OJSC MOESK

Consolidated Interim Condensed Financial Information for the six months ended 30 June 2007

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Independent Auditors' Report

To the management of OJSC MOESK

Report on Review of the Interim Financial Information

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of OJSC MOESK (the "Company") and its subsidiary (the "Group") as at 30 June 2007, and the related consolidated interim condensed income statement, changes in equity and cash flows for the six month period then ended (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Basis for qualified conclusion

The consolidated interim condensed financial information do not present comparative consolidated interim condensed income statement, changes in equity and cash flows for the six month period ended 30 June 2006 as required by IAS 34, *Interim Financial Reporting*.

Conclusion

Based on our review, except for the omission of the information described in the *"Basis for Qualified Conclusion"*, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2007 and for the six month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

KPMG Limited

KPMG Limited
1 November 2007

KPMG Limited, a company incorporated under the Companies (Guernsey) Law, 1994, and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

	Note	6 months ended 30 June 2007 '000 RUR
Revenue		16,236,039
Operating expenses		(13,273,559)
Other operating income		103,861
Operating income		**3,066,341**
Financial income		25,286
Financial expenses		(555,191)
Income before income tax		**2,536,436**
Income tax expense		(712,105)
Net income for the period		**1,824,331**
Attributable to:		
Shareholders of OJSC MOESK		1,823,022
Minority interest		1,309
Earnings per ordinary share for profit attributable to the shareholders of OJSC MOESK – basic and diluted (in Russian Roubles)		0.0645

The consolidated interim condensed financial information was approved on 1 November 2007:

General Director

Y.I. Trofimov

Chief Accountant

L.A. Sklyarova

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * г.Р. № 1057746555811 * МОСКОВСКАЯ ОБЛАСТЬ * ПОДОЛЬСК * "Московская объединенная электросетевая компания" № 1

The consolidated interim condensed income statement is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 8 to 17 and with the financial statements for the year ended 31 December 2006.

	Note	30 June 2007 '000 RUR	31 December 2006 '000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	5	72,247,186	64,099,033
Other non-current assets		7,423,767	1,959,279
		79,670,953	**66,058,312**
Current assets			
Inventories		1,353,183	1,153,396
Income tax receivable		651,391	724,468
Trade and other receivables		8,125,805	5,051,281
Bank deposits		502,238	-
Cash and cash equivalents		3,668,871	2,021,925
		14,301,488	**8,951,070**
Total assets		**93,972,441**	**75,009,382**
EQUITY AND LIABILITIES			
Equity			
Share capital		14,124,680	14,124,680
Additional paid in capital		22,453,124	22,453,124
Revaluation reserve		8,270,005	8,270,005
Retained earnings		4,964,381	3,141,359
Total equity attributable to the shareholders of OJSC MOESK		**49,812,190**	**47,989,168**
Minority interest		512,136	-
Total equity		**50,324,326**	**47,989,168**
Non-current liabilities			
Loans and borrowings	6	9,799,035	6,970,510
Employee benefits		239,312	320,970
Deferred tax liabilities		9,066,150	9,018,121
Advances received		2,640,335	2,048,931
		21,744,832	**18,358,532**
Current liabilities			
Loans and borrowings	6	5,854,229	460,199
Taxes payable		167,499	72,609
Trade and other payables		15,547,538	7,992,344
Provisions		334,017	136,530
		21,903,283	**8,661,682**
Total equity and liabilities		**93,972,441**	**75,009,382**

The consolidated interim condensed balance sheet is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 8 to 17 and with the financial statements for the year ended 31 December 2006.

	6 months ended 30 June 2007 '000 RUR
OPERATING ACTIVITIES	
Income before income tax	**2,536,436**
Adjustments for:	
Depreciation	2,026,777
Gain on disposal of property, plant and equipment	(60,102)
Provisions	197,487
Financial income	(25,286)
Financial expense	555,191
Bad debt provision	(1,779)
Other non-cash items	(8,895)
Operating profit before changes in working capital	**5,219,829**
Increase in inventories	(201,718)
Increase in trade and other receivables	(1,826,281)
Increase in trade and other payables, advances received	7,444,249
Increase in taxes payable, other than income tax	7,884
Cash flows from operations before income taxes and interest paid	**10,643,963**
Income taxes paid	(587,356)
Cash flows from operating activities	**10,056,607**
INVESTING ACTIVITIES	
Proceeds from disposal of bank deposits	280,000
Interest received	23,048
Acquisition of property, plant and equipment	(10,916,601)
Acquisition of subsidiary, net of cash acquired	(279,578)
Acquisition of bank deposits	(300,000)
Cash flows utilised by investing activities	**(11,193,131)**
FINANCING ACTIVITIES	
Proceeds from borrowings	4,500,000
Payment of finance lease liabilities	(1,176,788)
Interest paid	(539,742)
Cash flows from financing activities	**2,783,470**
Net increase in cash and cash equivalents	**1,646,946**
Cash and cash equivalents at beginning of period	2,021,925
Cash and cash equivalents at end of period	**3,668,871**

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 8 to 17 and with the financial statements for the year ended 31 December 2006.

'000 RUR	Ordinary share capital	Additional paid in capital	Revaluation reserve	Retained earnings	Total	Minority interest	Total equity
At 1 January 2007	**14,124,680**	**22,453,124**	**8,270,005**	**3,141,359**	**47,989,168**	-	**47,989,168**
Net income for the period	-	-	-	1,823,022	**1,823,022**	1,309	**1,824,331**
Acquisition of subsidiary (note 4)	-	-	-	-	-	510,827	**510,827**
At 30 June 2007	**14,124,680**	**22,453,124**	**8,270,005**	**4,964,381**	**49,812,190**	**512,136**	**50,324,326**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 8 to 17 and with the financial statements for the year ended 31 December 2006.

1 Background

(a) Organisation and operations

Open Joint-Stock Company "Moskovskaya Ob'edinennaya Electrosetevaya Kompaniya" (before 14 September 2006 Open Joint-Stock Company "Moskovskaya Oblastnaya 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.

As at 30 June 2007 the Company includes the 18 branches. The list of the branches is stated below:

- Vostochnie electrical networks;
- Ujnie electrical networks;
- Oktyabr'skie electrical networks;
- Zapadnie electrical networks;
- Severnie electrical networks;
- Noginskie electrical networks;
- Podol'skie electrical networks;
- Kolomenskie electrical networks;
- Shaturskie electrical networks;
- Kashirskie electrical networks;
- Mojayskie electrical networks;
- Dmitrovskie electrical networks;
- Volokolamskie electrical networks;
- Visokovol'tnie cable networks;
- Moskabel'set'montaj;
- Moskabel'energoremont;
- Executive office;
- Repair of electrical and technical equipment plant.

The Company business is the natural monopoly which is under pressure and supported by the Russian government. As at 30 June 2007 the Russian Federation owns 52.7% of RAO UES of Russia, which in its turn owns 50.9% of OJSC "MOESK".

In March 2007 the Company acquired 50% of the shares in OJSC "Energocentr" (together referred to as the "Group"), see note 4 for further information.

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.

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

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

(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 interim condensed 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

This consolidated interim condensed financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as of and for the year ended 31 December 2006.

(b) Basis of measurement

The financial information is prepared on the historical cost basis except that financial assets and liabilities, property, plant and equipment are stated at fair value.

(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, revenues and expenses and the disclosure of contingent assets and liabilities to prepare this condensed consolidated interim financial information in conformity with IFRSs. Actual results may differ from those estimates.

The judgements, estimates and assumptions applied by the Group in this condensed consolidated interim financial information are the same as those applied by the Group in its consolidated financial statements as of and for the year ended 31 December 2006.

3 Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial information are the same as those applied by the Group in its consolidated financial statements as of and for the year ended 31 December 2006.

4 Acquisition of subsidiary

In 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 control financial and operating policies of OJSC "Energocentr", stemming from the majority of representatives on the company's Board of Directors. The company constructs transformer substations to decrease the deficit of electrical energy in Moscow and Moscow region. In the three months to 30 June 2007 the subsidiary contributed profit of RUR 2,618 thousand. If the acquisition had occurred on 1 January 2007, management estimates that consolidated profit for the period would have been RUR 1,832,503 thousand. No revenue has been earned by the subsidiary during the 6 months ended 30 June 2007. The majority of the profit generated by OJSC "Energocentr" is attributable to the interest income on bank deposits.

Net assets acquired were assessed on the fair value basis.

The acquisition had the following effect on the Group's assets and liabilities:

'000 RUR	**Recognised values on acquisition**
Property, plant and equipment	261,854
Other non-current assets	865,018
Trade and other receivables	131,998
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	(851,696)
Net identifiable assets and liabilities	**1,021,654**
Minority interest	(510,827)
Negative goodwill on acquisition, recognized in other operating income	(10,827)
Consideration paid, satisfied in cash	500,000
Cash acquired	(220,422)
Net cash outflow	**279,578**

5 Property, plant and equipment

(a) Acquisition and disposals

During the six months ended 30 June 2007 the Group acquired assets with a cost of RUR 11,050,260 thousands, including assets acquired through business combination (see note 4) of RUR 261,854 thousands.

Assets with a carrying amount of RUR 954,708 thousand were disposed of during the six months ended 30 June 2007 resulting in a gain on disposal of RUR 60,102 thousand, which is included in "other operating income".

(b) Capital commitments

During six months ended 30 June 2007 the Group has contracts relating to capital expenditures amounted to RUR 28,160 million, including finance leasing commitments in the amount of RUR 12,680 million.

6 Loans and borrowings

The table below provides summarized financial information about the Group's loans and borrowings as at 30 June 2007.

'000 RUR	Average interest rate				
	Contract	Effective	1-12 months	1 - 5 years	Total
Liabilities					
Unsecured borrowings:					
RUR	8.05%	8.05%	144,238	6,000,000	6,144,238
Unsecured borrowings:					
RUR	0%	11.70%	-	217,146	217,146
Unsecured borrowings:					
RUR	6.5%	6.5%	1,001,781	-	1,001,781
Unsecured borrowings:					
RUR	7%	7%	3,500,671	-	3,500,671
Finance lease liabilities:					
RUR	0%	12.12%	1,207,539	3,581,889	4,789,428
			5,854,229	9,799,035	15,653,264

All borrowings are at fixed rate.

7 Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not hedge its exposure to such risks.

(a) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, loans and deposits with banks and credit exposure to customers, including outstanding receivables.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including industry 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 its financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market position.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date, based on the contractual undiscounted cash flows.

As at 30 June 2007 '000 RUR	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities					
Trade and other payables	15,547,538	15,547,538	15,547,538	-	-
Loans and borrowings	10,863,836	10,904,843	4,646,690	258,153	6,000,000
Finance lease liabilities	4,789,428	6,893,666	2,147,001	4,746,665	-
	31,200,802	**33,346,047**	**22,341,229**	**5,004,818**	**6,000,000**

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 optimising the return on risk.

The analysis of market risk includes analysis of interest rate risk.

(i) ***Interest rate risk***

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rate expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

	Carrying amount As at 30 June 2007 '000 RUR
Fixed rate instruments	
Financial liabilities, including:	
Current loans and borrowings	5,854,229
Non-current loans and borrowings	9,799,035
	15,653,264

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 as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

(d) **Fair values**

The fair values of financial assets and liabilities, together with the nominal amounts shown in the balance sheet, are as follows:

'000 RUR	**Nominal amount As at 30 June 2007**	**Fair value As at 30 June 2007**
Financial assets		
Trade and other receivables and bank deposits	8,628,043	8,628,043
Cash and cash equivalents	3,668,871	3,668,871
Total financial assets	**12,296,914**	**12,296,914**
Financial liabilities		
Loans and borrowings	10,904,843	10,863,836
Trade and other payables	15,547,538	15,547,538
Finance lease liabilities	6,893,666	4,789,428
Total financial liabilities	**33,346,047**	**31,200,802**

Basis for determining fair values

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Trade and other receivables, income tax receivable and bank deposits

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Loans and borrowings

The fair value of loans and borrowings is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Finance lease liabilities

The fair value of finance lease liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Interest rates used for determining fair value

Loans and borrowings are discounted at the rates of 8.05% - 12%. Finance lease liabilities are determined based on the discount rate which is the interest rate implicit in the lease (annual rate is 12.12%).

(e) Capital risk management

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 to equity holders 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 equity holders, return capital to equity holders or issue new shares. The Group defines capital as equity holders' equity.

8 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 Company 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 Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Litigation

The Company 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 Company's operating results.

(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 interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As at 30 June 2007 the management believes that its interpretation of the relevant legislation is appropriate and the Group's tax currency and customs positions will be sustained.

9 Related party transaction

(a) Control relationships

The Group's parent is RAO UES of Russia. The party with ultimate control over the Group 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 salary and bonuses paid to the members of the Board of Directors for the six months ended 30 June 2007 was RUR 1,381 thousand.

(c) Transactions with other related parties

(i) Revenue

'000 RUR	Transaction value 6 months ended 30 June 2007	Outstanding balance 30 June 2007
Electricity transmission		
Entities under common control of the parent	12,635,144	695,231
Other revenues:		
Entities under common control of the parent	7,187	-
	12,642,331	**695,231**

(ii) Expenses

'000 RUR	Transaction value 6 months ended 30 June 2007	Outstanding balance 30 June 2007
Electricity transmission:		
Entities under common control of the parent	3,766,247	148,553
Other expenses:		
Entities under common control of the parent	65,947	240,362
Other state controlled entities	63,804	59,549
	3 895 998	**448 464**

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured. Related party transactions in relation to revenue and expenses are effected on the arm's length basis.

(iii) Advances received

As at 30 June 2007 the Group has advances received form the entities under common control of the parent of RUR 5,174,502 thousand.

(iv) Loans

'000 RUR	Amount loaned 6 months ended 30 June 2007	Outstanding balance 30 June 2007
Loans received:		
State controlled entities	3,500,000	3,500,000
	3,500,000	**3,500,000**

Loans are received under the market interest rate.

(v) ***Acquisition of subsidiary***

In March 2007 the Company acquired 50 percent of shares in OJSC "Energocentr" for RUR 500,000 thousand from the state controlled entity OJSC "MOITK". The net assets of OJSC "Energocentr" as at the date of acquisition were RUR 1,021,654 thousand. Negative goodwill of RUR 10,827 thousand was recognized in the income statement.

10 Events subsequent to the balance sheet date

In July 2007 "Energocentr" issued the loan participation notes, totalling RUR 3 billion in the internal capital markets. The maturity date is 12 July 2010.