OJSC MOESK

Consolidated Financial Statements for the year ended 31 December 2007

Contents

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Independent Auditors' Report

To the management of OJSC MOESK

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC MOESK (the "Company") and its subsidiary (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at 644 487 thousand Russian Roubles as at 1 January 2006 because we were engaged as auditors of the Company only after that date. It was impracticable to satisfy ourselves as to those inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended 31 December 2006.

Qualified Opinion

In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
19 September 2008

	Note	2007 '000 RUR	2006 '000 RUR
Revenue	7	**38 669 612**	**25 469 571**
Operating expenses	8	(28 953 395)	(21 576 731)
Other operating income		140 630	264 256
Operating income		**9 856 847**	**4 157 096**
Financial income	10	201 259	33 563
Financial expenses	10	(975 820)	(209 160)
Profit before income tax		**9 082 286**	**3 981 499**
Income tax expense	11	(2 455 600)	(1 141 985)
Profit for the year		**6 626 686**	**2 839 514**
Attributable to:			
Shareholders of OJSC MOESK		6 540 879	2 839 514
Minority interest		85 807	-
Earnings per share – basic and diluted (in Russian Roubles)	22	0.232	0.101

These consolidated financial statements were approved on 19 September 2008:

General Director
Y.I. Trofimov

Chief Accountant
L.A. Sklyarova

	Note	31 December 2007 '000 RUR	31 December 2006 '000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	12	98 223 193	64 099 033
Other non-current assets	13	8 155 468	1 959 279
Deferred tax assets	14	46 850	-
Total non-current assets		**106 425 511**	**66 058 312**
Current assets			
Inventories	15	1 771 724	1 153 396
Income tax receivable		170 223	724 468
Trade and other receivables	16	5 275 258	4 253 468
Bank deposits		2 557 216	-
Cash and cash equivalents	17	4 790 726	2 021 925
Total current assets		**14 565 147**	**8 153 257**
Total assets		**120 990 658**	**74 211 569**
EQUITY AND LIABILITIES			
Equity	18		
Share capital		14 124 680	14 124 680
Additional paid in capital		22 463 951	22 453 124
Revaluation reserve		8 270 005	8 270 005
Retained earnings		9 622 238	3 141 359
Total equity attributable to the shareholders of OJSC MOESK		**54 480 874**	**47 989 168**
Minority interest		1 096 634	-
Total equity		**55 577 508**	**47 989 168**
Non-current liabilities			
Loans and borrowings	19	20 799 431	6 970 510
Employee benefits	20	91 930	320 970
Deferred tax liabilities	14	9 085 316	9 018 121
Total non-current liabilities		**29 976 677**	**16 309 601**
Current liabilities			
Loans and borrowings	19	9 916 995	460 199
Income tax payable		1 238 856	-
Other taxes payable	24	99 989	72 609
Trade and other payables	23	23 787 695	9 243 462
Provisions	21	392 938	136 530
Total current liabilities		**35 436 473**	**9 912 800**
Total equity and liabilities		**120 990 658**	**74 211 569**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 38.

	2007 '000 RUR	2006 '000 RUR
OPERATING ACTIVITIES		
Profit before income tax	9 082 286	3 981 499
Adjustments for:		
Depreciation	4 452 891	3 184 519
Loss on disposal of property, plant and equipment	192 971	129 829
Provisions	256 408	(143 398)
Interest expense	975 820	209 160
Allowance for impairment of accounts receivable	19 589	(3 090)
Other non-cash items	(56 837)	(28 676)
Operating profit before changes in working capital	**14 923 128**	**7 329 843**
Increase in inventories	(622 059)	(506 734)
Increase in trade and other receivables	(1 039 288)	(1 487 032)
Increase in trade and other payables, advances received	13 549 587	6 135 112
Decrease in taxes payable, other than income tax	(59 626)	(374 820)
Cash flows from operations before income taxes and interest paid	**26 751 742**	**11 096 369**
Income taxes paid	(638 510)	(2 000 051)
Cash flows from operating activities	**26 113 232**	**9 096 318**
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	-	55
Acquisition of subsidiary, net of cash acquired	(279 578)	-
Acquisition of property, plant and equipment	(31 197 745)	(11 747 055)
Proceeds from bank deposits	1 679 000	-
Acquisition of bank deposits	(3 756 216)	-
Interest received	201 259	-
Cash flows used in investing activities	**(33 353 280)**	**(11 747 000)**
FINANCING ACTIVITIES		
Proceeds from borrowings	19 733 362	11 527 259
Repayment of borrowings	(4 722 317)	(6 770 341)
Payment of finance lease liabilities	(5 442 196)	(117 836)
Dividends paid	(60 000)	(50 001)
Interest paid	-	(154 466)
Proceeds from shares issued to minority interest	500 000	-
Cash flows from financing activities	**10 008 849**	**4 434 615**
Net increase in cash and cash equivalents	2 768 801	1 783 933
Cash and cash equivalents at beginning of period	2 021 925	237 992
Cash and cash equivalents at end of period (note 17)	**4 790 726**	**2 021 925**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 38.

’000 RUR	Attributable to shareholders of the Company					Minority interest	Total equity
	Ordinary share capital	Additional paid in capital	Revaluation reserve	Retained earnings	Total		
At 31 December 2005	**14 124 680**	**22 453 124**	**8 270 005**	**351 846**	**45 199 655**	**-**	**45 199 655**
Profit for the year	-	-	-	2 839 514	2 839 514	-	2 839 514
Dividends to shareholders	-	-	-	(50 001)	(50 001)	-	(50 001)
At 31 December 2006	**14 124 680**	**22 453 124**	**8 270 005**	**3 141 359**	**47 989 168**	**-**	**47 989 168**
Profit for the year	-	-	-	6 540 879	6 540 879	85 807	6 626 686
Acquisition under common control (note 6)	-	10 827	-	-	10 827	1 010 827	1 021 654
Dividends to shareholders	-	-	-	(60 000)	(60 000)	-	(60 000)
At 31 December 2007	**14 124 680**	**22 463 951**	**8 270 005**	**9 622 238**	**54 480 874**	**1 096 634**	**55 577 508**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 38.

1 Background

(a) Organisation and operations

Open Joint-Stock Company "Moskovskaya Ob'edinennaya Electrosetevaya Kompaniya" (the "Company") was established on 1 April 2005 by transferring assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES, within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1 adopted by shareholders of OJSC "Mosenergo" on 29 June 2004.

The Company's registered office is at building 27, Ordgonikidze street, Podol'sk, Moscow Region, 142100, Russian Federation.

The actual address is building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Company's principal activity is electricity transmission by means of electrical networks located in Moscow Region and the parts of Moscow.

On 28 March 2007 the Company acquired 50% of the shares in OJSC "Energocentr" (together referred to as the "Group"), see note 6 for further information.

The Group business is the natural monopoly which is under pressure and supported by the Russian government. As at 31 December 2007 the Russian Federation owns 52.7% of RAO UES of Russia, which in its turn owns 50.9% of OJSC "MOESK".

The government of Russian Federation directly affects the Group's operations through the state tariffs.

In accordance with legislation the Group's tariffs are controlled by the Federal Service on Tariffs, the Regional Energy Commission of Moscow and the Energy Committee of Moscow Region.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group can raise the capital required to maintain and expand current capacity.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. Furthermore, the tax, currency and customs legislation within the Russian Federation is a subject to varying interpretations and changes, which can occur frequently. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment is stated at revalued amounts.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Use of judgements, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 12 – Property, plant and equipment
- Note 21 – Provisions;
- Note 28 – Contingencies.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for at the date that acquirer's control over acquiree was established. The assets and liabilities acquired are recognised at the carrying amounts, recognized previously in the acquired entity's IFRS financial statements. The components of equity of acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital. Any cash paid for the acquisition is recognised directly in equity.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, bank deposits, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for financial income and expenses is discussed in note 3(k).

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(c) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at revalued amounts, based on periodic revaluations by external independent valuers. The frequency of revaluation depends upon the changes in fair values of the items of property pland and equipment being revalued, but at least every 5 years.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Borrowing costs on qualifying assets are capitalised as part of the cost of such assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in the income statement.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Revaluation

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

(iv) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings - 20 to 40 years
- transmission networks - 18 years
- transformers and transformer substations - 13 to 16 years
- other – 4-8 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

The calculation is performed using the projected unit credit method.

Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Revenue

Revenue from electricity transmission is recognised in the income statement when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by Federal Tariff Agency and Regional Energy Commission of Moscow and the Energy Committee of Moscow Region.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. The revenue is recognised when electricity is activated and the customer is connected to the grid network.

Revenue from installation, repair and maintenance services and other sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(j) Operating expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(k) Financial income and expenses

Financial income comprises interest income on cash balances and bank deposits. Interest income is recognised as it accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings, employee benefits and finance leases.

All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

(l) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(n) Segment reporting

The Group operates predominantly in a single geographical area and industry, the transmission of electric power in the Moscow and Moscow region.

(o) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007 and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new Standards on its financial position or performance.

- IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting.
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

(p) Comparative amounts

During the current period the Group has changed its presentation of advances received. Previously this amount was classified as non-current advances received. The Group now classifies them as part of trade and other payables. Prior period amounts of RUR 2 048 931 thousand have been reclassified to conform with the current period presentation. In addition management changed its accounting policy for presentation of value added tax on advances received from net to gross, comparatives have also been reclassified to reflect this change in accounting policy.

4 Determination of fair values

The fair value of non-derivative financial instruments is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Approximately 66% of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over three years, and, consequently, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relates to individually significant exposures.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, without incurring losses.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Group's income or the value of it's holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(e) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6 Acquisition of subsidiary

On 28 March 2007 the Company acquired 50 percent of the shares in OJSC "Energocentr" for RUR 500 000 thousand from the state controlled entity OJSC "Moskovskaya Oblastnaya Investicionnaya Trastovaya Kompaniya" (OJSC "MOITK") and obtained the power to appoint the majority of the members of the board of directors of the acquiree, thus obtaining control over the financial and operating policies of OJSC "Energocentr". OJSC "Energocentr"'s principal activity is the construction of transformer substations. The acquisition represents a transaction under common control.

The subsidiary contributed net profit of RUR 171 613 thousand to the total net profit for the year ended 31 December 2007. If the acquisition had occurred on 1 January 2007, management estimates that consolidated net profit for the period would have been RUR 6 683 890 thousand. No significant revenue has been earned by the subsidiary during the year, as OJSC “Energocentr” is currently at an early stage of its operations. The majority of the profit generated by OJSC “Energocentr” is attributable to the interest income on bank deposits.

Net assets acquired were assessed based on the carrying values (see note 29 (c)(v)).

The net assets of the acquired subsidiary were as follows at the date of acquisition:

’000 RUR	**Carrying amounts at the date of acquisition**
Property, plant and equipment	261 854
Other non-current assets	865 018
Trade and other receivables	2 090
Bank deposits	480 000
Cash and cash equivalents	220 422
Deferred tax assets	3 644
Taxes payable	(87 006)
Trade and other payables	(2 580)
Advances received	(721 788)
Net identifiable assets and liabilities	**1 021 654**
Minority interest	(510 827)
Contribution by entity under common control	(10 827)
Consideration paid, satisfied in cash	500 000
Cash acquired	(220 422)
Net cash outflow	**279 578**

On 4 December 2007 OJSC “Energocentr” issued 20 000 ordinary shares with par value of RUR 50 000 per share in amount of RUR 1 000 000 thousand. 50% of these shares were acquired by the Company for RUR 500 000 thousand and the remaining 50% were acquired by OJSC “MOITK” for RUR 500 000 thousand.

7 Revenue

	2007	**2006**
	’000 RUR	**’000 RUR**
Electricity transmission	26 209 434	22 282 966
Revenue from connection services	8 546 054	607 630
Other revenue	3 914 124	2 578 975
	38 669 612	**25 469 571**

Revenue from connection services represents services related to connection of customers’ power receivers to the electricity network of the Group.

Other revenue is comprised of installation services and technical maintenance of electrical equipment and rental income.

8 Operating expenses

	2007 '000 RUR	2006 '000 RUR
Electricity transmission	(7 831 863)	(6 088 623)
Repairs, maintenance and installation services	(7 176 420)	(4 402 666)
Employee benefits	(4 851 700)	(3 935 769)
Depreciation	(4 452 891)	(3 184 519)
Raw materials and supplies	(494 854)	(989 712)
Insurance	(400 743)	(383 607)
Rent	(356 320)	(308 471)
Consulting, legal, audit services including professional training	(260 502)	(667 126)
Telecommunication services	(236 696)	(181 978)
Taxes other than income tax	(224 364)	(182 275)
Security services	(214 783)	(162 493)
Provision for legal claims and unused vacation	(256 408)	(47 968)
Other expenses	(2 195 851)	(1 041 524)
	(28 953 395)	**(21 576 731)**

9 Total personnel costs

	2007 '000 RUR	2006 '000 RUR
Salaries and wages	(4 006 673)	(3 215 544)
Contribution to state pension fund	(663 594)	(543 832)
Financial aid to employees and pensioners	(150 107)	(137 599)
Benefit in respect of post employment benefits (see note 20)	10 658	(32 419)
Expense in respect of long-term employee benefits provided	(41 984)	(6 375)
	(4 851 700)	**(3 935 769)**

The average number of employees during 2007 was 10 409 (including production and non production staff) (in 2006 – 10 290).

10 Financial income and expenses

	2007	2006
	'000 RUR	**'000 RUR**
Financial income		
Interest income	201 259	33 563
	201 259	**33 563**
Financial expense		
Interest expense	-	(166 566)
Interest on employee benefits obligation, net	(9 912)	(17 550)
Interest on finance lease	(965 908)	(25 044)
	(975 820)	**(209 160)**

11 Income tax expense

	2007	2006
	'000 RUR	**'000 RUR**
Current tax expense	(2 431 611)	(1 470 572)
Deferred tax (expense)/benefit	(23 989)	328 587
	(2 455 600)	**(1 141 985)**

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

Reconciliation of effective tax rate:

	2007		2006	
	'000 RUR	**%**	**'000 RUR**	**%**
Profit before income tax	9 082 286	100	3 981 499	100
Income tax expense at applicable tax rate	(2 179 749)	(24)	(955 560)	(24)
Other non-deductible and non-taxable items, net	(275 851)	(3)	(186 425)	(5)
	(2 455 600)	**(27)**	**(1 141 985)**	**(29)**

12 Property, plant and equipment

'000 RUR	Land and buildings	Transmission networks	Transformers and transformer substantions	Other	Construction in progress	Total
At 1 January 2006	11 344 145	37 154 094	2 862 584	4 013 410	2 609 663	57 983 896
Additions	149 581	202 451	1 050 938	916 103	8 955 659	11 274 732
Disposals	(13 692)	(34 624)	(12 158)	(36 212)	(63 287)	(159 973)
Transfers	597 953	809 301	229 515	3 068 287	(4 705 056)	-
At 31 December 2006	**12 077 987**	**38 131 222**	**4 130 879**	**7 961 588**	**6 796 979**	**69 098 655**
Depreciation						
At 1 January 2006	(249 582)	(1 160 927)	(125 954)	(282 432)	-	(1 818 895)
Depreciation charge	(490 516)	(1 718 467)	(270 960)	(704 576)	-	(3 184 519)
Disposals	246	816	451	2 279	-	3 792
At 31 December 2006	**(739 852)**	**(2 878 578)**	**(396 463)**	**(984 729)**	**-**	**(4 999 622)**
Net book value						
At 1 January 2006	11 094 563	35 993 167	2 736 630	3 730 978	2 609 663	56 165 001
At 31 December 2006	**11 338 135**	**35 252 644**	**3 734 416**	**6 976 859**	**6 796 979**	**64 099 033**
At 1 January 2007	12 077 987	38 131 222	4 130 879	7 961 588	6 796 979	69 098 655
Additions	62 794	7 173 640	4 892 923	589 308	26 160 632	38 879 297
Disposals	(6 425)	(77 925)	(52 537)	(88 349)	(95 465)	(320 701)
Transfers	750 835	2 643 413	773 527	4 767 968	(8 935 743)	-
At 31 December 2007	**12 885 191**	**47 870 350**	**9 744 792**	**13 230 515**	**23 926 403**	**107 657 251**
Depreciation						
At 1 January 2007	(739 852)	(2 878 578)	(396 463)	(984 729)	-	(4 999 622)
Depreciation charge	(533 530)	(1 942 123)	(499 700)	(1 477 538)	-	(4 452 891)
Disposals	688	6 487	1 785	9 495	-	18 455
At 31 December 2007	**(1 272 694)**	**(4 814 214)**	**(894 378)**	**(2 452 772)**	**-**	**(9 434 058)**
Net book value						
At 1 January 2007	11 338 135	35 252 644	3 734 416	6 976 859	6 796 979	64 099 033
At 31 December 2007	**11 612 497**	**43 056 136**	**8 850 414**	**10 777 743**	**23 926 403**	**98 223 193**
Net book value had no revaluations taken place						
At 1 January 2007	8 939 549	28 139 840	3 353 437	7 045 644	6 796 979	54 275 449
At 31 December 2007	**9 313 572**	**36 350 273**	**8 500 115**	**10 836 666**	**23 926 403**	**88 927 029**

(a) Revaluation

The Group did not revalue property, plant and equipment as at 31 December 2007. The last revaluation of property, plant and equipment was conducted as at 31 December 2005 by CJSC "HLB Vneshaudit".

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2007 the net book value of leased plant and machinery was RUR 12 657 203 thousand (as at 31 December 2006 - RUR 1 126 792 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

The amount of capitalised interest for 2007 was RUR 937 869 thousand (2006: RUR 162 149 thousand).

13 Other non-current assets

Other non-current assets represent capital advances in amount of RUR 7 855 468 thousand as at 31 December 2007 (RUR 1 959 279 thousand as at 31 December 2006) and long term deposits in amount of RUR 300 000 thousand (2006: none).

14 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

'000 RUR	**Assets**		**Liabilities**		**Net**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Property, plant and equipment	46 674	-	(12 239 064)	(9 408 321)	(12 192 390)	(9 408 321)
Inventories	15 526	14 257	-	-	15 526	14 257
Trade and other receivables	194 599	54 963	-	-	194 599	54 963
Finance lease liability	2 873 142	269 302	-	-	2 873 142	269 302
Employee benefits	38 340	29 965	(11 956)	-	26 384	29 965
Trade and other payables	44 273	21 713	-	-	44 273	21 713
Tax assets/(liabilities)	3 212 554	390 200	(12 251 020)	(9 408 321)	(9 038 466)	(9 018 121)

(b) Movement in temporary differences during the year

'000 RUR	1 January 2007	Recognized in the income statement	Recognized in the equity	31 December 2007
Property, plant and equipment	(9 408 321)	(2 787 299)	3 230	(12 192 390)
Inventories	14 257	1 269	-	15 526
Trade and other receivables	54 963	139 222	414	194 599
Finance lease liability	269 302	2 603 840	-	2 873 142
Trade and other payables	21 713	22 560	-	44 273
Employee benefits	29 965	(3 581)	-	26 384
	(9 018 121)	(23 989)	3 644	(9 038 466)

15 Inventories

	31 December 2007 '000 RUR	31 December 2006 '000 RUR
Raw materials and consumables	1 547 405	1 088 164
Inventory for resale	210 425	38 422
Other	19 092	28 277
Write-down of inventories in the current period	(5 198)	(1 467)
	1 771 724	**1 153 396**

16 Trade and other receivables

	31 December 2007 '000 RUR	31 December 2006 '000 RUR
VAT receivable	962 177	376 411
Trade receivables	1 489 663	2 048 206
Advances given	1 401 244	1 029 034
VAT recoverable	1 201 143	836 406
Other receivables	290 326	13 117
Allowance for impairment of accounts receivable	(69 295)	(49 706)
	5 275 258	**4 253 468**

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note 25.

17 Cash and cash equivalents

	31 December 2007 '000 RUR	31 December 2006 '000 RUR
Petty cash	948	8 619
Current accounts	4 789 778	2 013 306
Cash and cash equivalents	**4 790 726**	**2 021 925**

18 Equity

(a) Share capital

Share capital	Ordinary shares 31 December 2007	Ordinary shares 31 December 2006
Issued shares, fully paid	28 249 359 700	28 249 359 700
Par value (in RUR)	0.5	0.5

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2007 the Company had cumulative retained earnings, including the profit for the current year, of RUR 11 004 062 thousand (2006: RUR 7 463 361 thousand).

During the year the Company declared and paid dividends in amount of RUR 60 000 thousand (2006: RUR 50 001 thousand).

19 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk, see Note 25.

	31 December 2007 '000 RUR	31 December 2006 '000 RUR
Non-current		
Unsecured bond issues	9 000 000	6 000 000
Finance lease liability	7 053 541	765 531
Promissory notes	4 745 890	204 979
Total non-current	**20 799 431**	**6 970 510**
Current		
Promissory notes	541 091	-
Current portion of finance lease liability	2 078 812	314 637
Current portion of bond issues	278 345	145 562

	31 December 2007 '000 RUR	31 December 2006 '000 RUR
Unsecured bank facility	7 018 747	-
Total current	**9 916 995**	**460 199**

The finance lease liabilities are secured by the leased assets (see note 12).

Finance lease liabilities are payable as follows:

	31 December 2007		
'000 RUR	**Payments**	**Interest**	**Principal**
Less than one year	4 235 349	2 156 537	2 078 812
Between one and five years	9 998 320	3 153 773	6 844 547
More than five years	348 784	139 790	208 994
	14 582 453	**5 450 100**	**9 132 353**

	31 December 2006		
'000 RUR	**Payments**	**Interest**	**Principal**
Less than one year	505 349	190 712	314 637
Between one and five years	1 038 122	272 601	765 521
More than five years	10	-	10
	1 543 481	**463 313**	**1 080 168**

20 Employee benefits

(a) Post employment benefits

The amounts recognised in the balance sheet are as follows:

	31 December 2007 '000 RUR	31 December 2006 '000 RUR
Present value of unfunded obligations	3 683	4 708
Present value of funded obligations	675 826	336 968
Fair value of plan assets	(464 398)	(227 620)
Deficit in plan	215 111	114 056
Unrecognised past service cost	(154 014)	-
Net actuarial gains (losses) not recognised in the balance sheet	(147 442)	60 681
Net liability (asset) in balance sheet	**(86 345)**	**174 737**

The amounts recognised in the income statement are as follows:

	2007 '000 RUR	2006 '000 RUR
Current service costs	61 124	32 419
Interest cost	23 917	23 259

Expected return on plan assets	(24 241)	(15 788)
Past service cost	76 393	-
Recognised actuarial loss (gain)	(1 852)	-
Curtailments	(146 323)	-
Total	**(10 982)**	**39 890**

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

	2007	2006
	’000 RUR	**’000 RUR**
Defined benefit obligation at start of year	341 676	332 272
Current service cost	61 124	32 419
Interest cost	23 917	23 259
Actuarial gains	199 696	(41 608)
Benefits paid	(30 988)	(4 666)
Past service cost	230 407	-
Curtailments	(146 323)	-
Defined benefit obligation at end of year	**679 509**	**341 676**

Changes in the fair value of plan assets are as follows:

	2007	2006
	’000 RUR	**’000 RUR**
Fair value of the plan assets at start of year	227 620	30 672
Expected return on plan assets	24 241	15 788
Actuarial (losses) / gains	(6 575)	(5 106)
Contributions by the employer	250 100	190 932
Benefits paid	(30 988)	(4 666)
Fair value of the plan assets at end of year	**464 398**	**227 620**

The Group expects to contribute RUR 360 590 thousand to the pension plan in 2008.

The fair value of plan assets in each category:

	31 December 2007	31 December 2006
Equity instruments	48.5%	23.7%
Debt instruments	40.6%	63.1%
Cash	0.9%	-
Other	10.0%	13.2%

Expected average remaining working lives of the employees are 14.3 years.

The long term rate of return on plan assets is estimated 7% by Non-State Pension Fund of Electric Power Industry.

Amounts for the current and previous periods are as follows:

	31 December 2007	31 December 2006	31 December 2005
	’000 RUR	’000 RUR	’000 RUR
Defined benefit obligation	(679 509)	(341 676)	(332 272)
Plan assets	464 398	227 620	30 672
Deficit	**(215 111)**	**(114 056)**	**(301 600)**
Experience gains on plan liabilities	(199 696)	41 608	24 159
Experience gains (losses) on plan assets	(6 575)	(5 106)	20

(b) Other long-term employee benefits

The amounts recognised in the balance sheet are as follows:

	2007	2006
	’000 RUR	’000 RUR
Present value of obligations	178 275	146 233

Movements in the net liability recognised in the balance sheet:

	2007	2006
	’000 RUR	’000 RUR
Net liability at start of year	146 233	143 990
Contributions received	(20 178)	(14 211)
Expense recognised in the income statement	52 220	16 454
Net liability at end of year	**178 275**	**146 233**

The amounts recognised in the income statement are as follows:

	2007	2006
	’000 RUR	’000 RUR
Interest on obligation	10 236	10 079
Current service costs	5 703	4 892
Recognised actuarial losses	36 281	1 483
	52 220	**16 454**

Principal actuarial assumptions for both post employment benefits and other long-term employee benefits:

	2007	2006
Discount rate	6.7%	7%
Rate of salary increases	7%	7%
Rate of pension increases	7%	7%
Annualised expected return on plan assets for the year ended	7%	12%

	31 December 2007	**31 December 2006**
Retirement age for male	60 years	60 years
Retirement age for female	55 years	55 years
Life expectancy after retirement for male	13.07 years	13.07 years
Life expectancy after retirement for female	22.15 years	22.15 years

The expense/(benefit) is recognised in the following line items in the income statement:

		2007	
	Post employment benefits	**Other long-term employee benefits**	**Total**
	’000 RUR	**’000 RUR**	**’000 RUR**
Operating (benefit)/expenses	(10 658)	41 984	31 326
Financial expenses	23 917	10 236	34 153
Actual return on plan assets	(24 241)	-	(24 241)
	(10 982)	**52 220**	**41 238**

21 Provisions

’000 RUR	**Legal claims**	**Unused vacation**	**Total**
Balance at 1 January 2006	**237 424**	**42 504**	**279 928**
Provisions raised during the year	-	90 472	90 472
Provisions used during the year	(191 366)	(42 504)	(233 870)
Balance at 31 December 2006	**46 058**	**90 472**	**136 530**
Provisions raised during the year	173 442	184 472	357 914
Provisions used during the year	(11 034)	(90 472)	(101 506)
Balance at 31 December 2007	**208 466**	**184 472**	**392 938**

Legal claims

Provision for legal claims relates to the claims brought against the Company within the ordinary course of business. The balance of the provision at 31 December 2007 is expected to be utilised in 2008-2009. The management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

22 Earnings per share

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	**Ordinary shares 31 December 2007**	**Ordinary shares 31 December 2006**
Authorised shares	28 249 359 700	28 249 359 700
Par value	RUR 0.50	RUR 0.50
On issue at beginning of year	28 249 359 700	28 249 359 700
On issue at end of year, fully paid	28 249 359 700	28 249 359 700
Weighted average number of shares	**28 249 359 700**	**28 249 359 700**

23 Trade and other payables

	31 December 2007 '000 RUR	**31 December 2006 '000 RUR**
Accounts payable – trade	8 242 210	4 698 532
Advances received	15 289 050	4 415 153
Other payables and accrued expenses	256 435	129 777
	23 787 695	**9 243 462**

24 Other taxes payable

	31 December 2007 '000 RUR	**31 December 2006 '000 RUR**
Employee taxes	40 245	31 448
Property tax	39 755	22 707
Other taxes	16 517	14 852
Value added tax	3 472	3 602
	99 989	**72 609**

25 Financial instruments and financial risks

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

’000 RUR	**2007**	**2006**
Trade and other receivables	1 710 694	2 011 617
Bank deposits	2 857 216	-
Cash and cash equivalents	4 790 726	2 021 925
	9 358 636	**4 033 542**

At the balance sheet date there was a significant concentration of credit risk in respect of amounts receivable from single customer. The total amount receivable from a single customer was RUR 997 796 thousand or 58% of trade and other receivables.

Impairment losses

The aging of receivables at the reporting date was as follows:

’000 RUR	**Gross 2007**	**Impairment 2007**	**Gross 2006**	**Impairment 2006**
Not past due	1 710 694	-	2 011 617	-
More than one year	69 295	69 295	49 706	49 706
	1 779 989	**69 295**	**2 061 323**	**49 706**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2007 ’000 RUR	**2006 ’000 RUR**
Balance at 1 January	49 706	49 937
Impairment loss reversed	(14 292)	(231)
Impairment loss recognised	33 881	-
Balance at 31 December	**69 295**	**49 706**

The impairment loss at 31 December 2007 of RUR 69 295 thousand relates to contractors from which no payment was received during the year.

Based on past experience and analysis performed by the credit department, Group management believes that no impairment allowance is necessary in respect of accounts receivable not past due because the customers to which these balances relate have a good credit history.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments and the impact of netting agreements:

2007 ’000 RUR	**Average interest rate Contract**	**Effective**	**0-6 months**	**6-12 months**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Liabilities							
Unsecured bonds*	8.05%	8.05%	146 885	-	6 000 000	-	6 146 885
Promissory notes*	-	11.7%	-	-	230 035	-	230 035
Promissory notes*	9.00%	9.00%	276 733	264 358	4 515 855	-	5 056 946
Unsecured borrowings:	9.00%**	9.00%	-	3 509 493	-	-	3 509 493

Unsecured borrowings:	10.25%**	10.25%	-	3 509 254	-	-	3 509 254
Unsecured bonds*	9.03%	9.03%	131 460	-	3 000 000	-	3 131 460
Finance lease liabilities*:	-	12.24%	-	2 078 812	6 844 547	208 994	9 132 353
			555 078	9 361 917	20 590 437	208 994	30 716 426

2006	**Average interest rate**				**Between**		
’000 RUR	**Contract**	**Effective**	**0-6 months**	**6-12 months**	**1 and 5 years**	**More than 5 years**	**Total**
Liabilities							
Unsecured bonds*	8.05%	8.05%	-	145 562	6 000 000	-	6 145 562
Promissory notes*	0%	11.70%	-	-	204 979	-	204 979
Finance lease liabilities*	-	12.12%	-	314 637	765 521	10	1 080 168
			-	460 199	6 970 500	10	7 430 709

* Fixed rate

** In accordance with the loan agreement the interest rate may be varied by the bank. During the year the interest rates were as indicated in the table above.

(c) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was:

	Carrying amount	
’000 RUR	**2007**	**2006**
Fixed rate instruments		
Financial assets	7 647 942	2 021 925
Financial liabilities	(23 697 679)	(7 430 709)
Variable rate instruments		
Financial liabilities	(7 018 747)	-

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		**Equity**	
'000 RUR	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2007				
Variable rate instruments	10.6%	8.6%	10.6%	8.6%
Cash flow sensitivity (net)	(70 187)	70 187	(70 187)	70 187
2006				
Variable rate instruments	-	-	-	-
Cash flow sensitivity (net)	-	-	-	-

(d) Fair values

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

26 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2007	**2006**
	'000 RUR	**'000 RUR**
Less than one year	116 040	103 072
Between one and five years	267 008	329 232
More than five years	1 442 786	2 281 447
	1 825 834	**2 713 751**

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

The plots of land leased by the Group are the areas where the Group's electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

27 Commitments

Sales commitments. The Group has entered into contracts to carry out electricity transmission services to OJSC "Mosenergosbyt" for RUR 47 544 000 thousand (without VAT), to LLC "Rusenergosbyt" for RUR 1 473 000 thousand (without VAT), to LLC "Rusenergosbyt M" for RUR 132 000 thousand (without VAT) and to other companies for RUR 4 002 000 thousand (without VAT) in 2008 year.

The Group has entered into contracts to carry out connection to the electricity network for RUR 4 796 000 thousand in 2008 (RUR 2 399 000 thousand in 2007).

Capital commitments. Future capital expenditures for which contracts have been signed as at 31 December 2007 amount to RUR 42 039 000 thousand. In addition, the Group has entered into a finance lease agreement for the items of property, plant and equipment in amount of RUR 6 570 000 thousand.

28 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

(b) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group’s operating results, except as described in Note 21.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29 Related party transactions

(a) Control relationships

The Company's parent is RAO UES of Russia. The party with ultimate control over the Company is the Russian Federation, which holds the majority of the voting rights of RAO UES.

(b) Transactions with management and close family members

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

(i) Management remuneration

Total remuneration in the form of bonuses paid to the members of the Board of Directors for the year ended 31 December 2007 was RUR 38 078 thousand (in 2006 – RUR 2 274 thousand).

(c) Transactions with other related parties

(i) Revenue

'000 RUR	Transaction value 2007	Outstanding balance 31 December 2007	Transaction value 2006	Outstanding balance 31 December 2006
Electricity transmission:				
Entities under common control of the parent	25 466 662	1 015 927	22 282 966	736 603
Other revenue:				
Entities under common control of the parent	5 817 287	50 621	216 348	296 662
Other state controlled entities	119 893	39 123		
	31 403 842	**1 105 671**	**22 499 314**	**1 033 265**

(ii) Expenses

'000 RUR	Transaction value 2007	Outstanding balance 31 December 2007	Transaction value 2006	Outstanding balance 31 December 2006
Electricity transmission:				
Entities under common control of the parent	(7 831 844)	(220 230)	(3 358 463)	(10 778)
Electricity transmission:				
Other state controlled entities	-	-	(2 730 160)	-
Other expenses:				
Entities under common control of the parent	(326 506)	(127 227)	(909 265)	(370 369)
Other state controlled entities	(1 510 828)	(176 050)	(392 848)	(43 573)
	(9 669 178)	**(523 507)**	**(7 390 736)**	**(424 720)**

Related party revenue for electricity transmission is based on the tariffs determined by the government, other related party transactions are based on normal market prices.

(iii) Advances received

'000 RUR	Outstanding balance 31 December 2007	Outstanding balance 31 December 2006
Entities under common control of the parent	(1 248 967)	-
Other state controlled entities	(2 099 725)	(328 114)
	(3 348 692)	**(328 114)**

(iv) Advances given

'000 RUR	Outstanding balance 31 December 2007	Outstanding balance 31 December 2006
Entities under common control of the parent	205 592	-
Other state controlled entities	127 683	-
	333 275	**-**

All outstanding balances with related parties are to be settled in cash within a year of the balance sheet date. None of the balances are secured.

(v) Loans

'000 RUR	Amount loaned 2007	Outstanding balance 31 December 2007	Amount loaned 2006	Outstanding balance 31 December 2006
Loans received:				
State controlled entities	8 500 000	8 566 200	3 251 829	-
	8 500 000	**8 566 200**	**3 251 829**	**-**

Loans are received under the market interest rate (see Note 25).

(vi) Acquisition of subsidiary

On 28 March 2007 the Company acquired 50 percent of shares in OJSC "Energocentr" for RUR 500 000 thousand from the state controlled entity OJSC "MOITK". On 4 December 2007 OJSC "Energocentr" issued 20 000 ordinary shares with par value of RUR 50 000 per share in amount of RUR 1 000 000 thousand. 50% of these shares were acquired by the Company for RUR 500 000 thousand and the remaining 50% were acquired by OJSC "MOITK" for RUR 500 000 thousand.

30 Events subsequent to the balance sheet date

The restructuring of the Company's internal structure was completed on 1 January 2008. During the restructuring 18 branches which existed at 31 December 2007 were consolidated into 6 branches and the new branch Central electrical networks was created. Service repair enterprises (Moskabel'set'montazh, Moskabel'energoremont, Repair of electrotechnical equipment plant), that have been branches of the Company until 1 January 2008, became subsidiaries of the Company from the beginning of the year.

On 11 March 2008 the Company paid out the third semi annual return on bonds in amount of RUR 240 840 thousand.

On 18 April 2008 the extraordinary shareholders meeting approved the reorganization of OJSC Moskovskaya Ob'edinennaya Electrosetevaya Kompaniya in the form of merger with OJSC Moskovskaya Gorodskaya Electrosetevaya Kompaniya (OJSC MGESK).

On 29 April 2008 OJSC MOESK made a decision to issue up to 20 461 450 000 ordinary shares with par value of RUR 0.5 per share in amount of RUR 10 230 725 000 for the purpose of the merger. In June 2008 OJSC MOESK issued 20 457 731 874 ordinary shares with par value of RUR 0.5 per share. The ordinary shares of OJSC MGESK were converted to additional ordinary shares of OJSC MOESK using the following conversion coefficients: 1.38 shares of OJSC MGESK with par value of RUR 0.2 per share was converted into 1 share of OJSC MOESK with par value of RUR 0.5 per share. The merger was completed on 30 June 2008.

On 21 April 2008 the Group entered into a long-term LIBOR-based credit facility in the international capital market. As at 26 August 2008 the Group utilized USD 150 million out of the total of USD 370 million available under this facility. In order to hedge currency and interest rate risk associated with the facility the Group concluded cross-currency swap agreement.

In May 2008 the Group concluded contracts on the issuance of promissory notes, totalling up to RUR 7,7 billion in the domestic markets.

In June 2008 the Group concluded contracts on the issuance of promissory notes, totalling up to RUR 5,3 billion in the domestic markets.

On 26 June 2008 the Group entered into long-term credit facility agreement with Sberbank for RUR 9,6 billion.

On 1 July 2008 RAO UES of Russia ceased to exist as a separate legal entity and transferred OJSC MOESK shares (50,9%) to OJSC MRSK Holding, a state controlled entity.

On 29 August 2008 the Board of Directors of OJSC MOESK approved the issue of Euro bonds, totalling up to USD 1 billion.