

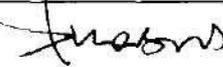
MOSENERGO Group

**Consolidated interim financial statements
(prepared in accordance with IFRS)
for the three and six month periods ended 30 June 2009
(unaudited)**

MOSENERGO Group
Consolidated Interim Statement of Financial Position
(in millions of Russian Roubles)

	Note	30 June 2009 (unaudited)	31 December 2008 (audited)	31 December 2007 (as restated)
ASSETS				
Non-current assets				
Property, plant and equipment	7	190,496	195,307	108,375
Investment property	8	3,018	4,552	2,091
Investments in equity accounted investees	9	6	4	1,246
Advances for acquisition of property, plant and equipment		12,980	10,692	8,582
Other non-current assets	13	731	581	551
Total non-current assets		207,231	211,136	120,845
Current assets				
Inventories	10	4,081	4,446	4,444
Investments	11	12,928	13,485	23,201
Income tax receivable		859	78	41
Trade and other receivables	12	13,113	15,078	10,730
Cash and cash equivalents	14	3,283	3,315	11,161
Other current assets	13	1,465	1,301	1,516
Total current assets		35,729	37,703	51,093
Total assets		242,960	248,839	171,938
EQUITY AND LIABILITIES				
Equity				
	15			
Share capital		166,124	166,124	166,124
Treasury stock		(871)	(899)	-
Share premium		49,213	49,213	49,213
Reserves		87,722	88,600	30,280
Accumulated loss		(114,514)	(117,168)	(120,200)
Total equity		187,674	185,870	125,417
Non-current liabilities				
Non-current borrowings	16	14,208	10,199	129
Deferred tax liabilities	28	25,707	26,108	14,498
Employee benefits	17	549	485	1,279
Other payables	18	143	140	110
Total non-current liabilities		40,607	36,932	16,016
Current liabilities				
Current borrowings and current portion of non-current borrowings	16	2,954	12,500	17,476
Trade and other payables	18	9,579	11,963	10,925
Income tax payable		1	323	478
Other taxes payable	19	1,858	998	611
Provisions	20	287	253	1,015
Total current liabilities		14,679	26,037	30,505
Total liabilities		55,286	62,969	46,521
Total equity and liabilities		242,960	248,839	171,938

General Director

 V.G. Yakovlev

Chief Accountant

 S.A. Surayev

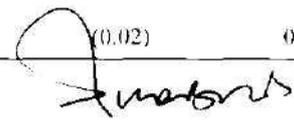
2 October 2009

MOSENERGO Group
Consolidated Interim Statement of Comprehensive Income
(in millions of Russian Roubles)

	Note	Three months ended 30 June 2009 (unaudited)	Three months ended 30 June 2008 (as restated)	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (as restated)
Revenue	21	21,786	17,055	59,689	48,065
Other operating income	26	261	54	288	204
Cost of materials	22	(12,126)	(10,901)	(28,538)	(26,576)
Heat transmission		(2,748)	(1,990)	(10,578)	(8,370)
Depreciation of property, plant and equipment	7	(2,974)	(1,554)	(5,789)	(3,053)
Personnel expenses	24	(2,887)	(2,718)	(5,089)	(5,121)
(Loss)/income from change in fair value of investment property	8	(1,534)	117	(1,534)	(63)
Taxes other than income tax		(716)	(200)	(1,231)	(577)
Other external supplies	23	(499)	(534)	(1,137)	(996)
Maintenance and repairs expenses		(365)	(521)	(851)	(781)
Other operating expenses	25	(533)	(857)	(1,336)	(1,756)
Results from operating activities		(2,335)	(2,049)	3,894	976
Financial income	27	377	407	748	896
Financial expenses	27	(557)	(308)	(1,286)	(628)
Gain on withdrawal from equity investee		32	-	124	-
Share of profit/(loss) of equity accounted investees	9	2	(67)	2	(14)
Profit/(loss) before income tax		(2,481)	(2,017)	3,482	1,230
Income tax (expense)/benefit	28	436	1,041	(834)	(47)
Profit/(loss) for the period		(2,045)	(976)	2,648	1,183
Other comprehensive income:					
Losses recognized directly in equity					
Gain on revaluation of available-for-sale financial assets		34	-	34	-
Loss on revaluation of property, plant and equipment		(1,140)	-	(1,140)	-
Income tax relating to components of other comprehensive income	28	228	-	228	-
Other comprehensive (loss) for the year, net of tax		(878)	-	(878)	-
Total comprehensive income/(loss) for the year		(2,923)	(976)	1,770	1,183
Profit attributable to:					
Equity holders of the company		(2,045)	(976)	2,648	1,183
Total comprehensive income/(loss) attributable to:					
Equity holders of the company		(2,923)	(976)	1,770	1,183
Basic and diluted earnings per share (in Russian Roubles)	29	(0.05)	(0.02)	0.07	0.03

General Director

Chief Accountant




V.G. Yakovlev

S.A. Surayev

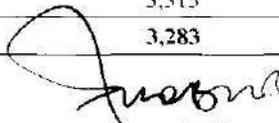
2 October 2009

MOSENERGO Group
Consolidated Interim Statement of Cash Flows
(in millions of Russian Roubles)

	Note	Six months ended 30 June 2009 (unaudited)	Six months ended 30 June 2008 (as restated)
Cash flow from operating activities			
Profit before income tax		3,482	1,230
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	7	5,789	3,053
Loss on disposal of property, plant and equipment	25	63	12
Financial income	27	(748)	(896)
Financial expenses	27	1,286	628
Share of (profit)/loss of equity accounted investee	9	(2)	14
Trade and other receivables impairment (gain)/loss	25	(13)	452
Change in provisions	20	34	(15)
Gain on withdrawal from equity investee		(124)	-
Loss from change in fair value of investment property	8	1,534	63
Other non-cash items		8	59
Operating profit before changes in working capital and provisions		11,309	4,600
Change in inventories		361	208
Change in trade and other receivables		1,659	2,326
Change in restricted cash and cash equivalents		(1)	(21)
Change in trade and other payables		(2,345)	(2,413)
Change in taxes payables, other than income tax		860	97
Change in employee benefits		31	(147)
Cash flows from operations before income tax and interest paid		11,874	4,650
Income tax paid		(2,110)	(2,069)
Interest paid		(1,177)	(527)
Cash flows from operating activities		8,587	2,054
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		3	29
Proceeds from disposal of investments		570	20,966
Proceeds from withdrawal from equity investee		973	-
Interest received		171	264
Dividends received		-	171
Acquisition of property, plant and equipment		(4,370)	(12,057)
Acquisition of investments		(13)	(13,580)
Interest paid and capitalized	7	(385)	(212)
Cash flows from investing activities		(3,051)	(4,419)
Cash flows from financing activities			
Proceeds from borrowings		2,750	-
Repayment of borrowings		(8,352)	(656)
Proceeds from sale of treasury stock		34	-
Buy-out of own shares		-	(969)
Cash flows from financing activities		(5,568)	(1,625)
Net (decrease) in cash and cash equivalents		(32)	(3,990)
Cash and cash equivalents at the beginning of the period	14	3,315	11,161
Cash and cash equivalents at the end of the period	14	3,283	7,171

General Director

Chief Accountant

 V.G. Yakovlev
 S.A. Suraev

2 October 2009

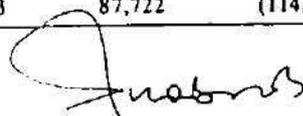
MOSENERGO Group
Consolidated Interim Statement of Changes in Equity
(in millions of Russian Roubles)

Attributable to owners of OJSC Mosenergo

	Note	Share capital	Treasury stock	Share premium	Reserves (as restated)	Accumulated loss (as restated)	Total
Balance at 31 December 2007 as previously reported		166,124	-	49,213	37,534	(117,211)	135,660
Correction of prior period errors	3	-	-	-	(7,254)	(2,989)	(10,243)
Balance at 1 January 2008		166,124	-	49,213	30,280	(120,200)	125,417
Profit for the period		-	-	-	-	1,183	1,183
Total comprehensive income for the period		-	-	-	-	1,183	1,183
Purchase of treasury stock	15	-	(969)	-	-	969	-
Balance at 30 June 2008		166,124	(969)	49,213	30,280	(118,048)	126,600
Balance at 1 January 2009		166,124	(899)	49,213	88,600	(117,168)	185,870
Profit for the period		-	-	-	-	2,648	2,648
Other comprehensive income for the period:							
Revaluation of property, plant and equipment		-	-	-	(912)	-	(912)
Revaluation of available-for-sale financial assets		-	-	-	34	-	34
Total comprehensive income for the period		-	-	-	(878)	2,648	1,770
Sale of treasury stock	15	-	28	-	-	6	34
Balance at 30 June 2009		166,124	(871)	49,213	87,722	(114,514)	187,674

General Director

Chief Accountant





V.G. Yakovlev

S.A. Suracv

2 October 2009

Note 1. The Group and its operations

(a) Organization and operations

The Open Joint Stock Company Mosenergo (the “Company”) and its subsidiaries (together referred as the “Group” or the “Mosenergo Group”) are primarily involved in generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group’s power and heat generation base includes 15 power stations with operational capacity approximately 11,900 megawatts (“MW”) and 34,900 gigacalories (“Gkal”) of electricity and heat capacity, respectively.

The Company was registered under the legislation of the Russian Federation on 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatization process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation .

The Company’s registered office is located at 8, Raushskaya Naberezhnaya, Moscow, 115035, Russian Federation.

(b) Group formation

On 1 April 2005, the Company was reorganized by means of a spin-off following the reorganization of the Russian electricity sector aimed to introduce competition into the electricity market and enable the companies in the electricity sector to maintain and further expand production capacity. The Company’s restructuring was approved by general shareholder’s meeting on 28 June 2004. Before the restructuring took place the Company operated as an integrated utility and its activities included generation, transmission and distribution. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company’s shares held by them prior to spin-off.

A general shareholders’ meeting held on 20 December 2006 approved a closed subscription for the additional shares issued in favour of OJSC Gazprom and its affiliates (together referred as the “Gazprom Group”). As a result, the majority shareholder of OJSC Mosenergo changed from RAO UES of Russia to Gazprom Group holding 53.47% of ordinary shares. Following the reorganization process, an extraordinary general shareholder’s meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including OJSC Mosenergo, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of a share conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganization. Accordingly, upon the spin-off from RAO UES of Russia OJSC Mosenergo Holding (the “Mosenergo Holding”) received the stake in OJSC Mosenergo held by RAO UES of Russia. Simultaneously Mosenergo Holding was merged with the Company and its shares were converted into the Company’s shares.

In February 2009, the Company’s Board of Directors approved a program to improve the Company’s organisational structure, which is aimed to concentrate production resources, optimize the labour capacity and supply chain. Organisational structure optimisation included the merge of several production branches situated geographically close to each other, reallocation and outsourcing of non-core functions.

In April 2009 OJSC Gazprom transferred its 53.47% share in the Company to its 100% subsidiary LLC Gazprom energoholding (previously - LLC Gazoenergeticheskaya Kompaniya) which became the parent company of OJSC Mosenergo.

(c) Business environment

The country 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. In addition, the recent contraction in the capital and credit markets (commonly know as the ‘credit crunch’) has further increased the level of economic uncertainty in the environment. Presently, the primary impact of the credit crunch on the Group has been the lack of liquidity in the markets which has lead the Group to curtail its investment plans in the short term. Additionally, a long drawn out impact of the credit crunch could impact the recoverability of the Group’s current assets such as receivables; although that is not the case at this point in time. The financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC Gazprom, which held 53.47% of the Company through its 100% subsidiary LLC Gazprom Energoholding (immediate parent company). Thus the OJSC Gazprom is the ultimate parent company of the Group and Russian Federation is the ultimate controlling party of the Group.

MOSENERGO Group
Notes to Consolidated Interim Financial Statements
(in millions of Russian Roubles)

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Service on Tariffs (the "FST") and the Regional Energy Commissions of Moscow and Moscow region (the "RECs"), respectively. OJSC "System Operator - Central Dispatch Unit of Unified Energy System" (the "SO - CDU UES"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base and suppliers' chain includes a large number of entities controlled by or related to the Russian Federation.

As described in Note 6 and Note 32, the government's economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

Following the restructuring of the Russian electric utility sector aimed to introduce competition to the electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the "NOREM"), approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006, were adopted. Under this new framework, electricity and power purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and power produced and consumed.

Starting 2007, the volumes of electricity and power traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and power supplied at regulated prices will gradually decrease.

The period from 2006 to 2011 is considered as a transitional period. Upon the termination of the transitional period, the organization of a competitive market for electricity market will be completed.

Electricity volumes produced, not covered by the regulated contracts, are traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

The introduction of the new wholesale market also covers capacity trading. Before launching, suppliers were paid for 75% of installed capacity at a flat-rate tariff. The new rules result in separate tariffs for electricity and capacity. Capacity tariffs are planned to be established at levels sufficient to maintain generation facilities of producers.

Note 2. Basis of preparation

(a) Statement of compliance

These Consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment and investment property are revalued periodically; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR), which is the functional currency of each of the Group's consolidated entity. All financial information presented in RR has been rounded to the nearest million.

(d) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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 that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 7 – Property, plant and equipment;
- Note 8 – Investment property;
- Note 17 – Employee benefits;
- Note 20 – Provisions.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Restatement and reclassification of comparatives

Through 31 December 2007 the Group had considered all its power - heat stations as a single cash generating unit. During 2008 management critically reassessed that assumption and noted that the operations and cash flows of the business have been regularly reviewed on a station by station basis by the Management Committee of the Board of Directors of the Company. Resultantly, it is management's view that the appropriate cash generating unit for the Group has always been an individual power - heat station and that the 31 December 2007 financial statements should be restated to give effect to such.

This restatement reduced opening retained earnings at 1 January 2007 by RR 4,522 million as certain power / heat stations have been economically impaired for some time and such impairment was not reflected previously as they were aggregated with all other Group's stations. The reassessment of cash generating units also resulted in the reversal of the portion of the revaluation surplus reported in 2007 of RR 6,473 million (net of deferred tax) and in the reduction of the depreciation charge in the consolidated income statement for year 2007 in the amount of RR 1,100 million. In the consolidated statement of changes in equity, correction of prior period errors in the opening balance of retained earnings at 1 January 2007 in the total amount of RR 3,568 million (net of deferred tax) is consisted of decrease by RR 4,522 million (as mentioned above) and increase by RR 173 million and RR 781 million (see items 3 and 6 below).

Also as a result of restatement the balance of retained earnings at 1 January 2008 was reduced by RR 2,989 million (net of deferred tax). This composed of abovementioned correction related to cash generating units' of RR 3,687 million and other less material matters which are noted below in amount of RR 698 million. The reassessment of cash generating units also resulted in the reversal of the portion of the revaluation surplus at 1 January 2008 in amount of RR 6,473 million (net of deferred tax) and other corrections in amount of RR 781 million.

The impact of these matters on financial year ended 31 December 2007 and the six months ended 30 June 2008 financial statements is presented below. Note that such financial statements were also restated for some other, less material, matters which are noted below.

Also presentation of comparatives in the Consolidated interim statement of comprehensive income has been revised to present more detailed classification of expenses based on their nature to provide the users of the financial statements with more relevant information about the financial performance of the Group. In addition, certain comparative amounts in Consolidated statement of financial position have been reclassified to conform to the current period's presentation

MOSENERGO Group
Notes to Consolidated Interim Financial Statements
(in millions of Russian Roubles)

(i) Effect of restatement as at 31 December 2007

Consolidated statement of financial position

The following are the Consolidated statement of financial position captions as at 31 December 2007 as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Items	Changes due to reclassification	As adjusted
Property, plant and equipment	131,036	1, 2	(14,172)	11	(8,489)	108,375
Investment property	1,288	2	803	-	-	2,091
Advances for acquisition of PPE	-	-	(81)	11,12	8,663	8,582
Other non-current assets	347	3	225	11,12	(21)	551
Trade and other receivables	11,566	4	163	11,14	(999)	10,730
Investments	15,201	-	-	13	8,000	23,201
Cash and cash equivalents	11,136	-	-	-	25	11,161
Other current assets	8,720	-	-	11,13,14	(7,204)	1,516
Total assets	185,025		(13,062)		(25)	171,938
Reserves	37,534	5, 6	(7,254)	-	-	30,280
Accumulated loss	(117,211)	7	(2,989)	-	-	(120,200)
Deferred tax liabilities	17,427	8	(2,929)	-	-	14,498
Trade and other payables	10,950	-	-	-	(25)	10,925
Other payables	-	9	110	-	-	110
Total equity and liabilities	185,025		(13,062)		(25)	171,938

Consolidated statement of comprehensive income

The following are the Consolidated statement of comprehensive income captions for the year ended 31 December 2007 as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Items	Changes due to reclassification	As adjusted
Revenue	78,598	-	-	15	(274)	78,324
Income from change in fair value of investment property	-	10	278	-	-	278
Other operating income	82	-	-	15	274	356
Cost of materials	(41,702)	-	11	-	-	(41,691)
Personnel expenses	(7,993)	9	(167)	-	-	(8,160)
Depreciation of property, plant and equipment	(6,725)	1	1,100	-	-	(5,625)
Other operating expenses	(3,602)	3, 4	(123)	-	-	(3,725)
Finance income	1,482	9	58	-	55	1,595
Finance costs	(366)	-	-	-	(55)	(421)
Income tax expense	(657)	1, 3, 4, 8,	(365)	-	-	(1,022)
Profit for the year	837		790		-	1,627

The following are main explanations of the corrections and reclassifications made:

- Item 1* Decrease in property, plant and equipment in total amount of RR 13,368 million is due to reduction concurrent with adjustment at 1 January 2007 discussed above offset by reduced depreciation in amount of RR 1,100 million;
- Item 2* Decrease in property, plant and equipment in amount of RR 803 million is due to correction of an error to properly account for certain items of property, plant and equipment as investment property;
- Item 3* Increase in other non-current assets in amount of RR 225 million is due to improper written-off of biological and intangible assets with adjustment to increase opening retained earnings at 1 January 2007 in amount of RR 173 million;
- Item 4* Increase in trade and other receivables in amount of RR 163 million are due to correction of an error caused by improper calculation of bad debt provision;

MOSENERGO Group
Notes to Consolidated Interim Financial Statements
(in millions of Russian Roubles)

- Item 5* Decrease in revaluation surplus in amount of RR 6,473 million is due to correction of property, plant and equipment valuation of above mentioned item in amount of RR 8,517 million net of related deferred tax in amount of RR 2,044 million;
- Item 6* Decrease in revaluation surplus in amount of RR 781 million is due to correction of an error to properly account of revaluation of investment property mentioned above items in amount RR 1,027 million net of related deferred tax in amount of RR 246 million. This also resulted in the increase in the opening retained earnings at 1 January 2007 by RR 781 million;
- Item 7* Increase in accumulated deficit in amount of RR 2,989 million is due to correction of property, plant and equipment valuation above mentioned item in amount of RR 3,687 million, correction of revaluation result from investment property in amount of RR 781 million and impact of RR 83 million as a result of other items;
- Item 8* Decrease in deferred tax liability in amount of RR 2,928 million is due to correction of an error caused by improper recognition of deferred tax asset in respect of the reserve for buy-out of own shares in amount of RR 233 million, deferred tax impact of RR 3,208 million as a result of correction of property, plant and equipment valuation above mentioned items and impact of deferred tax of other items in amount RR 47 million;
- Item 9* Increase in other payables in amount of RR 110 million is due to correction of an error caused by unrecognised in previous interest payables for mortgages of Group employees in amount RR 167 million net of discount in amount RR 58 million;
- Item 10* Increase in income on change in fair value of investment property in amount RR 278 million is due to correction of an error to properly account for revaluation result from investment property recognized directly to equity as result in profit or loss;
- Item 11* Advances given to the suppliers of equipment and capital construction contractors, were reclassified from "Property, plant and equipment" to "Advances for acquisition of property, plant and equipment" in amount of RR 8,489 million with corresponding VAT in amount of RR 1,095 million being reclassified to "Other current assets" in amount RR 879 million and to "Other non-current assets" in amount RR 216 million;
- Item 12* Advances given under the financial lease contracts were reclassified from "Other non-current assets" to "Advances for acquisition of property, plant and equipment" in amount of RR 174 million with corresponding VAT in amount of RR 31 million being reclassified to "Other current assets";
- Item 13* Deposits placed in banks were reclassified from "Other current assets" to "Investments" in amount of RR 8,000 million;
- Item 14* VAT on advances received related to operational activity of the Group were reclassified from "Other current assets" to "Trade and other receivables" in amount of RR 114 million;
- Item 15* Subsidies on difference in tariffs for sales to the urban population were reclassified from "Revenue" to "Other operating income" in amount RR 274 million.

As result of restatement earning per share at 31 December 2007 changed from RR 0,02 to 0,05 million.

(ii) Effect of restatement as at 30 June 2008

Consolidated interim statement of financial position

The following are the Consolidated interim statement of financial position captions as at 30 June 2008 as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Items	Changes due to reclassification	As adjusted
Property, plant and equipment	139,618	1, 2,5	(13,924)	11	(8,850)	116,844
Investment property	1,225	2	803	-	-	2,028
Advances for acquisition of PPE	-	-	(81)	11,12	9,586	9,505
Other non-current assets	395	3	253	11,12	129	777
Inventory	4,077	4	102	-	-	4,179
Trade and other receivables	9,813	-	55	11,14	(1,298)	8,570
Investments	13,815	-	-	13	2,000	15,815
Cash and cash equivalents	7,146	-	-	-	25	7,171
Other current assets	2,711	-	-	11,13,143	(1,617)	1,094
Total assets	181,851		(12,792)		(25)	169,034
Reserves	37,534	6,7	(7,254)	-	-	30,280
Accumulated loss	(115,478)	8	(2,570)	-	-	(118,048)
Trade and other payables	8,510	-	-	-	(25)	8,485
Other payables	-	10	135	-	-	135
Deferred tax liabilities	17,876	9	(3,103)	-	-	14,773
Total equity and liabilities	181,851		(12,792)		(25)	169,034

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Consolidated interim statement of comprehensive income

The following are the Consolidated interim statement of comprehensive income captions for the six months ended 30 June 2008 as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Items	Changes due to reclassification	As adjusted
Other operating income	316	-	-	-	(112)	204
Cost of materials	(26,705)	-	129	-	-	(26,576)
Personnel expenses	(4,969)	-	(152)	-	-	(5,121)
Depreciation of property, plant and equipment	(3,379)	1	326	-	-	(3,053)
Other operating expenses	(1,896)	-	28	-	112	(1,756)
Finance income	883	-	7	-	6	896
Finance costs	(529)	5	(93)	-	(6)	(628)
Income tax expense	(221)	1, 3, 4, 10	174	-	-	(47)
Profit for the period	764		419			1,183

The following are main explanations of the corrections and reclassifications made:

- Item 1* Decrease in property, plant and equipment in total amount of RR 13,042 million is due to reduction concurrent with adjustment discussed above in amount of RR 13,368 million offset by reduced depreciation for the six months ended 30 June 2008 in amount of RR 326 million.
- Item 2* Decrease in property, plant and equipment in amount of RR 803 million is due to correction of an error to properly account for certain items of property, plant and equipment as investment property;
- Item 3* Increase in other non-current assets in amount of RR 253 million is due to improper written-off of biological and intangible assets;
- Item 4* Increase in inventories in amount of RR 102 million is due to recovery of earlier written off WIP expenses;
- Item 5* Increase in finance costs of RR 93 million is mainly due to decrease in amount of capitalized interest of RR 79 million caused by change in method of capitalized interest calculation.
- Item 6* Decrease in revaluation surplus in amount of RR 6,473 million is due to correction of property, plant and equipment valuation of above mentioned item in amount of RR 8,517 million net of related deferred tax in amount of RR 2,044 million;
- Item 7* Decrease in revaluation surplus in amount of RR 781 million is due to correction of an error to properly account of revaluation of investment property mentioned above items in amount RR 1,027 million net of related deferred tax in amount of RR 246 million;
- Item 8* Increase in accumulated deficit in amount of RR 2,570 million is due to correction of property, plant and equipment valuation above mentioned item in amount of RR 3,439 million, correction of revaluation result from investment property in amount of RR 781 million and impact of RR 88 million as a result of other items;
- Item 9* Decrease in deferred tax liability in amount of RR 3,103 million is due to deferred tax impact of RR 3,130 million as a result of correction of property, plant and equipment valuation above mentioned items and impact of deferred tax of other items in amount RR 27 million;
- Item 10* Increase in other payables in amount of RR 135 million is due to correction of an error caused by unrecognized in previous interest payables for mortgages of Group employees;
- Item 11* Advances given to the suppliers of equipment and capital construction contractors, were reclassified from "Property, plant and equipment" and "Trade and other receivables" to "Advances for acquisition of property, plant and equipment" in amount of RR 8,850 million and RR 520 million, respectively, with corresponding VAT in amount of RR 782 million being reclassified from "Trade and other receivables" to "Other current assets" in amount of 499 RR million and to "Other non-current assets" in amount RR 284 million;
- Item 12* Advances given under the financial lease contracts were reclassified from "Other non-current assets" to "Advances for acquisition of property, plant and equipment" in amount of RR 216 million;
- Item 13* Deposits placed in banks were reclassified from "Other current assets in amount of RR 2,000 million to "Held to Maturity Investments";
- Item 14* VAT on advances received related to operational activity of the Group were reclassified from "Other current assets" to "Trade and other receivables" in amount of RR 114 million.

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As result of restatement earning per share at 30 June 2008 changed from RR 0,02 to 0,03 million.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(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.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, 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. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise of cash balances and call deposits. 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.

Loans and receivables consist of financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gain or losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury stock)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(e) Property, plant and equipment

(i) Recognition and measurement

Until 31 December 2006, items of property, plant and equipment, except for land, were measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 31 December 1997, the date of transition to IFRSs, was determined by reference to its fair value at that date and subsequently restated to take into account the impact of inflation until 31 December 2002.

The Group changed its accounting policy to revaluing its property, plant and equipment starting from 1 January 2007 as management believes that it would provide the users of the financial statements with more relevant information about the financial position of the Group.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the statement of financial position date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to equity under the heading revaluation reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to equity to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are charged directly to equity.

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset.

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 “other operating expenses” in profit or loss. The revaluation surplus is not transferred from reserve when the assets are disposed.

(ii) Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognized in the revaluation reserve directly in equity. Any loss is recognized in the revaluation reserve directly in equity to the extent that an amount is included in equity relating to a specific property, with any remaining loss recognized immediately in profit or loss.

(iii) 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 Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss 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 unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Depreciation of an asset begins when it is available for use.

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Depreciation methods, useful lives and residual values are reviewed at each reporting date.

As part of revaluation at 31 December 2008 estimates in respect of useful lives of certain classes of property, plant and equipment were revised for the year 2009 and were as follows:

- | | |
|-------------------------------|-------------|
| • Buildings and constructions | 20-60 years |
| • Plant and equipment | 10-30 years |
| • Transmission networks | 5-30 years |
| • Other | 1-15 years |

The estimated useful lives of certain items of buildings and constructions changed from 75 to 60 years effective starting from 1 January 2009 due to change in estimated useful life determination based on technical characteristics of items to determination based on economical characteristics of items' usage.

(f) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortisation

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 7 years.

(g) Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognized in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(h) 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.

(i) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) 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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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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 profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, 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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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 amortization, if no impairment loss had been recognised.

(k) 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 are recognised as an employee benefit expense in profit or loss when they are due.

(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. 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 Russian government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss 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 profit or loss.

(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 Russian 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.

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(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(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.

(l) 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.

(m) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-makers. The Chief operating decision-makers are responsible for allocating resources and assessing performance of the operating segments, has been identified as a combination of the Board of Directors and Chief Executive Officer who are jointly make strategic decisions.

(n) Revenues

(i) Goods sold

Revenues from sales of electricity and heat are recognised when electricity and heat are supplied to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(o) Government subsidies

Government subsidies are assistance by government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Company.

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the subsidy. Subsidies that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate the Company for the cost of an asset are recognised in the statement of comprehensive income on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognized on profit or loss when subsidy becomes receivable.

(p) Lease payments

Payments made under operating leases are recognised in profit or loss 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.

(q) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method, except for the interest capitalized.

Foreign currency gains and losses are reported on gross basis.

(r) 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 period, 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 statement of financial position 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 or loss, and differences relating to investments in subsidiaries and associates 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 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 liabilities and assets, 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 the 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.

(s) Earnings per share

The Group presents basic and diluted 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(t) New Standards and Interpretations

(i) The following new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2009, and have not been applied in preparing these consolidated interim financial statements. The Group plans to adopt these pronouncements when they become effective.

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated interim financial statements.
- Amendment to IAS 39 *Financial Instruments: Recognition and – Measurement Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 financial statements, with retrospective application required is not expected to have a significant impact on the consolidated interim financial statements.
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be

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recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity. The amendments are not expected to have a significant impact on the consolidated interim financial statements.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009 is not expected to have significant impact on consolidated interim financial statements.
 - IFRIC 18 *Transfers of Assets from Customers* applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. It did not have significant impact on consolidated financial statements. IFRIC 18 did not have a significant impact on the consolidated financial statements.
 - Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.
- (ii) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which became mandatory for the Group's 2009 consolidated interim financial statements did not have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
 - Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The amendments to IAS 23 which became mandatory for the Group's 2009 consolidated interim financial statements with earlier application permitted did not have a significant impact on the consolidated financial statements as were already adopted by the Group.
 - Amendments to IAS 32 *Financial instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which became mandatory for the Group's 2009 financial statements, with retrospective application required, did not have a significant impact on the consolidated interim financial statements.

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- Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* published in May 2008 simplifies the first-time preparation of separate financial statements under IFRS. Amendments in particular are applied to the initial measurement of the cost of subsidiaries, jointly controlled entities and associates using either the fair value or the carrying amount under the previous accounting practice. The separation of the earnings “before” and “after” the acquisition is eliminated by removing the definition of the cost method from IAS 27. Revised IAS 27 requires that all dividends should be presented as income. The amendments, which became mandatory for the Group’s 2009 financial statements, did not have a significant impact on the consolidated interim financial statements.
- Revised IFRS 1 *First-time adoption of International Financial Reporting Standards* published in November 2008 which simplifies its application shall be applied by the entity if its first IFRS financial statements are for a period beginning on or after 1 January 2009 with earlier application permitted. Revised standard is not applicable to the consolidated interim financial statements.
- Amendment to IFRS 2 *Share-based Payment – Vesting conditions and cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 became mandatory for the Group’s 2009 financial statements, with retrospective application required, did not have a significant impact on the consolidated interim financial statements.
- IFRS 8 *Operating Segments (effective for annual periods beginning on or after 1 January 2009)*. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.
- Amendments to IFRIC 9 and IAS 39 became mandatory for annual periods ending on or after 30 June 2009. The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives are assessed and, if necessary, separately accounted for. The amendments did not have a significant impact on the consolidated interim financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group’s 2009 financial statements, did not have a significant impact on the consolidated interim financial statements.
- IFRIC 15 *Agreements for the Construction of Real Estate* addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which became mandatory for the Group’s 2009 financial statements, did not have a significant impact on the consolidated interim financial statements.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. became mandatory for the Group’s 2009 financial statements). IFRIC 16 did not have a significant impact on the consolidated interim financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology

or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have any material effect on the consolidated interim financial statements.

- Improving Disclosures about Financial Instruments - Amendment to IFRS 7 *Financial Instruments: Disclosures* (issued in March 2009) which became effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The amendments did not have any material effect on the consolidated interim financial statements.

Note 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment and investment property

The fair value of property, plants and equipment and investment property is determined either using market approach, cost approach or income approach.

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined applying depreciated replacement cost method or income approach. The depreciated replacement cost method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Under the income approach, the values of the property are delivered from the present value of future cash flows expected to be derived from the use and eventual sale of the property.

(b) Investments in equity and debt securities

The fair values of available-for-sale financial assets are determined by reference to their quoted closing bid price at the reporting date.

(c) Trade and other receivables

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.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, 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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 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.

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The General Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and oversees the Group's risk management framework and control environment mitigating those risks. The Audit Committee as part of Board of Directors evaluates the internal controls system effectiveness. The Group's Audit Committee is assisted in its oversight role by the Director of Internal Audit, who oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Direction of Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by several departments of the Company. Credit risk is considered by the Department on Account and Analysis of Financial Risks. Liquidity risk is addressed by the Treasury Department and the Department on Budgeting and Managerial Accounting. These departments are accountable to the Deputy General Director on Finance and Budgeting who supervises and coordinates the work of the risk management system.

The Group's risk management policies are summarized in the Company's inner Regulations on Risk Management which are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The procedures carried out in relation to the Company's risk analysis include examination of the customers reliability, analysis of bank guarantees for prepayments given to suppliers, bank currency position analysis, sensitivity analysis of exchange and interest rates for borrowings, budget implementation analysis etc.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive internal control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in the city of Moscow and Moscow Region as most of sales are made in this area. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding history of settlements with these customers. The Group constantly analyzes accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the clients of the Group for the period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, day-ahead market or the balancing market. Individual terms can be stipulated in free bilateral contracts for electricity (capacity). Special conditions are envisaged by the Russian legislation on Power industry for some heat consumers such as state companies, housing organizations and entities, which may not be limited or refused of energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from a single customer are established. Gradually the Group plans to switch to 100% prepayment approach when the transitional period from regulated to free bilateral selling contracts will be completed.

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups, which are current, overdue, long-term, doubtful and irrecoverable accounts receivable. As early as an account receivable is classified as current measures are taken on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

The Group's policy does not stipulate providing any financial guarantees for customers.

(iii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least BBB- from Moody's and BBB from Fitch Ratings, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(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, as far as possible, that it will always have sufficient liquidity to meet its

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liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The liquidity risk management is performed on three different levels. Long-term policies are incorporated in the overall financial model of the Company. Middle-term monitoring is fulfilled during the quarterly and monthly planning of the Group's budgets. Short-term actions include planning and control of daily cash receipts and payments of the Company.

Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

(d) 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 its holdings 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) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are Euro, USD and Swiss Francs (CHF).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's policy in respect of mitigating currency risk includes minimizing share of borrowings in foreign currencies comparing to total credit portfolio, which is 0.5% as at the period end. To minimize currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks by means of corresponding derivatives in the future.

(ii) Interest rate risk

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.

The Group constantly analyses dynamics of variable interest rates. To minimize interest rate risk the Group prepares budgets taking into account possible changes of interest rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks using corresponding derivatives in future.

(e) Capital 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 for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board'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. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

Consistent with other companies of the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the Consolidated statement of financial position, less cash. Total capital is calculated as equity, as shown in the Consolidated statement of financial position, plus the net debt.

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The gearing ratios at 30 June 2009, at 31 December 2008 and 31 December 2007 were as follows:

	30 June 2009	31 December 2008	31 December 2007
Total borrowings (Note 16)	(17,162)	(22,699)	(17,605)
Cash and cash equivalents (Note 14)	3,283	3,315	11,161
Net debt	(13,879)	(19,384)	(6,444)
Total equity (Note 15)	(187,674)	(185,870)	(125,417)
Total capital	(201,553)	(205,254)	(131,861)
Gearing ratio	6.9%	9.4%	4.9%

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of Russian Federation:

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

As at 30 June 2009, the Group was in compliance with the above share capital requirements.

In addition, the Group is subject to restrictive financial covenants on its credit facility (see Note 16(b)). The covenants establish certain financial ratios, which are defined based on the consolidated financial statements of the Group prepared in accordance with IFRS. The Group monitors compliance with the covenants and reports to the banks on a regular basis.

Note 6. Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three and the six months ended 30 June 2009 and the three and the six months ended 30 June 2008 or had significant balances outstanding at 30 June 2009 and at 31 December 2008 are detailed below. Gazprom Group is an ultimate parent company of OJSC Mosenergo during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group

Company has the following turnover and balances outstanding with Gazprom Group.

Revenue

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Heat	2	4	19	6
Electricity	-	1	3	1
Other revenue	68	38	136	80
Total	70	43	158	87

Expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Fuel expenses	(9,832)	(8,991)	(24,556)	(23,063)
Insurance expenses	(97)	(2)	(230)	(3)
Other operating expenses	(42)	(48)	(82)	(86)
Total	(9,971)	(9,041)	(24,868)	(23,152)

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Financial income and expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Financial income	338	318	654	584
Financial expenses	-	(1)	-	(1)
Net financial income	338	317	654	583

Outstanding balance

	Outstanding balance at 30 June 2009	Outstanding balance at 31 December 2008
Investments	12,874	13,444
Trade and other receivables	3,076	4,581
Cash and cash equivalents	2,960	1,897
Other current assets	73	50
Total assets	18,983	19,972
Trade and other payables	(325)	(134)
Total liabilities	(325)	(134)

Borrowings

	Amount loaned for the three months ended 30 June 2009	Amount loaned for the six months ended 30 June 2008	Outstanding balance at 30 June 2009	Outstanding balance at 31 December 2008
Current borrowings and current portion of non-current borrowings	-	(718)	-	-
Total borrowings	-	(718)	-	-

(b) Transactions with equity accounted investees

The Group provided rent services to LLC CB Transinvestbank (the "Transinvestbank") for RR 0 million, RR 0 million, RR 2 million and RR 3 million during the three and the six months ended 30 June 2009 and the three and the six months ended 30 June 2008, respectively.

The Group received bank services from Transinvestbank for RR 0 million, RR 0 million, RR 84 million and RR 120 million during the three and the six months ended 30 June 2009 and the three and the six months ended 30 June 2008, respectively.

Cash and cash equivalents balance of the Group in Transinvestbank at 30 June 2009 and 31 December 2008 were RR 1 million and RR 66 million, respectively (see Note 9).

(c) Transactions with key management

Key management personnel (the members of the Board of Directors and Management Committee of the Group) received the following remuneration, which is included in personnel expenses and has the following outstanding balances:

Expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Wages and salaries	36	26	47	84
Pension benefits expenses	-	22	-	22
Termination benefits	-	123	-	123
Total	36	171	47	229

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Outstanding balance

	Outstanding balance at 30 June 2009	Outstanding balance at 31 December 2008
Wages and salaries	2	1
Remunerations for service in Board of Directors and Management Committee	12	-
Termination benefits	-	-
Total liabilities	14	1

(d) Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with Gazprom Group as disclosed in Note 6(a).

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

Revenue

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Electricity	12,929	10,752	29,421	24,071
Heat	6,967	4,107	24,601	16,026
Other revenue	542	572	1,022	991
Total	20,438	15,431	55,044	41,088

Expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Heat transmission	(2,748)	(1990)	(10,578)	(8,370)
Purchased heat and electricity	(1,397)	(904)	(2,206)	(1,683)
Other operating expenses	(944)	(390)	(1,642)	(643)
Water usage expenses	(123)	(58)	(291)	(187)
Fuel expenses	(15)	(7)	(49)	(45)
Total	(5,227)	(3,349)	(14,766)	(10,928)

Financial income and expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Financial income	21	89	24	290
Financial expenses	(181)	-	(391)	-
Net financial expense	(160)	89	(367)	290

Outstanding balance

	Outstanding balance at 30 June 2009	Outstanding balance at 31 December 2008
Trade and other receivables	7,705	5,149
Other current assets	523	523
Cash and cash equivalents	278	770
Total assets	8,506	6,442
Trade and other payables	(3,723)	(3,489)
Total liabilities	(3,723)	(3,489)

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Borrowings

	Amount loaned for the six months ended 30 June 2009	Amount loaned for the six months ended 30 June 2008	Outstanding balance at 30 June 2009	Outstanding balance at 31 December 2008
Current borrowings and current portion of non-current borrowings	(2,750)	-	(1,600)	(3,550)
Total borrowings	(2,750)	-	(1,600)	(3,550)

Note 7. Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2008	40,427	33,394	12,147	3,149	24,666	113,783
Additions	3	-	-	7	11,552	11,562
Disposals	(12)	(20)	-	(1)	(9)	(42)
Transfers	6,346	255	-	312	(6,913)	-
Balance at 30 June 2008	46,764	33,629	12,147	3,467	29,296	125,303
Balance at 1 January 2009	92,462	55,239	13,429	10,224	23,953	195,307
Reclassification	(21)	(11)	3	29	-	-
Additions	-	-	-	22	2,162	2,184
Disposals	(2)	(4)	-	(39)	(27)	(72)
Transfers	6,618	172	420	880	(8,090)	-
Revaluation	(1,140)	-	-	-	-	(1,140)
Balance at 30 June 2009	97,917	55,396	13,852	11,116	17,998	196,279

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2008	(1,594)	(1,781)	(1,775)	(258)	-	(5,408)
Depreciation charge	(836)	(966)	(877)	(374)	-	(3,053)
Disposals	-	2	-	-	-	2
Balance at 30 June 2008	(2,430)	(2,745)	(2,652)	(632)	-	(8,459)
Balance at 1 January 2009	-	-	-	-	-	-
Depreciation charge	(2,957)	(1,564)	(772)	(496)	-	(5,789)
Disposals	2	-	-	4	-	6
Balance at 30 June 2009	(2,955)	(1,564)	(772)	(492)	-	(5,783)

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2008	38,833	31,613	10,372	2,891	24,666	108,375
At 30 June 2008	44,334	30,884	9,495	2,835	29,296	116,844
At 1 January 2009	92,462	55,239	13,429	10,224	23,953	195,307
At 30 June 2009	95,365	53,832	13,080	10,624	17,998	190,496

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Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2008	15,265	29,014	2,043	4,183	22,761	73,266
At 30 June 2008	20,995	28,446	1,929	4,093	27,300	82,763
At 1 January 2009	44,811	26,300	6,394	4,869	11,407	93,781
At 30 June 2009	48,451	24,893	6,045	5,269	5,452	90,110

Borrowing costs of RR 385 million and RR 212 million for the six months ended 30 June 2009 and 30 June 2008, respectively, are capitalised in additions above. Capitalisation rates of 5.5% and 3.7% for the six months ended 30 June 2009 and 30 June 2008, respectively, were used to determine the amount of borrowing costs eligible for capitalization representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

(a) Change in classification

Starting from 1 January 2008 the Group changed classification of items of property, plant and equipment by groups from presentation based on the nature of activities in which assets are involved to presentation based on the technical characteristics of the assets.

(b) Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from cost model to revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Group's property, plant and equipment.

In 2008 the Group contracted an independent appraiser to estimate the fair value of the Group's property, plant and equipment and investment property at 31 December 2008. The fair value of property, plant and equipment was determined to be RR 195,307 million.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. Except for office buildings, which were appraised on the basis of recent market transactions, the market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value. Under the income approach, the values of the property are delivered from the present value of future cash flows expected to be derived from the use and eventual sale of the property.

Consequently, the fair value of property, plant and equipment primarily was determined using depreciated replacement cost method or income approach. Depreciated replacement cost method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation and obsolescence.

The depreciated replacement cost was estimated based on internal sources, statistical data, catalogues and market data in respect of prices of construction companies and suppliers of equipment. The economic obsolescence was determined based on net present value test for each of 19 cash-generating units.

Net present value was calculated to assess the reasonableness of these depreciated replacement cost.

The following key assumptions were used in performing cash flow testing:

- 19 cash-generating units were identified;
- Cash flows were projected based on actual operating results and the 13-year business plan;
- The anticipated annual production growth included in cash flow projections was 3.5%;
- A discount rate of 16.63% was applied in determining the recoverable amount of the plants.

(c) Security

Properties with a carrying amount of RR 9,644 million and RR 9,961 million at 30 June 2009 and 31 December 2008 respectively are pledged as security for Group's bank loans (see Note 16).

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(d) Non –core assets disposal

As further discussed in Note 34 (a) of the financial statements, the Group is in the process of disposing non-core assets. Evaluation was obtained for such property, plant and equipment and, resultantly, an impairment of RR 1,140 million was recognized in the equity for the six months ended 30 June 2009.

Note 8. Investment property

	2009	2008
Balance at 1 January	4,552	2,091
Change in fair value	(1,534)	(63)
Balance at 30 June	3,018	2,028

At 31 December 2008 the Group modified the classification of certain buildings as held for capital appreciation and accordingly transferred these assets from property, plant and equipment to investment property in amount RR 1 million to reflect more appropriately the way in which economic benefits are derived from the use of the assets.

The fair value of the Group’s investment property as at 31 December 2008 was determined to be RR 4,552 million by the independent appraiser. Primarily items of investment property were appraised on the basis of recent market transactions. When no quoted market prices are available, the fair value of investment property was determined using income approach.

As further discussed in Note 34 of the financial statements, the Group is in the process of disposing non-core assets. A valuation was obtained for such investment property and, resultantly, a decrease in fair value of RR 1,534 million was recognized in the Consolidated interim statement of comprehensive income for the six months ended 30 June 2009 (for the six months ended 30 June 2008: RR 63 million)

Rental income for the three and the six months ended 30 June 2009 and for the three and the six months ended 30 June 2008 amounted to RR 71 million, RR 192 million, RR 43 million, and RR 106 million, respectively, was recognised in the Consolidated interim statement of comprehensive income in other revenue.

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

	30 June 2009	31 December 2008
Less than one year	973	247
Between one and five years	-	789
More than five years	-	109
Total	973	1,145

Note 9. Investments in equity accounted investees

The Group has the following investments in the equity accounted investees:

Legal name	Principal activities	Country	30 June 2009		31 December 2008	
			Ownership	Voting	Ownership	Voting
LLC SP Seba	production					
Energo	of the laboratory equipment	Russia	44.00 %	44.00 %	44.00 %	44.00 %

LLC Transinvestbank was as an associate company of the Group until 25 December 2008.

According to the decision of the Group’s Board of Directors No.10 dated 25 December 2008 the Group withdrew from the shareholding of Transinvestbank and thus lost significant influence over it.

The table below summaries movements in the carrying amount of the Group’s investments in equity accounted investees:

	2009	2008
Carrying amount at 1 January	4	1,246
Share of profit/(loss) of equity accounted investees	2	(14)
Dividends received	-	(171)
Carrying amount at 30 June	6	1,061

The following is summarized financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

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	30 June 2009	31 December 2008
Current assets	24	36
Non-current assets	3	3
Total assets	27	39
Current liabilities	(12)	(28)
Total liabilities	(12)	(28)
Total equity	15	11

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue	21	211	52	411
Expenses	(17)	(233)	(48)	(335)
Profit for the period	4	(22)	4	76

Note 10. Inventories

	30 June 2009	31 December 2008	31 December 2007
Fuel	2,548	2,854	2,754
Raw materials and consumables	1,337	1,450	1,638
Other inventories	196	142	52
Total	4,081	4,446	4,444

Raw materials and consumables are stated net of a provision for obsolete inventory amounted to RR 23 million, RR 19 million and RR 7 million at 30 June 2009, 31 December 2008 and 31 December 2007, respectively. The write-downs and reversals are included in other operating expenses.

Inventories held by the Company are not subject to any retention of title clauses.

Note 11. Investments

	30 June 2009	31 December 2008	31 December 2007
Loan given to CJSC Gazenergoprom-Invest	12,874	13,375	-
Deposit of CJSC Gazenergoprombank	13	-	-
Promissory note of CJSC Gazenergoprombank	-	69	9,569
Promissory note of OJSC Gazprombank	-	-	5,632
Call deposits placed in OJSC SB RF	-	-	5,000
Call deposits placed in OJSC Bank VTB	-	-	3,000
Other investments	41	41	-
Total	12,928	13,485	23,201

Investments have stated interest rate of 8.3% (31 December 2008: 8.3%; 31 December 2007: 8.3%).

The Group's exposure to credit, currency and interest risks related to investments is disclosed in Note 30.

Note 12. Trade and other receivables

	30 June 2009	31 December 2008	31 December 2007
Trade receivables	7,415	7,197	4,855
Other receivables	1,942	2,021	786
Financial assets	9,357	9,218	5,641
Advances to suppliers and prepaid expenses	2,497	4,724	3,345
VAT recoverable and prepaid	931	861	674
Taxes other than income tax prepaid	67	61	956
Other receivables	261	214	114
Total	13,113	15,078	10,730

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Trade receivables balances are recorded net of provision for impairment of RR 1,555 million, RR 1,572 million RR and 1,491 million at 30 June 2009, 31 December 2008 and 31 December 2007, respectively.

Other receivables balances are recorded net of provision for impairment of RR 194 million, RR 193 million and RR 276 million at 30 June 2009, 31 December 2008 and 31 December 2007, respectively.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 30.

Note 13. Other assets

	30 June 2009	31 December 2008	31 December 2007
Other non-current assets			
Biological assets	297	271	225
Intangible assets	291	275	101
Available-for-sale investments	69	35	9
Other non-current assets	74	-	216
Total	731	581	551
Other current assets			
Constructed assets financed by the government of Moscow city	523	523	523
Other current assets	942	778	993
Total	1,465	1,301	1,516

Since June 2005 the Group was engaged in the construction of the power substation further to be jointly used by the Group and the government of Moscow city. Construction of the power substation is jointly financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses liability to the government of Moscow city amounted to RR 523 million.

Note 14. Cash and cash equivalents

	30 June 2009	31 December 2008	31 December 2007
Bank balances	3,277	3,315	8,161
Call deposits	6	-	3,000
Total	3,283	3,315	11,161

Call deposits are qualified as cash equivalents as original maturity of the deposits is three months or less from the date of acquisition.

Information in respect of call deposits and applicable interest rate is as follows:

Bank	30 June 2009		31 December 2008		31 December 2007	
	%	Balances	%	Balances	%	Balances
OJSC Gazenergoprombank	9.8	6	-	-	-	-
OJSC bank VTB	-	-	-	-	8.3	3,000

Note 15. Equity

(a) Share capital and share premium

At 30 June 2009 the authorised share capital comprised 39,749,359,700 ordinary shares (31 December 2008: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

At 20 December 2006 general shareholders' meeting approved closed subscription for additional shares issue in favour of Gazprom group. The Company issued 11,500,000,000 ordinary shares with par value of RR 1.00 each. Offering price determined based on the quoted price of Company's shares during the period from 19 June 2006 to 19 December 2006 equalled RR 5.28 per share. Additional shares issue was registered with the governmental authorities on 5 July 2007.

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The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49,213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

(b) Treasury stock

Treasury stock represents cost of Company's shares held by the Group. At 31 December 2008 the Group held 163,904,251 of the Company's own shares. Within the period from 15 April 2009 to 27 April 2009 the Group came to the decision to sell 23,674,800 shares. Proceeds from the sale amounted to RR 34 million.

Thus the treasury stock as at 30 June 2009 amounted to RR 871 million, as at 31 December 2008 treasury stock amounted to RR 899 million, as at 31 December 2007 amounted to RR 0.

No decisions regarding further operations with treasury stock were made by the Company's management.

(c) Reserves

Reserve in amount of RR 912 million at 30 June 2009 related to the revaluation of property, plant and equipment, according change in accounting policy at 1 January 2007 (see Note 7).

Reserve in amount of RR 34 million at 30 June 2009 related to the accounting at fair value of available-for-sale financial assets.

(e) Dividends

In May 2007 the annual general shareholders' meeting approved dividends for fiscal 2006 of RR 0.02116389 per share amounting to RR 600 million, which were fully paid in 2007.

In July 2007 the general shareholders' meeting approved proposed by the management dividends for the period ended 31 March 2007 of RR 0.0104408508 per share amounting to RR 296 million, which were fully paid in 2007.

In May 2008 the general shareholders' meeting approved the decision not to distribute profit for fiscal year 2007.

In June 2009 the general shareholders' meeting approved the decision not to distribute profit for fiscal year 2008.

Note 16. Borrowings

The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortized cost.

	30 June 2009	31 December 2008
Non-current borrowings		
Unsecured bond issues	9,412	4,783
Secured bank loans	4,709	5,332
Notes	87	84
Total	14,208	10,199
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bond issues	-	4,629
Current portion of unsecured bank loans	1,600	5,276
Current portion of secured bank loans	1,299	2,595
Notes	55	-
Total	2,954	12,500

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

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	Currency	Nominal interest rate	Year of maturity	30 June 2009		31 December 2008	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				6,008	6,008	7,927	7,927
EBRD	Russian Roubles	MosPrime+ from 2.5% to 3.5%	2018	5,955	5,955	6,578	6,578
EBRD	USD dollars	LIBOR+3.5%	2009	53	53	99	99
OJSC SB RF	Russian Roubles	16%	2009	-	-	1,250	1,250
Unsecured bank loans				1,600	1,600	5,276	5,276
OJSC ACB Bank of Moscow	Russian Roubles	17%	2009	-	-	700	700
OJSC ACB Bank of Moscow	Russian Roubles	18%	2009	1,600	1,600	1,600	1,600
CJSC Mezhdunarodny prommyshlenny bank	Russian Roubles	13.7%	2009	-	-	2,976	2,976
Unsecured bond issues				9,412	9,412	9,412	9,412
Unsecured bond issue #1	Russian Roubles	7.54%	2011	4,629	4,629	4,629	4,629
Unsecured bond issue #2	Russian Roubles	7.65%	2012	4,783	4,783	4,783	4,783
Notes				152	142	95	84
OJSC Mezhtopenergobank	Russian Roubles	free of interest	2009	57	55	-	-
OJSC Mezhtopenergobank	Russian Roubles	free of interest	2010	95	87	95	84
Total				17,172	17,162	22,710	22,699

(b) Secured bank loans

At 23 December 2005 the European Bank for Reconstruction and Development (the “EBRD”) provided the Company with a credit line up to RR 7,200 million maturing from 2012 through 2018.

Other borrowings from the EBRD provided in April 1998 are primarily repayable in US dollars maturing through 2009.

Loans taken out by the Company have certain mandatory terms and financial and non-financial covenants the non-compliance with which would allow the EBRD to demand immediate repayment of the respective loans. The financial covenants required compliance with given levels of debt service coverage ratio, long-term debt to equity ratio and current ratio. The non-financial covenants included a requirement to obtain written approval for the creation or permission to exist of certain liens over assets such as mortgages and pledges. The financial covenants are required to be checked semi-annually.

In December 2008, the Company received a new secured bank loan from SB RF. The fact of pledge was not communicated to the EBRD on a timely basis, as required by the loan agreements. This resulted in a breach of the non-financial covenants related to the creation of liens. However the loan was repaid at the reporting date, the line of credit is still open, thus the pledge agreement is in force. A waiver from the EBRD approving the extra pledge is in the process of agreement.

At 5 May 2009 the Company received waiver in respect of the loan made to CJSC Gazenergoprominvest in the amount of RR 13,750 million. The bank agreed to waive any default, event or potential event of default which may occur as a result of the breach of terms of the 1998 and 2005 Loan agreements, related to restriction of company’s ability to make or permit the existence of loans or advances, deposits or investments in any person or enterprise in excess of USD 100 million if the loan to Gazenergoprominvest is repaid prior to 30th June 2009. Though at the reporting date the Company held on accounting the above mentioned loan and now is in process of obtaining new waiver for the respective item. In spite of the loan agreements terms’ default, management does not expect the immediate repayment of loan.

At the reporting date the Company did not comply with coverage ratio financial covenant, required by EBRD agreements. Notwithstanding the events, mentioned above, management does not expect the immediate repayment of the respective loans and continues classifying the liability in amount of RR 4 709 million as non-current at 30 June 2009.

Property, plant and equipment with a carrying amount of RR 9,644 million and RR 9,961 million at 30 June 2009 and 31 December 2008 respectively are pledged as security for the loans received from SB RF and EBRD.

(c) Unsecured bond issues

At 30 June 2009 bonds of the first issue amounted to RR 4,629 million were reclassified as non-current liabilities due to the fact that appropriate bonds were not called for early redemption caused by the increase of interest rate from 7.54 % to 12.5%. Thus the extinguishment of bonds was postponed to September 2011 in accordance with the bondholders decision.

Note 17. Employee benefits

The Company sponsors a post-employment and other long-term benefit program that covers the majority of the Company's employees. The plan principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Company. Currently the plan is administrated by non-state pension fund Gazfund and up to July 2008 generally the plan was administrated by non-state pension fund Electroenergetiki.

In July 2008 a number of changes to the benefit program were introduced. The previous plan provided pension benefits primarily based on years of service, final remuneration levels and age of employee. To be entitled for participation in this new defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer's contribution is limited and depends on employee's position in the Company.

In accordance with the previous plan, the Company also provides several long-term employee benefits such as jubilee benefit, death-in-retirement benefits, medical care and other defined benefits to certain old age pensioners which were no longer part of employee benefits program.

A new collective employment agreement came into force since 1 January 2009, that increased amounts of benefits paid for certain compensations, which lead to increase in defined benefit obligations to RR 564 million.

Compensations for voluntary redundancy paid by the Company amounted to RR 46 million were recognised in the Consolidated interim statement of comprehensive income for the six months ended 30 June 2009 in termination benefits.

	30 June 2009	31 December 2008	31 December 2007
Present value of unfunded obligations	564	482	3,008
Recognised liability for defined benefit obligations	564	482	3,008
Unrecognised actuarial gains/(losses)	139	3	(248)
Unrecognised past service cost	(154)	-	(1,481)
Net liability recognized in statement of financial	549	485	1,279

(a) Movement in the present value of the defined benefit obligations

	2009	2008
Defined benefit obligations at 1 January	482	3,008
Benefits paid	(14)	(353)
Current service cost	12	64
Interest on obligation	32	98
Actuarial gains	(170)	-
Past service cost	241	-
Curtailment and settlement	(19)	69
Defined benefit obligations at 30 June	564	2,886

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(b) Expenses recognised in profit or loss

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Past service cost (immediate recognition)	-	37	73	74
Termination benefits	-	69	46	69
Interest cost	16	48	32	98
Current service cost	6	32	12	64
Amortization of past service cost	4	-	9	-
Curtailement (gain)/loss	2	-	(15)	-
Net actuarial gains recognised in period	(31)	-	(33)	-
Total	(3)	186	124	305

(c) Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	30 June 2009	31 December 2008	31 December 2007
Discount rate	11.50%	9.00%	6.75%
Inflation rate	6.50%	6.60%	5.00%
Future salary increases	8.00%	8.00%	7.00%
Future pension increase	6.50%	6.50%	5.00%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 17% pa for employees with 1 year of past service to around 6% pa for those who have 5 or more years of service. Similar withdrawal rates were used at 31 December 2008.

Retirement ages assumption is as follows: average retirement ages are 62 years for men and 59 years for women comparing with 62 and 59 years for men and women respectively used at 31 December 2008.

Mortality table: Russian urban population mortality table 1986-87.

(d) Historical information

	30 June 2009	31 December 2008	31 December 2007
Present value of the defined benefit obligation	564	482	3,008
Deficit in the plan	564	482	3,008
Experience adjustments arising on plan liabilities	36	42	(249)

Note 18. Trade and other payables

	30 June 2009	31 December 2008	31 December 2007
Trade payables	3,114	3,734	3,637
Other payables	3,071	5,393	5,092
Financial liabilities	6,185	9,127	8,729
Advances received	1,807	1,495	855
Other payable	1,730	1,481	1,451
Total	9,722	12,103	11,035
Non-current liabilities	143	140	110
Current liabilities	9,579	11,963	10,925
Total	9,722	12,103	11,035

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 30.

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Note 19. Other taxes payable

	30 June 2009	31 December 2008	31 December 2007
VAT payable	982	270	238
Property tax payable	502	445	82
Social taxes and contributions payable	236	151	150
Other taxes payable	138	132	141
Total	1,858	998	611

Note 20. Provisions

	Provision for buy-out of own shares	Litigations provision	Total
Balance at 1 January 2008	969	46	1,015
Provisions made during the period	-	31	31
Provisions used during the period	(969)	-	(969)
Provision reversed during the period	-	(46)	(46)
Balance at 30 June 2008	-	31	31
Current provision	-	31	31
Total	-	31	31

	Provision for buy-out of own shares	Litigations provision	Total
Balance at 1 January 2009	-	253	253
Provisions made during the period	-	160	160
Provisions recovered during the period	-	(126)	(126)
Balance at 30 June 2009	-	287	287
Non-current provision	-	-	-
Current provision	-	287	287
Total	-	287	287

On 28 December 2007 extraordinary general shareholders' meeting approved decision to merge the Company with Mosenergo Holding. In accordance with the pronouncements of Federal law No 208-FZ as of 26 December 1995 "On joint stock companies", all shareholders of OJSC Mosenergo which voted against reorganization or not participated in voting could claim for buy-out of all or part of their shares. 156,101,884 shares of OJSC Mosenergo were claimed by shareholders for buy-out at 6.21 RR per share for the total amount of RR 969 million.

As of the date of these financial statements authorization there is an unsettled claim against the Company from JSC MTK regarding levy of interests for "use of other entity's funds" due to late payment as per contract on supply of heat energy and heat-transfer in total amount up to RR 260 million. In the second quarter 2009 an amicable agreement with JSC MTK was concluded. The Company agreed to pay RR 160 million to the claimer. Accordingly as at 30 June 2009 the corresponding reserve amounted to RR 160 million.

As of the date of these financial statements authorization there are four unsettled claims against the Company regarding levy of interests for "use of other entity's funds" due to late payments that occurred when changes to the LLC CB Transinvestbank Charter were found void. Total amount of the claims is RR 239 million. The Company's management estimated probability of these claims settlement not in favour of the Company as highly probable. The outflow of economic benefits amounting to RR 120 million using the probability weights cash flow approach was determined by the Company's management, as at 31 December 2008 and continued to be the same at the reporting date.

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Note 21. Revenue

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Electricity	13,906	10,757	30,406	24,463
Heat	6,983	5,283	27,578	21,432
Other revenue	897	1,015	1,705	2,170
Total	21,786	17,055	59,689	48,065

Other revenue relates to rent, water usage, repair and maintenance services provided by the Group.

Approximately 7% of sales of electricity for the six months ended 30 June 2009 relates to resale of purchased power on wholesale market NOREM (for the six months ended 30 June 2008: 6%).

Note 22. Cost of materials

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Fuel expenses	10,078	9,364	25,267	23,880
Purchased heat and electricity	1,414	918	2,251	1,719
Water usage expenses	365	290	578	473
Other material expenses	269	329	442	504
Total	12,126	10,901	28,538	26,576

Electricity is purchased mainly on wholesale electricity market.

Note 23. Other external supplies

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Electricity market administration fees	253	190	509	374
Connection services	82	80	163	156
Security services	82	53	161	126
Transport services	54	94	117	142
Fire prevention services	22	27	44	42
Other services	6	90	143	156
Total	499	534	1,137	996

Electricity market administration fees include payments to NP Administrator trgovoi sistemy and CJSC Centr finansovoyh raschetov for arrangement of settlements between parties on electricity market and payments to OJSC SO - CDU UES for regulation of operations of generating assets of the Group.

Note 24. Personnel expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Wages and salaries	2,380	2,041	3,955	3,796
Payroll tax	447	388	891	917
Voluntary medical insurance expenses	39	37	78	53
Past service cost (immediately recognized)	-	37	73	74
Termination benefits	-	170	46	192
Pension benefits expenses	6	32	12	64
Personnel training expenses	11	13	25	25
Amortization of past service costs	4	-	9	-
Total	2,887	2,718	5,089	5,121

AO Mosenergo Group average headcount totalled 14,029 and 17 190 at 30 June 2009 and 30 June 2008, respectively.

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Note 25. Other operating expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Legal, consulting and data processing services	214	52	431	146
Maintenance of non-core and social assets	134	70	216	205
Lease payments, including rent expenses	85	96	180	191
Insurance expenses	76	118	170	158
Software expenses	48	14	85	29
Loss on disposal of property, plant and equipment	14	39	63	12
Fines and penalties related to contracts violations	(120)	49	40	205
Bank services	18	68	34	106
Environmental payments	11	42	19	49
Safety arrangement and precautions	8	28	17	52
Real estate registration rights expenses	2	15	13	15
Property, plant and equipment dismantlement costs	-	11	-	15
Trade and other receivables impairment (gain)/ loss	25	184	(13)	452
Other miscellaneous	18	71	81	121
Total	533	857	1,336	1,756

Note 26. Other operating income

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Subsidies on the difference in tariffs for sales to the urban population	220	46	220	185
Net actuarial losses recognised in the period	31	-	33	-
Curtailment gain/(loss)	(2)	-	15	-
Other miscellaneous	12	8	20	19
Total	261	54	288	204

Reimbursement from government of Moscow city represents cash paid to the Company to compensate the difference between tariffs set to the urban population and the tariffs of the Company.

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Note 27. Financial income and expenses

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Financial income				
Interest income on call deposits	72	222	150	531
Foreign exchange gain	19	11	47	21
Other interest income	286	174	551	344
Total	377	407	748	896
Financial expenses				
Interest expenses on borrowings	(714)	(356)	(1,529)	(718)
Foreign exchange loss	(11)	(5)	(86)	(8)
Interest on employee benefit obligations	(16)	(48)	(32)	(98)
Other interest expenses	(22)	(11)	(24)	(16)
Total	(763)	(420)	(1,671)	(840)
Less capitalized interest expenses on borrowings related to qualifying assets (Note 7)	206	112	385	212
Net financial expenses recognized in the Consolidated interim statement of comprehensive income	(557)	(308)	(1,286)	(628)

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Interest income	358	396	701	875
Interest expenses	(530)	(255)	(1,168)	(522)
Net interest	(172)	141	(467)	353

Net interest result by categories of assets and liabilities

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Investments	305	255	570	590
Cash and cash equivalents	26	127	79	249
Liabilities carried at amortised cost	(503)	(241)	(1,116)	(486)
Total	(172)	141	(467)	353

Note 28. Income tax

On 26 November 2008 legislation was enacted that reduced the Russian corporate income tax rate from 24% to 20% with effect from 1 January 2009.

(a) Income tax

The Group's applicable tax rate is the income tax rate of 20% (for the six months ended 30 June 2008: 24%).

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Current tax (expense)/benefit				
Current period	(262)	172	(1,172)	(484)
Over provided in prior periods	166	712	165	712
Deferred tax (expense)/benefit				
Origination and reversal of temporary differences	532	157	173	(275)
Income tax (expense)/benefit	436	1,041	(834)	(47)

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Reconciliation of effective tax rate is as follows:

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Profit/(loss) before income tax	(2,481)	(2,017)	3,482	1,230
Income tax at applicable tax rate	496	484	(697)	(295)
Non-deductible / non-taxable items	(226)	(155)	(302)	(464)
Over provided in prior periods	166	712	165	712
Income tax (expense)/ benefit	436	1,041	(834)	(47)

(b) Tax effects of components of other comprehensive income

	Three and six months ended 30 June 2009			Three and six months ended 30 June 2008		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Revaluation of property, plant and equipment	(1,140)	228	(912)	-	-	-
Total	(1,140)	228	(912)	-	-	-

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Property, plant and equipment	-	-	(25,875)	(14,778)	(25,875)	(14,778)
Investment property	-	-	(352)	(300)	(352)	(300)
Investments in associates	-	-	(1)	(249)	(1)	(249)
Trade and other receivables	64	98	-	-	64	98
Employee benefits	110	295	-	-	110	295
Provisions	58	7	-	-	58	7
Trade and other payables	159	163	-	-	159	163
Other taxes payable	83	21	-	-	83	21
Other	70	-	(23)	(30)	47	(30)
Total	544	584	(26,251)	(15,357)	(25,707)	(14,773)

Movements in deferred income tax during six months ended 30 June 2008 and six months ended 30 June 2009 are as follows:

	31 December 2007	Recognized in income	Recognized in equity	30 June 2008
Property, plant and equipment	(14,543)	(235)	-	(14,778)
Investment property	(313)	13	-	(300)
Investments in associates	(293)	44	-	(249)
Trade and other receivables	167	(69)	-	98
Employee benefits	307	(12)	-	295
Provisions	11	(4)	-	7
Trade and other payables	164	(1)	-	163
Other taxes payable	23	(2)	-	21
Other	(21)	(9)	-	(30)
Total	(14,498)	(275)	-	(14,773)

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	31 December 2008	Recognized in income	Recognized in equity	30 June 2009
Property, plant and equipment	(25,705)	(398)	228	(25,875)
Investment property	(656)	304	-	(352)
Investments in associates	(1)	-	-	(1)
Trade and other receivables	(33)	97	-	64
Employee benefits	97	13	-	110
Provisions	51	7	-	58
Trade and other payables	114	45	-	159
Other taxes payable	17	66	-	83
Other	8	39	-	47
Total	(26,108)	173	228	(25,707)

Note 29. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Issued shares	39,749,360	39,749,360	39,749,360	39,749,360
Effect of own shares held	(145, 661)	(156,102)	(154,681)	(100,043)
Weighted average number of ordinary shares (thousands)	39,603,699	39,593,258	39,594,679	39,649,317

The following is a reconciliation of the profit attributable to ordinary shareholders:

	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Weighted average number of ordinary shares issued (thousands)	39,603,699	39,593,258	39,594,679	39,649,317
Profit/(loss) for the period	(2,045)	(976)	2,648	1,183
Profit/(loss) per ordinary share (basic and diluted) (in Russian Roubles)	(0.05)	(0.02)	0.07	0.03

Note 30. Financial instruments

(a) Credit risk

(i) 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:

	30 June 2009	Carrying amount 31 December 2008	31 December 2007
Held-to-maturity investments	12,887	13,444	15,201
Investments (Note 11)	12,887	13,444	15,201
Loans and receivables	9,398	9,259	13,641
Trade and other receivables (Note 12)	9,357	9,218	5,641
Investments (Note 11)	41	41	8,000
Available- for –sale financial assets	69	35	9
Other non-current assets (Note 13)	69	35	9
Cash and cash equivalents (Note 14)	3,283	3,315	11,161
Total financial assets	25,637	26,053	40,012

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The maximum exposure to credit risk for receivables at the reporting date by type of sales was:

	<u>30 June</u> <u>2009</u>	<u>Carrying amount</u> <u>31 December</u> <u>2008</u>	<u>31 December</u> <u>2007</u>
Electricity	1,967	1,567	723
Heat	4,794	5,027	2,209
Other	2,596	2,624	2,709
Total	9,357	9,218	5,641

Debtors within two main classes of accounts receivable – electricity and heat – are quite homogenous regarding their credit quality and concentration of credit risk.

The most exposure to credit risk during the year related to heat sales.

The Group's most significant customer, OJSC MOEK, accounts for RR 1,975 million for the trade receivables carrying amount at 30 June 2009 (31 December 2008: RR 2,783 million; 31 December 2007: RR 1,533 million).

(ii) Impairment losses

The aging of trade and other receivables at the reporting date was:

	<u>30 June 2009</u>		<u>31 December 2008</u>		<u>31 December 2007</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Not past due	3,315	-	6,954	-	4,659	-
Past due 0-30 days	1,546	-	529	-	6	-
Past due 31-120 days	1,151	-	470	-	708	-
Past due 121-365 days	2,494	-	615	-	44	-
More than one year	2,600	1,749	2,415	1,765	1,991	1,767
Total	11,106	1,749	10,983	1,765	7,408	1,767

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

	<u>2009</u>	<u>2008</u>
Balance at 1 January	1,765	1,767
Impairment loss (reversed) /recognized during the period	(13)	452
Allowance used during the period	(3)	(36)
Balance at 30 June	1,749	2,183

The impairment allowance at 30 June 2009 of RR 1,749 million (31 December 2008: RR 2,183 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 365 days; 76.59 percent of the balance (at 31 December 2008: 78.02 percent), which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and written off against the financial asset directly.

Investments at the reporting date were past due up to 365 days in amount of RR 12,874 million which is loan given to related party. Management believes that this loan would be recovered before the end 2009.

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(iii) *Credit risk related to the Group's cash in banks*

All bank balances are neither past due nor impaired. Analysis by credit quality of bank balances is as follows:

Name of the bank	Rating agency	Rating	30 June 2009	Rating	31 December 2008	Rating	31 December 2007
OJSC Gazprombank	Standart & Poor's	BB+	2,803	BB+	1,847	BBB-	5,291
Sberbank RF	Fitch Ratings	BBB	187	BBB	280	BBB+	1,243
CJSC Gaznegoprombank	Moody's						
	Interfax	Aa3.ru	157	Aa3.ru	358	Aa3.ru	63
Bank of Moscow	Fitch Ratings	BBB-	91	BBB-	717	BBB	254
Alfa-Bank LLC CB	Fitch Ratings	BB-	37	BB	2	-	-
Transinvestbank	-	-	1	-	66	-	1,145
OJSC ACB Eurofinance-							
Mosnarbank	Fitch Ratings	B	2	-	15	BBB	21
OJSC VTB	Fitch Ratings	BBB	-	BBB	13	BBB+	3,006
CJSC Raiffeisenbank	Fitch Ratings	BBB+	-	BBB+	9	-	-
Others	-	-	5	-	8	-	138
Total			3,283		3,315		11,161

The Company pursues the policy of cooperation with a number of the first-rate banks, which is approved by the Board of Directors.

(b) *Liquidity risk*

The following are the contractual maturities of financial liabilities, including estimated interest payments at 30 June 2009:

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	6,008	8,738	1,114	1,008	1,875	1,690	1,036	489	1,526
Unsecured bank loans	1,600	1,738	1,738	-	-	-	-	-	-
Unsecured bond issues	9,412	11,835	357	471	5,571	5,436	-	-	-
Notes	142	152	57	-	95	-	-	-	-
Trade and other payables	6,185	6,185	6,185	-	-	-	-	-	-
Total	23,347	28,648	9,451	1,479	7,541	7,126	1,036	489	1,526

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2008:

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	7,927	13,228	1,558	2,710	2,410	2,045	1,814	646	2,045
Unsecured bank loans	5,276	5,648	3,910	1,738	-	-	-	-	-
Unsecured bond issues	9,412	11,225	357	4,987	366	366	5,149	-	-
Notes	84	95	-	-	95	-	-	-	-
Trade and other payables	9,127	9,127	9,127	-	-	-	-	-	-
Total	31,826	39,323	14,952	9,435	2,871	2,411	6,963	646	2,045

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The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2007:

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	7,476	10,819	10,819	-	-	-	-	-	-
Unsecured bond issues	10,000	12,550	12,550	-	-	-	-	-	-
Notes	129	152	-	-	57	95	-	-	-
Trade and other payables	8,729	8,729	8,729	-	-	-	-	-	-
Total	26,334	32,250	32,098	-	57	95	-	-	-

(c) *Currency risk*

(i) *Exposure to currency risk*

	30 June 2009 USD-denominated	31 December 2008 USD-denominated	31 December 2007 USD-denominated
Secured bank loans	(53)	(99)	(276)
Gross statement of financial position exposure	(53)	(99)	(276)
Estimated forecasted interest expenses	(1)	(3)	(12)
Gross exposure	(1)	(3)	(12)
Net exposure	(54)	(102)	(288)

The following significant exchange rates applied during the period:

	Average rate			Reporting date spot rate		
	30 June 2009	31 December 2008	31 December 2007	30 June 2009	31 December 2008	31 December 2007
USD 1	33.0679	24.8553	25.5516	31.2904	29.3804	24.5462

(ii) *Sensitivity analysis*

A 33% strengthening of the RR against the USD at 30 June 2009 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2008 and 31 December 2007.

	30 June 2009	31 December 2008	31 December 2007
USD	(18)	(34)	(95)

A 33% weakening of the RR against the USD at 30 June 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The above estimates are based on development of forward exchange rates by mid February 2009.

The actual decrease in the average exchange rates for the six months ended 30 June 2009 compared to the year 2008 was approximately 33 % for the USD, although the difference between the two actual extremes within the reported period was approximately 24% for the USD (31 December 2008: 25.3%, 31 December 2007: 8.7%).

(b) *Interest rate risk*

(i) *Profile*

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

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	<u>30 June 2009</u>	<u>Carrying amount 31 December 2008</u>	<u>31 December 2007</u>
Fixed rate instruments			
Financial assets (Note 11, 12 and 14)	25,637	26,053	40,012
Financial liabilities (Note 16,18)	(17,338)	(25,148)	(18,858)
Total	8,299	905	21,154
Variable rate instruments			
Financial liabilities (Note 16)	(6,008)	(6,677)	(7,476)
Total	(6,008)	(6,677)	(7,476)

(ii) 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.

A change of 100 basis points in interest rates would have increased or decreased equity by RR 72.4 million (31 December 2008: RR 106 million; 31 December 2007: RR 120 million).

(iii) 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) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2008.

	<u>30 June 2009</u>		<u>31 December 2008</u>		<u>31 December 2007</u>	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(46.5)	46.5	(86.4)	86.4	(77.8)	77.8
Cash flow sensitivity (net)	(46.5)	46.5	(86.4)	86.4	(77.8)	77.8

(c) Fair values

The management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts:

	<u>30 June 2009</u>		<u>31 December 2008</u>		<u>31 December 2007</u>	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investments (Note 11)	12,928	12,928	13,485	13,485	23,201	23,201
Trade and other receivables (Note 12)	9,357	9,357	9,218	9,218	5,641	5,641
Cash and cash equivalents (Note 14)	3,283	3,283	3,315	3,315	11,161	11,161
Available-for-sale financial assets (Note 13)	69	69	35	35	9	9
Secured bank loans (Note 16)	(6,008)	(6,008)	(7,927)	(7,927)	(7,476)	(7,476)
Unsecured bank loans (Note 16)	(1,600)	(1,600)	(5,276)	(5,276)	-	-
Unsecured bond issues	(9,412)	(8,499)	(9,412)	(8,361)	(10,000)	(9,989)
Notes (Note 16)	(142)	(142)	(84)	(84)	(129)	(129)
Trade and other payables (Note 18)	(6,185)	(6,185)	(9,127)	(9,127)	(8,729)	(8,729)

The basis for determining fair values is disclosed in Note 4.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, were as follows:

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	30 June	Carrying amount	31 December
	2009	31 December	2007
		2008	
Borrowings	17.6	16.9	11.5

Note 31. Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where Group's generation facilities are located. The leases typically run for a periods from 5 to 45 years with an option to renew the lease. During the three and the six months ended 30 June 2009 and 30 June 2008 RR 85 million, RR 180 million, RR 96 million and RR 191 million respectively were recognized as expenses in interim Consolidated statement of comprehensive income in respect of operating lease.

Non-cancellable operating lease rentals are payable as follows:

	30 June	31 December
	2009	2008
Less than one year	365	345
Between one and five years	1,347	1,354
More than five years	8,623	8,732
Total	10,335	10,431

Note 32. Commitments and contingencies

(a) Capital commitments

During the six months ended 30 June 2009 the Group entered into a number of contracts for construction and purchase of property, plant and equipment for RR 18,769 million (31 December 2008: RR 16,701 million).

(b) Taxation environment

The taxation systems in the Russian Federation are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation 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.

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.

(c) Legal proceedings

The Group is a party in a number of legal proceedings arising in the ordinary course of business. This in particular includes legal actions and proceedings against the Company in connection with the acquisitions of the share in Transinvestbank in 2005.

There are unsettled claims against the Company from former participants of Transinvestbank in total amount of RR 1,131 million related to compensation of the market values of the Transinvestbank shares returned to the Company in the process of restitution.

Since the legal proceedings are subject to numerous uncertainties, their outcome cannot be ascertained, however management believes that there are no nonprovided claims outstanding, which would have a material adverse impact on the Group's operating results and financial position.

(d) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation

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there are no significant underscored liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(e) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party liability could have a material adverse effect on the Group's operations and financial position.

(f) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounted to RR 367 million as of 30 June 2009 (31 December 2008: RR 381 million).

Note 33. Operating segments

The Chief operating decision-makers have been identified as a combination of the Board of Directors and Chief Executive Officer. The decision-makers review the Group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on these reports to be individual power generating units.

The decision-makers assess the operating performance of these individual power generating units based on their gross margin which is calculated as revenue less directly attributable costs. Interest income / expenditure are not allocated to this measure as these are central costs of the Group. Other information provided to the decision-makers is measured in a manner consistent with that in the financial statements.

The operating segments are aggregated into two primary reportable segments: electricity and heat. This aggregation results from the similar economic characteristics, over the long run, of these two distinct outputs.

Other services and products sold by the Group mainly include rent services, feed water sales, agricultural products, maintenance services. These are not included within the reportable operating segments, as this information is not reviewed by the decision makers. The results of these operations are included in the "all other segments" column.

Deferred tax and available-for-sale financial assets are not considered to be segment assets but rather are managed by the central function. These are part of the reconciliation to total Consolidated interim statement of financial position assets.

(a) Segment information

The segment information for the six months ended 30 June 2009 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers		30,406	27,578	1,705	59,689
Expenses:					
Fuel and water usage expenses	22	(25,845)	-	-	(25,845)
Purchase heat	22	-	(189)	-	(189)
Purchase electricity	22	(2,062)	-	-	(2,062)
Heat transmission		-	(10,578)	-	(10,578)
Gross margin		2,499	16,811	1,705	21,015
Total assets		191,841	14,539	35,654	242,034
Total liabilities		21,254	2,260	4,206	27,720

The segment information for the six months ended 30 June 2008 is as follows:

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	Note	Electricity	Heat	All other segments	Total
Revenue from external customers		24,463	21,432	2,170	48,065
Expenses:					
Fuel and water usage expenses	22	(24,353)	-	-	(24,353)
Purchase heat	22	-	(213)	-	(213)
Purchase electricity	22	(1,506)	-	-	(1,506)
Heat transmission		-	(8,370)	-	(8,370)
Gross margin		(1,396)	12,849	2,170	13,623
Total assets		195,645	12,337	40,718	248,700
Total liabilities		29,615	2,330	3,595	35,540

A reconciliation of adjusted gross margin to profit before tax provided as follows:

	Note	Three months ended 30 June 2009	Three months ended 30 June 2008	Six months ended 30 June 2009	Six months ended 30 June 2008
Gross margin for reportable segments		6,284	3,478	19,310	11,453
Other segments gross margin		897	1,015	1,705	2,170
Other operating income	26	261	54	288	204
Gain on withdrawal from equity investee		32	-	124	-
Share of profit /(loss) of equity accounted investees		2	(67)	2	(14)
(Loss)/profit from change in fair value of investment property	8	(1,534)	117	(1,534)	(63)
Depreciation of property, plant and equipment	7	(2,974)	(1,554)	(5,789)	(3,053)
Personnel expenses	24	(2,887)	(2,718)	(5,089)	(5,121)
Other operating expenses	25	(533)	(857)	(1,336)	(1,756)
Other external supplies	23	(499)	(534)	(1,137)	(996)
Taxes other than income tax		(716)	(200)	(1,231)	(577)
Maintenance and repairs expenses		(365)	(521)	(851)	(781)
Financial income	27	377	407	748	896
Financial expenses	27	(557)	(308)	(1,286)	(628)
Other material expenses	22	(269)	(329)	(442)	(504)
Profit/(loss) before income tax		(2,481)	(2,017)	3,482	1,230

(b) Reportable segments' assets

The amounts provided to the decision makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	30 June 2009	31 December 2008
Segments' assets for reportable segments	206,380	207,982
Other segments assets	35,654	40,718
Unallocated:		
Income tax receivables	859	78
Trade and other receivables	67	61
Total assets per the statement of financial position	242,960	248,839

(c) Reportable segments' liabilities

The amounts provided to the decision makers with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

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	30 June 2009	31 December 2008
Segments liabilities for reportable segments	23,514	31,945
Other segments liabilities	4,206	3,595
Unallocated:		
Deferred tax liabilities	25,707	26,108
Income tax payable	1	323
Other taxes payable	1,858	998
Total liabilities per the statement of financial position	55,286	62,969

(d) Information about major customers

During the six months ended 30 June 2009 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from OJSC "MOEK" for the six months ended 30 June 2009 amounted to RR 17,860 million. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from OJSC "Mosenergosbyt" for the six months ended 30 June 2009 amounted to RR 16,253 million. The revenue was obtained from sales of electricity and power relating to electricity segment.
- Revenue from CJSC "ZFR" for the six months ended 30 June 2009 amounted to RR 12,006 million. The revenue was obtained from sales of electricity and power relating to electricity segment.

Note 34. Events after the reporting period

(a) Non-core assets for disposal

According to Board of Directors decision within the framework of regular meeting as at 17 July 2009 the Company is to sale several non - core objects. Such assets are accounted as property, plant and equipment and investment property, and belong to assets of energy segment and all other segments.

The appropriate transaction is expected to be executed in the second half of the year 2009. It was performed at the auction which was executed in two lots (real estate and group of non-core assets).

(b) Unsecured bond issues

At 21 August 2009 OJSC Mosenergo issued 2 000 000 non-convertible bonds with a face value of RR 1 000 each maturing in 1 year and a coupon yield at 11,45% per annum. All bonds were placed at nominal value with possibility of anticipated payment.

(c) Credit agreements

At 15 June 2009 OJSC Mosenergo and european banks Calyon (France) and NordLB (Germany) signed the agreement over the opening credit line with the limit amounted to EUR 415 million for the 16,5 years' period. The purpose of this credit line is to finance the construction contracts under the investment program of the Company.

At 23 September 2009 OJSC Mosenergo and international bank BNP Paribas made an agreement over the opening credit line with the limit amounted to EUR 186 million for the 13,5 years' period. The purpose of this credit line is to refinance and finance the construction contracts under the investment program of the Company.