Agentstvo Pravovoi Informatsii Energetiki" (APIE) issued a claim against OAO Mosenergo, related to collecting of a debt amounting to RR 861 million. APIE claims that this amount was incurred by them with regard to the acquisition of share in OOO KB Transinvestbank Charter capital. The claim is currently being considered by the Arbitrage Tribunal at the Fund "Pravo i Economika TEK".

As discussed in Note 9, management has provided RR 957 million related to the Arbitrage Court ruling on the acquisition of a share in OOO KB Transinvestbank's Charter capital by OAO Mosenergo. Management believes that the claim made by APIE is without merit and management intends to vigorously defend itself regarding this matter and has not recorded a related liability.

(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 16).

(e) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving as is the enforcement posture of government authorities. 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 mortgaged loans of employees of RR 333 million as of 31 March 2008 (RR 345 million as of 31 December 2007). All loans are collaterised by the property of employees.

Note 28. Financial risks management

(a) Financial risk factors. The Company's activities expose it to variety of financial risks, including the effects of changes in foreign currency exchange rates, changes in interest rates and the collectibility of receivables. OAO Mosenergo does not have a risk policy in order to hedge its financial exposures.

(b) Currency risk. Power and heat produced by the Group is sold on the internal market of Russian Federation with prices fixed in the currency of Russian Federation. The company obtains foreign currency credits as well as signs import agreements on equipment delivery in foreign currency (US dollars, Euro and Swiss francs). With reference of Rouble exchange rate strengthening in relation to US dollar and an absence of predictable fluctuations of foreign currencies exchange rates, exchange risks on borrowed assets are not material.

Hence, the Group is subject to the foreign currency exchange risk. The financial condition of the Company, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are planned to be performed in such a way that its assets and liabilities be denominated in the national currency. That is why the influence of changes in the domestic currency rate as related to foreign currency rates on the financial condition of the Group is estimated as insignificant.

Management performed sensitivity analyses to US dollar rate fluctuations on a basis of the expected forecast of US dollar rate changes in 1st quarter 2008, which was achieved on the ground of the US dollar rate change in 2007. If Rouble exchange rate in relation to US dollar decreased (increased) by 6.78% by all other things being equal, the change of profit after tax for three months ended 31 March 2008 would be 3.6 million.

(in millions of Russian Roubles)

US dollar change sensitivity analysis for three months ended 31 March 2008 (EBRD, IFC loans)

	Date	*Exchange rate*
	31.12.2006	26.3311
US dollars	31.12.2007	24.5462
	31.03.2008	23.5156

The actual decline of US dollar rate was 6.78% for the year ended 31 December 2007. The expected US dollar exchange rate as of 31 December 2008 is RR 25.1100 which represents the amount of the US dollar exchange rate as of 31 March 2008, with the projected change taken into account.

	Principal amount and interest accrued for three months ended 31 March 2008 (US dollars, Mln.)	*Principal amount and interest accrued for three months ended 31 March 2008 (RR, Mln.) at the exchange rate as of 31 March 2008*	*Principal amount and interest accrued for three months ended 31 March 2008 (RR, Mln) at the exchange rate as of 31 March 2008, with the expected change taken into account*	*Difference*	*Post- tax effect on profit*
European Bank of Reconstruction and Development, International Financial Corporation	3	70	75	5	4

Management performed sensitivity analyses to US dollar rate fluctuations on a basis of the expected forecast of US dollar rate changes in 1st quarter 2007, which was achieved on the ground of the US dollar rate change in 2006. If Rouble exchange rate in relation to US dollar decreased (increased) by 8.52% by all other things being equal, the change of profit after tax for three months ended 31 March 2007 would be 5.9 million.

US dollar change sensitivity analysis for three months ended 31 March 2007 (EBRD, IFC loans)

	Date	*Exchange rate*
	01.01.2006	28.7825
US dollars	31.12.2006	26.3311
	31.03.2007	26.0204

The actual US dollar rate decline was 8.52% for the year ended 31 December 2006. The expected US dollar exchange rate as of 31 December 2007 was RR 28.2373 which represents the amount of the US dollar exchange rate as of 31 March 2007, with the projected change taken into account.

(in millions of Russian Roubles)

	Principal amount and interest accrued for three months ended 31 March 2007 (US dollars, mln)	*Principal amount and interest accrued for three months ended 31 March 2007 (RR, mln) at the exchange rate as of 31 March 2008*	*Principal amount and interest accrued for three months ended 31 March 2008 (RR, mln) at the exchange rate as of 31 March 2007, with the expected change taken into account*	*Difference*	*Post-tax effect on profit*
European Bank of Reconstruction and Development, International Financial Corporation	4	92	99	8	6

Exchange rate fluctuations in relation to equipment import don't influence on the profit after tax, as possible increase of payment amounts is included in the cost of equipment.

(c) Interest rate risk. The Group's operating profits and cash flows from operating activity are largely not dependent on the changes in market interest rates. The company obtains borrowings both with fixed and with floating rate and is subject to the risk of interest rate changes. The Group's significant interest bearing assets are disclosed in Note 16. The company obtains loans with floating rate, which are established on the basis of LIBOR and MosPrime rates.

Management performed sensitivity analyses of rates fluctuations based on expected forecasts of rates changes at the date of redemption of exchange commitments.

Rate	**Expected rate change in 1st quarter 2008 y., %**
LIBOR	0.77
MosPrime	2

In case when LIBOR rate increased (decrease) at 0.77% and MosPrime rate increased (decrease) at 2% the profit after tax for three months ended 31 March 2008 would increased (decreased) for RR 28 million.

Rate	**Expected rate change in 1st quarter 2007 y., %**
LIBOR	0.2
MosPrime	1.5

In case when LIBOR rate increased (decrease) at 0.2% and MosPrime rate increased (decreased) at 1.5% the profit after tax for three months ended 31 March 2007 would increased (decreased) by RR 20 million.

With the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to the effect of identifying favourable credit conditions;
- diversification of credit portfolio by attracting of borrowing assets both with fixed rates, and with floating rates.

For the purpose of the financial risks management by financing of the company's operating performance the credit portfolio was optimized. In 2006 the Group made two issues of obligations on total amount of RR 10 bln with the period of maturity 5 and 10 years that allowed the company to cancel short-term loans with higher interest rate.

(d) Credit risk. Credit risk – is the risk of financial loss for the Group in the case of non-fulfilment by the Contractor the obligations on the financial instrument under the proper contract. Financial assets on which the Company has the potential credit risk are represented mainly by the accounts receivable of buyers and customers (in amount of RR 7,311 million; 2007 – RR 4,691 million), other accounts receivable (in amount of RR 875 million; 2007 – RR 786 million), bank deposits (in amount of RR 1,000 million; 2007 – RR 8,000 million) and cash (in amount of RR 21,784 million; 2007 – RR 11,136 million), promissory notes (in amount RR 6,025 million; 2007 – RR 15,201 million) totalling to RR 15,211 million (2007 – RR 39,817 million). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision for impairment of receivables already recorded.

For OAO Mosenergo customers there is no independent rating and therefore OAO Mosenergo assesses the credit quality of the customer at the contract execution stage. The Group takes into account the customer's financial position and its credit history. The Group monitors the existing receivables on the permanent basis in the profile departments and takes actions regularly to collect it.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Board of Directors approved the list of banks for deposits, as well as rules for the placement of deposits. Moreover, the Company constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors.

The table in Note 13 shows the deposits with banks of the major counterparties and their ratings at the balance sheet date.

(e) Liquidity risk. The Company's liquidity risk management includes maintaining the sufficient cash position and the availability of financing to support the Company's operational activity.

To assess the liquidity risk OAO Mosenergo applies the ratio analysis method, including assessment of liquidity ratios, accounts receivable and payable turnover, determination of the percentage of inventories in the current assets, and percentage of current assets in the total assets.

In accordance with the Company's internal regulatory documents OAO Mosenergo prepares forecasts of cash flow movements for various periods. For the purpose of operating decision-making, OAO Mosenergo prepares the annual budget broken down by quarters, quarterly budget and monthly budget broken down by days.

To secure the sufficient financing of its operations OAO Mosenergo raise credits in form of overdraft, promissory notes.

The table below analyses the Group's financial liabilities (including interest accrued) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant (see also Note 16).

(in millions of Russian Roubles)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 March 2008				
Loans and borrowings	2,277	7,402	4,163	8,795
Promissory notes		57	95	
Accounts payable	10,785			
At 31 December 2007				
Loans and borrowings	2,904	7,402	10,842	2,120
Promissory notes		57	95	
Accounts payable	11,919			

OAO Mosenergo bonds on total amount RR 10,000 million have been classified as current at the period end because although the contractual term is more than one year, as following the decision of the Extraordinary General Shareholders' meeting and in accordance with a statutory obligation OAO Mosenergo bondholders can present bonds for early redemption until 28 February 2008. (see Notes 1, 3, 16 (b)).

As of the reporting date, 31 March 2008, all bonds presented for early redemption were paid for but they were not redeemed due to on-going redemption legal procedures. Therefore, OAO Mosenergo's bonds for the amount of RR 10,000 million were recognized as non-current borrowings in the financial statements (Note 16(b)).

At the 31 December 2007 trade payables were increased in RR 919 million. By the decision of Extraordinary General Shareholder's meeting on 28 Decembers 2007 and in accordance with Russian legislation holders of record could present the equity stocks for buy-out.at 6.21 RR per share on total amount RR 969 million The whole amount was provided at the 31 December 2007 (see Note 19).

As of the reporting date, 31 March 2008, the whole equity stocks were bought-out (see Note 19).

(f) Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL").

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 March 2008:

	Loans and receivables	Held to maturity	Total
ASSETS			
Trade and other receivables (Note 12)			
Trade receivables	7,311	-	7,311
Other receivables	875	-	875
Held to maturity investments (Note 10)	-	6,025	6,025
Other current assets (Note 14)			
Bank deposits	1,000	-	1,000
Cash and cash equivalents (Note 13)	21,479	-	21,479
TOTAL FINANCIAL ASSETS	**30,665**	**6,025**	**36,690**
NON-FINANCIAL ASSETS			**150,166**
TOTAL ASSETS			**186,856**

(in millions of Russian Roubles)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007:

	Loans and receivables	**Held to maturity**	**Total**
ASSETS			
Trade and other receivables (Note 12)			
Trade receivables	4,691	-	4,691
Other receivables	786	-	786
Held to maturity investments (Note 10)	-	15,201	15,201
Other current assets (Note 14)			
Bank deposits	8,000	-	8,000
Cash and cash equivalents (Note 13)	11,136		11,136
TOTAL FINANCIAL ASSETS	**24,613**	**15,201**	**39,814**
NON-FINANCIAL ASSETS			145,211
TOTAL ASSETS			**185,025**

All of the Group's financial liabilities as at 31March 2008 and as at 31 December 2007 are carried at amortised cost.

Note 29. Capital risk management

Capital risk management relates to the compliance with the Russian legislation and credit policy implementation to maintain an optimal capital structure and reduce the cost of capital.

The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- share capital can not be lower than 1,000 minimum shares on the date of the company registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 March 2008, the Group has been in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

During the three months ended 31 March 2008, the Group's strategy, which was unchanged from 2007, was to maintain a gearing ratio not exceeding 50% and a credit rating not below 2B (Standard & Poors). The gearing ratios at 31 March 2008 and at 31 December 2007 were as follows:

(in millions of Russian Roubles)

	31 March 2008	31 December 2007
Total borrowings	17,529	17,605
Total equity	137,665	135,660
Gearing ratio	**12.7%**	**12.9%**

Note 30. Events after the Balance Sheet Date

(a) Dividends

In April 2008 the Company's Board of directors made the decision to recommend to the Annual General Shareholders' Meeting not to pay dividends on the Company's ordinary shares based on the results of financial year 2007.

(b) Termination payments

Board of Directors of the Company made a decision to terminate the employment of several members of the key management personnel. The amount of termination payments comprises RR 94 million

(c) Kyoto Protocol

In May 2007 the Chairman of the government of the Russian Federation signed the resolution on the application of the Kyoto Protocol mechanisms in Russia.

The Group is currently in the process of preparation for tender procedures to choose a contractor to support the projects of OAO Mosenergo's technical upgrade for the purpose of raising investments via implementation of the Kyoto Protocol mechanisms.

Note 31. Operational seasonality

Demand for heat and electricity varies with seasons and weather conditions. Every year, revenue from the sales of heat is the highest during the period from October through March. Similarly, this period accounts for the highest revenue from sales of electricity, although it is a little lower than that from sales of heat. The seasonal factor influences the fuel consumption and energy purchases accordingly as well. For the three months ended 31 March 2008 the revenue from sales of heat and electricity amounted to 41% (three months ended 31 March 2007: 33%) of the annual revenue from sales of heat and electricity for the year ended 31 December 2007.