

MOSENERGO Group

**International Financial Reporting Standards
Consolidated Interim Financial Statements
for the three and six months ended 30 June 2013(unaudited)**

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

	Note	30 June 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	7	204,580	190,387
Investment property	8	792	792
Advances for acquisition of property, plant and equipment		12,085	15,728
Trade and other receivables	12	1,665	1,532
Other non-current assets	13	2,894	3,721
Total non-current assets		222,016	212,160
Current assets			
Cash and cash equivalents	14	13,758	12,632
Investments	11	428	4,833
Trade and other receivables	12	27,922	29,610
Inventories	10	6,186	6,536
Income tax receivable		894	4
Other current assets	13	632	393
Assets classified as held for sale	9	555	1,576
Total current assets		50,375	55,584
Total assets		272,391	267,744
EQUITY AND LIABILITIES			
Equity			
	15		
Share capital		166,124	166,124
Treasury stock		(871)	(871)
Share premium		49,213	49,213
Reserves		84,229	83,781
Accumulated loss		(89,143)	(93,142)
Total equity attributable to equity holders of the Group		209,552	205,105
Non-controlling interest		534	531
Total equity		210,086	205,636
Non-current liabilities			
Non-current borrowings	16	16,664	16,616
Deferred tax liabilities	28	25,861	25,936
Employee benefits	17	236	242
Trade and other payables	18	1,286	1,125
Total non-current liabilities		44,047	43,919
Current liabilities			
Trade and other payables	18	15,837	14,720
Income tax payable		2	116
Other taxes payable	19	744	1,120
Current borrowings and current portion of non-current borrowings	16	1,519	1,898
Provisions	20	86	67
Liabilities classified as held for sale	9	70	268
Total current liabilities		18,258	18,189
Total liabilities		62,305	62,108
Total equity and liabilities		272,391	267,744

General Director

V.G. Yakovlev

Chief Accountant

E.Y. Novenkova

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

	Note	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Revenue	21	27,998	27,620	81,351	85,646
Other operating income	26	188	614	495	879
Cost of materials	22	(18,037)	(16,397)	(50,298)	(48,419)
Depreciation of property, plant and equipment	7	(3,579)	(3,364)	(7,131)	(6,689)
Personnel expenses	24	(2,421)	(2,154)	(4,932)	(4,381)
Heat transmission		(982)	(3,353)	(4,817)	(15,162)
Other external supplies	23	(1,066)	(902)	(1,987)	(1,889)
Maintenance and repairs expenses		(1,252)	(1,584)	(1,740)	(2,042)
Taxes other than income tax		(497)	(510)	(569)	(1,025)
Other operating expenses	25	(2,419)	(281)	(3,691)	(1,245)
Results from operating activities		(2,067)	(311)	6,681	5,673
Financial income	27	212	427	463	815
Financial expenses	27	(767)	(361)	(696)	(33)
Profit/(loss) before income tax		(2,622)	(245)	6,448	6,455
Income tax (expense)/benefit	28	457	112	(1,258)	(1,286)
Profit/(loss) for the period		(2,165)	(133)	5,190	5,169
Other comprehensive income:					
Reversal of property, plant and equipment impairment loss	28	448	11	448	11
Other comprehensive income for the period, net of tax		448	11	448	11
Total comprehensive income/(loss) for the period		(1,717)	(122)	5,638	5,180
Profit/(loss) attributable to:					
Equity holders of the Group		(2,166)	(133)	5,187	5,169
Non-controlling interest		1	-	3	-
Basic and diluted earnings per share (in Russian Roubles)					
	29	(0.05)	(0.00)	0.13	0.13

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

	Note	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash flow from operating activities			
Profit before income tax		6,448	6,455
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	7	7,131	6,689
Financial income	27	(463)	(815)
Financial expenses	27	905	33
Trade and other receivables impairment loss and derecognition	25	2,312	115
Loss on disposal of property, plant and equipment	25	194	165
Litigations provision charge	20	19	110
Impairment loss/(reversal of impairment loss) on assets classified as held for sale	25	16	(6)
Gain from disposal of assets classified as held for sale	26	(18)	(10)
Other non-cash items		(1)	(2)
Operating cash flows before changes in working capital and provisions		16,543	12,734
Change in other current and non-current assets		516	(584)
Change in inventories		350	443
Change in trade and other payables		(3,333)	(6,498)
Change in taxes payables, other than income tax		(358)	396
Change in trade and other receivables		(578)	6,202
Change in employee benefit		(18)	(13)
Change in provisions		-	(15)
Cash flows from operations before income tax and interest paid		13,122	12,665
Income tax paid		(2,664)	(2,040)
Cash flows from operating activities		10,458	10,625
Cash flows used in investing activities			
Proceeds from disposal of investments		4,855	-
Proceeds from sale of property, plant and equipment		417	23
Proceeds from sale of assets classified as held for sale		59	169
Interest received		218	937
Acquisition of property, plant and equipment		(13,252)	(7,261)
Acquisition of investments		-	(4,678)
Interest paid and capitalised		(449)	(511)
Debt fee		(199)	(235)
Cash flows used in investing activities		(8,351)	(11,556)
Cash flows used in financing activities			
Proceeds from borrowings		1,757	4,500
Repayment of borrowings		(2,947)	(4,588)
Cash flows used in financing activities		(1,190)	(88)
Net increase/(decrease) in cash and cash equivalents		917	(1,019)
Cash and cash equivalents at the beginning of the period	14	12,632	25,572
Exchange gain from cash and cash equivalents		209	-
Cash and cash equivalents at the end of the period	14	13,758	24,553

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

		Attributable to equity holders of the Group							
	Note	Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total	Non-controlling interest	Total Equity
Balance at 1 January 2012		166,124	(871)	49,213	83,837	(98,270)	200,033	-	200,033
Profit for the period		-	-	-	-	5,169	5,169	-	5,169
Other comprehensive income:									
Reversal of property, plant and equipment impairment loss									
	28	-	-	-	11	-	11	-	11
Total comprehensive income for the period		-	-	-	11	5,169	5,180	-	5,180
Dividends to shareholders		-	-	-	-	(1,188)	(1,188)	-	(1,188)
Balance at 30 June 2012		166,124	(871)	49,213	83,848	(94,289)	204,025	-	204,025
Balance at 1 January 2013		166,124	(871)	49,213	83,781	(93,142)	205,105	531	205,636
Profit for the period		-	-	-	-	5,187	5,187	3	5,190
Other comprehensive income:									
Reversal of property, plant and equipment impairment loss									
	28	-	-	-	448	-	448	-	448
Total comprehensive income for the period		-	-	-	448	5,187	5,635	3	5,638
Dividends to shareholders		-	-	-	-	(1,188)	(1,188)	-	(1,188)
Balance at 30 June 2013		166,124	(871)	49,213	84,229	(89,143)	209,552	534	210,086

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Note 1. The Group and its operations

(a) Organisation 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 plants with operational capacity equaled approximately 12,262 megawatts (“MW”) and 34,722 gigacalories/hour (“Gkal/h”) of electricity and heat capacity.

OJSC “Mosenergo” was registered under the legislation of the Russian Federation at 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatisation 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 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

(b) Group formation

At 1 April 2005, the Company was reorganised through a spin-off following the reorganisation process within the Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of electricity sector to maintain and further expand production capacity. The Company’s restructuring was approved by general shareholder’s meeting at 28 June 2004. Before the restructuring took place the Company operated as an integrated utility model, which included generation, transmission and distribution activities. 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 at 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 53.49% of ordinary shares. Following the reorganisation process, an extraordinary general shareholder’s meeting of RAO UES of Russia at 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 shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC “Mosenergo Holding” (the “Mosenergo Holding”) received stake in OJSC “Mosenergo” held by RAO UES of Russia. Simultaneously with the spin-off “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, optimise the labor capacity and supply chain. Organisational structure optimisation included the merge of several production branches situated geographically close to each other and reallocation and outsourcing of non-core functions.

In April 2009 OJSC “Gazprom” transferred its 53.49% 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 Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation (Note 32).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management assessed possible impairment of the Group's property, plant and equipment by considering the current economic environment and outlook. The future economic and regulatory situation may differ from management’s current expectations.

(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” (the previous “Parent”), which held 53.49% 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 the Russian Federation is the ultimate controlling party of the Group.

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(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"). JSC "System Operator of the United Power System" (the "SO UES"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base as well as suppliers' chain includes a large number of entities controlled by or related to the state.

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 № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity 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 capacity produced and consumed.

Starting 2007, the volumes of electricity and capacity 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 capacity supplied at regulated prices will gradually decrease.

Electricity volumes produced, not covered by the regulated contracts, is 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.

Starting 2012 the majority of the contracts for electricity and capacity supply engaged at unregulated prices: free bilateral contracts or on a day-ahead market.

The introduction of the new wholesale market also covered capacity trading. Before the new market rules launch, suppliers were paid only for 85% 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.

According to Russian Federation Government Resolution № 1172 of 27 December 2010 starting 1 January 2011 the capacity is supplied using the following schemes at the wholesale market:

- capacity trading at regulated prices (tariffs) based on sales contracts in volume, intended for supply to the population and consumer groups equivalent to the population;
- supply of capacity at open (unregulated) prices based on competitive selection of capacity: capacity trading by open contracts on capacity sale – provided that this capacity is selected on the basis of competitive selection of capacity;
- delivery of capacity according to contracts for provision of facilities: capacity trading by contracts on sale of capacity produced with the use of generating supply;
- capacity which comes in a forced regime (the generating facilities that are not selected as a result of a competitive selection, supporting their further work, which is necessitated by technological and other reasons).

Contract for provision of facilities provided on the one hand the obligation of suppliers to implement the approved investment program, on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities.

(f) Scope of consolidation

OJSC "Mosenergo" and its following subsidiaries form the the Mosenergo Group:

	Percentage of ownership	
	30 June 2013	31 December 2012
LLC "TSK Mosenergo"	100.00%	100.00%
LLC "Centralny remontno-mekhanicheskiy zavod"	100.00%	100.00%
LLC "OGK-Investproject"	61.69%	51.00%

On 20 September 2012 the Group acquired a 51.00% interest in LLC "OGK-Investproject" and obtained control over

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LLC “OGK-Investproject”. The company carries out construction of the power unit at Cherepovets GRES. On 5 March 2013 the Group increased interest in LLC “OGK-Investproject” to 52.88%. On 9 April 2013 the Group increased interest in LLC “OGK-Investproject” to 61.69%.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated 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 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 Group’s functional currency and the currency in which these consolidated financial statements are presented. 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 recognised in the financial statements is included in the following notes:

- Note 4 – Fair value determination of property, plant and equipment;
- Note 4 – Fair value determination of investment property;
- Note 4 – Fair value determination of trade and other receivables, and
- Note 33 – Aggregation of operating segments.

Note 3. Significant accounting policies

(a) 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.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at: the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group’s equity.

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(ii) Transfers of subsidiaries from parties under common control

Transfers of subsidiaries between parties under common control are accounted for using the predecessor basis of accounting method. Under this method the assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. The financial statements incorporate the acquired entity's results from the date on which the transaction occurred. The corresponding figures of the previous year are not restated. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment within equity.

(iii) 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. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. 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.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company 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 translated 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.

(c) 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 Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates 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

MOSENERGO Group
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foreign exchange gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income 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.

(d) Property, plant and equipment

(i) Recognition and measurement

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 balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to other comprehensive income 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 other comprehensive income 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 recognised in other comprehensive income and accumulated in 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 labor 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.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

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 recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iii) Reclassification to assets held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Any gain arising on remeasurement is recognised in profit or loss to the extent

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the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iv) 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.

(v) 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.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimate useful lives for the year 2012 were not changed for the year 2013 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 |

(e) 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 amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised 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 recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is recognised 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.

(f) 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 initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Any change in fair value is recognised 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.

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use the property is remeasured to fair value and reclassified as assets held for sale. Any gain or loss on the remeasurement recognised in profit or loss.

(g) 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.

(h) Inventories

Inventories are measured at the lower of cost and net realisable 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

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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 realisable 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.

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. 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 the reversal is recognised in profit or loss.

Impairment losses for available-for-sale financial assets are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

(ii) Non-financial assets

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

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

(i) Non-current assets held for sale

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group’s accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group’s accounting policies. Impairment losses on initial recognition as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

(k) Employee benefits

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(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group 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.

Actuarial gains and losses which arise in the reporting period stay unrecognised. The Group recognises a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined as described above, divided by the expected average remaining working lives of the employees.

(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.

(iv) 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.

(v) 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-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors including Chief Executive Officer who make strategic decisions.

(n) Revenues

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(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 recognised on profit or loss when subsidy becomes receivable. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of the Company are recognised as income and included in other operating income.

(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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(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 those which are capitalised.

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 in other comprehensive income, in which case it is recognised in the consolidated statement of changes 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 balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the 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.

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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) Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(t) 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 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. There are no dilutive potential ordinary shares as of 31 March 2013 and 31 December 2012.

(u) New Standards and Interpretations

(i) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

- IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:
 - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
 - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
 - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
 - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". The Group expected that the revised standard does not have any effect on its financial statements.

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- IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities-Non-Monetary Contributions by Ventures”. The Group expected that the revised standard does not have any effect on its financial statements.
- IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). The Group expected that the revised standard does not have any effect on its financial statements.
- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The revised standard will have an impact on disclosures but will have no effect on measurement across IFRSs.
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group expected that the revised standard does not have any effect on its financial statements.
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group expected that the revised standard does not have any effect on its financial statements.
- Amended IAS 34, Annual Improvements, (revised in 2011 and effective for annual periods beginning on or after 1 January 2013), to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8. The amended IAS 34 will now require the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when:
 - The amount is regularly provided to the entity’s chief operating decision maker, and
 - There is a material change from the amount disclosed for that segment in the last annual financial statements.
- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group expected that the revised standard does not have significant effect on its financial statements.
- Amendments to IFRS 7, Financial Instruments: Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) require disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group expected that the revised standard does not have any effect on its financial statements.
- Amendments to IFRS 32, Classification of Rights Issues (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014) added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group expected that the revised standard does not have any effect on its financial statements.
- Amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 “Income taxes”, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine”, which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements,

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including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.
- Amendments to IFRS 1 “First-time adoption of International Financial Reporting Standards - Government Loans” (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.
- IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

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

(ii) The following new standards and interpretations became effective for the Group from 1 January 2013:

- “Disclosures—Transfers of Financial Assets” – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. This change did not have a material impact on these consolidated financial statements.
- Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 “First-time adoption of IFRS”, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 “Income taxes”, which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated 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, described further. 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, plant and equipment and investment property is determined either using market approach, depreciated replacement cost 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 derived 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, and
- market risk.

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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.

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 summarised in the Company's Regulations on Risk Management which are established to identify and analyse 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 analyses 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 a period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, the 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 organisations and entities, which may not be limited or refused 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. The Group plans to enter into contracts that provide partial or full payment in advance 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 A3 from Moody's and Aaa from Moody's, 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 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 optimising 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.

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.

To minimise 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 favorable to the Group over the expected period until maturity.

The Group constantly analyses dynamics of variable interest rates. To minimise 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 the 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 profit 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.

The gearing ratios at 30 June 2013 and at 31 December 2012 were as follows:

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	30 June 2013	31 December 2012
Borrowings (Note 16)	(18,183)	(18,514)
Cash and cash equivalents (Note 14)	13,758	12,632
Net debt	(4,425)	(5,882)
Equity	(210,086)	(205,636)
Total capital	(214,511)	(211,518)
Gearing ratio	2.06%	2.78%

(i) Loans' covenants

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements:

- the maximum level of Net financial Debt to EBITDA;
- minimum level of EBITDA to Interest expense, and
- minimum level of own paid tangible assets.

These ratios are included as covenants into loan agreements (see Note 16). The Group is in compliance with externally imposed capital requirements.

(ii) Legislation requirements

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, and
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

At 30 June 2013, the Group was in compliance with the above share capital requirements.

Note 6. Related party transactions

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three and six months ended 30 June 2013 and the three and six months ended 30 June 2012, or had significant balances outstanding at 30 June 2013 and at 31 December 2012 are detailed below. OJSC "Gazprom" 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 and its associates

The Group has the following turnover and balances outstanding with Gazprom Group and its associates (entities under common control).

Revenue

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Heat	107	82	342	273

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	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Electricity	140	84	323	188
Other revenue	11	3	22	13
Total	258	169	687	474

Expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Fuel expenses	(6,116)	(13,933)	(27,267)	(39,777)
Rent payments	(89)	(64)	(178)	(129)
Legal, consulting and data processing services	-	-	(17)	(3)
Purchased heat and electricity	(1)	(2)	(1)	(2)
Other expenses	(3)	(34)	(11)	(39)
Total	(6,209)	(14,033)	(27,474)	(39,950)

Rent payments for the three and six months ended 30 June 2013 are from OJSC “Neftyanoi dom”, associate of OJSC “Gazprom”, in the amount of RR 73 million and RR 147 million, respectively (for the three and six months ended 30 June 2012: RR 61 million and RR 126 million).

Financial income and expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Financial income	6	207	46	313
Financial expense	(30)	-	(61)	-
Net financial (expense)/income	(24)	207	(15)	313

Financial income and expenses for the three and six months ended 30 June 2013 and for the three and six months ended 30 June 2012 are from OJSC “Gazprombank”, associate of OJSC “Gazprom”.

Outstanding balance

	Outstanding balance at 30 June 2013	Outstanding balance at 31 December 2012
Advances for acquisition of property, plant and equipment	8,151	12,676
Trade and other receivables	71	423
Cash and cash equivalents	10	1,607
Investments	-	4,495
Total assets	8,232	19,201
Trade and other payables	(3,156)	(3,943)
Total liabilities	(3,156)	(3,943)

Advances for acquisition of property, plant and equipment include an outstanding balance with OJSC “Mehregionenergostroy”, associate of OJSC “Gazprom”, in the amount of RR 8,137 million at 30 June 2013 (at 31 December 2012: RR 12,676 million).

Trade and other receivables include an outstanding balance with OJSC “Gazprombank”, associate of OJSC “Gazprom”, in the amount of RR 0 million at 30 June 2013 (at 31 December 2012: RR 128 million).

Cash and cash equivalents at 30 June 2013 and at 31 December 2012 are from OJSC “Gazprombank”, associate of OJSC “Gazprom”.

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Trade and other payables include an outstanding balance with LLC “Gazprom mezhhregiongaz Moskva” and LLC “Mezhregionenergostroy” associate of OJSC “Gazprom”, in the amount of RR 358 million and RR 2,658 million at 30 June 2013 (at 31 December 2012: RR 2,367 million and RR 1,366 million).

Borrowings

	Amount loaned for the six months ended 30 June 2013	Amount loaned for the six months ended 30 June 2012	Outstanding balance at 30 June 2013	Outstanding balance at 31 December 2012
Non-current borrowings	-	-	1,700	1,700
Total borrowings	-	-	1,700	1,700

(b) 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:

Expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Wages and salaries	(25)	(26)	(54)	(51)
Social taxes and contributions	(2)	(3)	(6)	(6)
Termination benefits	-	-	-	(1)
Total	(27)	(29)	(60)	(58)

Outstanding balance

	Outstanding balance at 30 June 2013	Outstanding balance at 31 December 2012
Wages and salaries	3	-
Total	3	-

(c) Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with Gazprom Group and its associates 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 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Electricity	17,917	19,517	42,288	40,082
Heat	6,484	7,500	26,410	32,298
Other revenue	445	357	1,013	786
Total	24,846	27,374	69,711	73,166

Expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
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	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Heat transmission	(982)	(3,353)	(4,817)	(15,162)
Purchased heat and electricity	(1,971)	(1,824)	(4,499)	(5,115)
Electricity market administration fees	(320)	(289)	(646)	(586)
Water usage expenses	(294)	(290)	(562)	(559)
Rent payments	(128)	(126)	(262)	(241)
Security services	(87)	(92)	(177)	(187)
Fuel expenses	(16)	(27)	(65)	(85)
Communication services	(27)	(24)	(42)	(43)
Legal, consulting and data processing services	(33)	(10)	(41)	(14)
Fire prevention services	(8)	(20)	(18)	(39)
Other expenses	(33)	(71)	(67)	(97)
Total	(3,899)	(6,126)	(11,196)	(22,128)

Other expenses mainly include transport services, certification and testing services.

Financial income and expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Financial income	47	108	136	289
Net financial income	47	108	136	289

Outstanding balance

	Outstanding balance at 30 June 2013	Outstanding balance at 31 December 2012
Trade and other receivables	17,632	18,425
Cash and cash equivalents	2,145	4,675
Other non-current assets	523	523
Advances for acquisition of property, plant and equipment	537	189
Total assets	20,837	23,812
Trade and other payables	(1,628)	(3,461)
Total liabilities	(1,628)	(3,461)

The Group is a party of Capacity Supply Contracts, see Note 32.

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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 2012	104,368	74,511	11,100	6,891	27,144	224,014
Additions	11	-	-	85	3,349	3,445
Disposals	(125)	(84)	(20)	(18)	(1)	(248)
Transfers	196	807	167	190	(1,360)	-
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(119)	(1)	-	-	-	(120)
Transfer to assets classified as held for sale	(64)	-	-	-	-	(64)
Balance at 30 June 2012	104,267	75,233	11,247	7,148	29,132	227,027
Balance at 1 January 2013	104,103	77,669	11,668	8,463	41,038	242,941
Additions	1	6	53	4	20,420	20,484
Disposals	(101)	(26)	-	(54)	(591)	(772)
Transfers	157	841	1	62	(1,061)	-
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(2)	-	-	-	-	(2)
Transfer from assets classified as held for sale	988	-	-	-	-	988
Balance at 30 June 2013	105,146	78,490	11,722	8,475	59,806	263,639

Accumulated depreciation (including impairment)

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	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2012	(19,489)	(11,983)	(3,863)	(3,131)	(253)	(38,719)
Depreciation charge	(3,144)	(2,255)	(681)	(609)	-	(6,689)
Disposals	27	20	13	11	-	71
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	118	2	-	-	-	120
Reversal of property, plant and equipment impairment loss	-	-	16	-	-	16
Balance at 30 June 2012	(22,488)	(14,216)	(4,515)	(3,729)	(253)	(45,201)
Balance at 1 January 2013	(25,494)	(16,914)	(5,233)	(4,324)	(589)	(52,554)
Depreciation charge	(3,111)	(2,322)	(927)	(771)	-	(7,131)
Disposals	19	15	-	30	-	64
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	2	-	-	-	-	2
Reversal of property, plant and equipment impairment loss	560	-	-	-	-	560
Balance at 30 June 2013	(28,024)	(19,221)	(6,160)	(5,065)	(589)	(59,059)

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2012	84,879	62,528	7,237	3,760	26,891	185,295
At 30 June 2012	81,779	61,017	6,732	3,419	28,879	181,826
At 1 January 2013	78,609	60,755	6,435	4,139	40,449	190,387
At 30 June 2013	77,122	59,269	5,562	3,410	59,217	204,580

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2012	36,467	48,581	1,705	2,610	22,244	111,607
At 30 June 2012	35,638	47,407	1,884	2,374	22,035	109,338
At 1 January 2013	34,931	48,360	2,053	3,517	33,284	122,145
At 30 June 2013	34,586	46,793	1,424	2,879	54,293	139,975

Borrowing costs of RR 526 million and RR 280 million for the six months ended 30 June 2013 and 30 June 2012, respectively, are capitalised in additions above. Capitalisation rates of 5.50% and 3.93% for the six months ended 30 June 2013 and 30 June 2012, were used to determine the amount of borrowing costs eligible for capitalization. The capitalization rate represented the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

There were no properties pledged as security for Company's bank loans at 30 June 2013 and at 31 December 2012.

(a) 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.

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The appraised value of property, plant and equipment presented above was estimated as fair value by independent appraiser at 31 December 2008.

In 2012 the Group determined that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at 31 December 2012 and, therefore, revaluation was not performed at 31 December 2012.

(b) Impairment test

The Group assessed at 31 December 2012 whether there were any indicators that the Group assets may be impaired. The Company has recognised RR 661 million of impairment at 31 December 2012 related to assets which would be taken out of operation.

(c) Leased assets

The Group leases production plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (see Note 31). At 30 June 2013 the net carrying amount of leased plant and equipment was RR 224 million (at 31 December 2012: RR 252 million).

Note 8. Investment property

	2013	2012
Balance at 1 January	792	792
Balance at 30 June	792	792

The fair value of the Group's investment property at 30 June 2013 was determined to be RR 792 million (at 31 December 2012: RR 792 million) and based on the market trends for the six months 2013 (at 31 December 2012: on trends for the year 2012).

Rental income for the three and six months ended 30 June 2013 and for the three and six months ended 30 June 2012 amounted to RR 29 million and RR 56 million, RR 35 million and RR 60 million, respectively, was recognised in profit and loss 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 2013	31 December 2012
Less than one year	50	78
Between one and five years	-	-
More than five years	-	-
Total	50	78

Note 9. Disposal group classified as held for sale

(a) Assets classified as held for sale

	30 June 2013	31 December 2012
Property, plant and equipment	523	1,544
Investment property	32	32
Total	555	1,576

(b) Liabilities classified as held for sale

	30 June 2013	31 December 2012
Deferred tax liabilities	70	268
Total	70	268

During the six months ended 30 June 2013 the Group was in the process of disposing non-core assets which led to transfers to assets classified as held for sale from property, plant and equipment assets in the amount of RR 13 million and from

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investment property in the amount of RR 0 million (for the year ended 31 December 2012: RR 97 million and RR 0 million, respectively).

During the six months ended 30 June 2013 the Group changes the plan of sale of non-core assets which led to transfers from assets classified as held for sale to property, plant and equipment assets in the amount of RR 1,000 million.

At 30 June 2013 the Group is in possessing of assets for disposal in the amount RR 555 million and the corresponding liabilities in the amount of RR 70 million (at 31 December 2012: RR 1,576 million and RR 268 million, respectively). The Group envisages selling its real estate portfolio listed above within one year.

During the three and six months ended 30 June 2013 the Company sold assets classified as held for sale in the amount of RR 0 million and RR 18 million, respectively, with gain on disposal recognised in profit and loss in the amount of RR 0 million and RR 18 million that is disclosed in Note 26 (for the three and six months ended 30 June 2012: RR 29 million, RR 70 million and RR (11) million and RR 10 million, respectively).

Note 10. Inventories

	30 June 2013	31 December 2012
Fuel	3,922	4,478
Raw materials and consumables	2,264	2,058
Total	6,186	6,536

Raw materials and consumables are stated net of a provision for obsolete inventory amounting to RR 8 million and RR 10 million at 30 June 2013 and at 31 December 2012, respectively. The write-downs and reversals are included in other materials expenses.

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

Note 11. Investments

	30 June 2013	31 December 2012
Promissory notes	428	338
Deposits	-	4,495
Total	428	4,833

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 2013	31 December 2012
Trade receivables	21,148	23,047
Other receivables	2,712	3,132
Financial assets	23,860	26,179
Advances to suppliers and prepaid expenses	2,258	2,220
Taxes other than income tax prepaid	1,010	150
VAT recoverable	210	206
Other receivables	2,249	2,387
Total	29,587	31,142
Current assets	27,922	29,610
Non-current assets	1,665	1,532
Total	29,587	31,142

Trade receivables balances are recorded net of provision for impairment in amount of RR 5,811 million and RR 3,508 million at 30 June 2013 and at 31 December 2012, respectively.

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Other receivables balances are recorded net of provision for impairment in amount of RR 107 million and RR 109 million at 30 June 2013 and at 31 December 2012, 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 2013	31 December 2012
Other non-current assets		
Constructed assets financed by the government of Moscow city	523	523
Intangible assets	331	396
Available-for-sale financial assets	9	9
Investments	-	223
Other assets	2,031	2,570
Total	2,894	3,721
Other current assets		
Other assets	632	393
Total	632	393

Other assets include current and non-current input VAT from advances for acquisition of property, plant and equipment in total amount of RR 2,153 million and RR 2,575 million at 30 June 2013 and at 31 December 2012, respectively.

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

Note 14. Cash and cash equivalents

	30 June 2013	31 December 2012
Bank balances	8,141	2,111
Call deposits	5,617	10,521
Total	13,758	12,632

Call deposits are classified as cash equivalents when their original maturity is three month or less.

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

Bank	30 June 2013		31 December 2012	
	%	Balances	%	Balances
OJSC "Alfa Bank"	11.15	3,474	7.60	4,242
OJSC "Sberbank Rossii"	0.11	2,114	7.30	4,672
OJSC "Bank VTB"	6.10	29	-	-
OJSC "Gazprombank"	-	-	4.40	1,607
Total		5,617		10,521

Note 15. Equity

(a) Share capital and share premium

At 30 June 2013 the authorised share capital comprised 39,749,359,700 ordinary shares (at 31 December 2012: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

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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

The treasury stock at 30 June 2013 and at 31 December 2012 amounted to RR 871 million.

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

(c) Reserves

At 30 June 2013 reserves composed of the revaluation of available-for-sale financial assets in amount of RR 3 million (at 31 December 2012: RR 3 million) and the revaluation reserve relates to the revaluation of property, plant and equipment in amount of RR 84,226 million (at 31 December 2012: RR 83,778 million).

(d) Dividends

In 19 June 2012 the general shareholders meeting made the decision to pay dividends for the result of financial year 2011. The amount of declared dividends on the issuer shares was RR 0.03 per share, total amount of dividends is RR 1,188 million.

In 5 June 2013 the general shareholders meeting made the decision to pay dividends for the result of financial year 2012. The amount of declared dividends on the issuer shares was RR 0.03 per share, total amount of dividends is RR 1,188 million.

Note 16. Borrowings

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

	30 June 2013	31 December 2012
Non-current borrowings		
Unsecured bank loans	9,859	9,916
Unsecured bond issues	5,105	5,000
Other loans	1,700	1,700
Total	16,664	16,616
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bank loans	1,513	1,427
Current portion of unsecured bond issues	-	471
Other loans	6	-
Total	1,519	1,898

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	30 June 2013		31 December 2012	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans				12,322	11,372	12,379	11,343
BNP Paribas	EURO	EURIBOR 6M+2,00%	2022	6,481	5,892	6,425	5,782
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1,95%	2024	5,485	5,126	5,389	5,001
Credit Agricole CIB Deutschland	EURO	7,20%	2013	356	354	504	500

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	Currency	Nominal interest rate	Year of maturity	30 June 2013		31 December 2012	
				Face value	Carrying amount	Face value	Carrying amount
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1.00%	2013	-	-	61	60
Unsecured bond issues				5,105	5,105	5,471	5,471
Unsecured bond issue № 3	Russian Roubles	8.70%	2014	5,000	5,000	5,000	5,000
Unsecured bond issue № 2	Russian Roubles	8.25%	2016	105	105	471	471
Other loans				1,706	1,706	1,700	1,700
OJSC "OGK-2"	Russian Roubles	7.25%	2022	1,048	1,048	1,048	1,048
LLC "Gazprom energoholding"	Russian Roubles	7.25%	2021	652	652	652	652
LLC "TER-Moskva"	Russian Roubles	10.60%	2013	6	6	-	-
Total				19,133	18,183	19,550	18,514

Note 17. Employee benefits

The Group sponsors a post-employment and other long-term benefit program that covers the majority of the Group'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 Group. The plan is administrated by non-state pension fund.

To be entitled for participation in this 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 Group.

In addition to defined contribution pension plan the Group maintains several plans of a defined benefit nature which are provided in accordance with collective bargaining agreement and other documents. The main benefits provided under this agreement are lump sum upon retirement and material assistance.

A new collective bargaining agreement came into force from 1 January 2013. There were no significant changes in benefits provided via the agreement compared to the version effective in the prior year.

Compensations for redundancies paid by the Group for the three and six months ended 30 June 2013 and for the three and six months ended 30 June 2012 amounted to RR 14 million and 23 million, RR 9 million and 11 million respectively, were recognised in profit and loss in personnel expenses.

	30 June 2013	31 December 2012
Present value of unfunded obligations	312	310
Recognised liability for defined benefit obligations	312	310
Unrecognised actuarial losses	(22)	(5)
Unrecognised past service cost	(54)	(63)
Net liability recognised in the consolidated statement of financial position	236	242

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

	2013	2012
Defined benefit obligations at 1 January	310	278
Interest on employee benefit obligations	13	10
Current service cost	4	4
Benefits paid	(27)	(25)
Actuarial gains	14	13
Effect of curtailment and settlement	(2)	(1)
Defined benefit obligations at 30 June	312	279

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(b) Expenses recognised in profit or loss

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Termination benefits	14	9	23	11
Interest on employee benefit obligations	6	5	13	10
Amortisation of past service cost	5	5	9	9
Current service cost	2	2	4	4
Effect of curtailment and settlement	(2)	(1)	(2)	(1)
Net actuarial gains recognized in period	-	-	(1)	-
Total	25	20	46	33

(c) Actuarial assumptions

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

(i) Financial assumptions

	30 June 2013	31 December 2012
Discount rate	7.00%	7.00%
Inflation rate	5.50%	5.50%
Future salary increases	7.50%	7.50%
Future pension increases	5.50%	5.50%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 25% p.a. for employees with 1 year of past service to around 7% p.a. for those who have 20 or more years of service. Compared to previous period the changes in the assumption are insignificant.

Retirement ages assumption is as follows: average retirement ages are 62 years for men and 58 years for women. Very similar retirement ages were used in previous period.

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

(d) Historical information

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Present value of the defined benefit obligation	312	310	278	300	245
Deficit in the plan	312	310	278	300	245
Experience adjustments arising on plan liabilities	3	1	(10)	18	(3)

In 2013 the Group expects to contribute RR 43 million to its defined benefit plans.

Note 18. Trade and other payables

	30 June 2013	31 December 2012
Trade payables	4,946	6,722
Other payables	5,215	3,313
Financial liabilities	10,161	10,035
Advances received	2,176	2,506
Other payable	4,786	3,304
Total	17,123	15,845

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	30 June 2013	31 December 2012
Current liabilities	15,837	14,720
Non-current liabilities	1,286	1,125
Total	17,123	15,845

Other payables as part of financial liabilities include accounts payable for acquisition of property, plant and equipment amounting to RR 4,640 million at 30 June 2013 (at 31 December 2012: RR 2,571 million).

Other payables as part of non-financial liabilities include VAT on advances amounted to RR 2,252 million at 30 June 2013 (at 31 December 2012: RR 2,168 million).

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

Note 19. Other taxes payable

	30 June 2013	31 December 2012
Property tax payable	396	103
Social contributions payable	282	206
VAT payable	11	801
Other taxes payable	55	10
Total	744	1,120

Note 20. Provisions

	2013	2012
Balance at 1 January	67	93
Provisions made during the period	25	118
Provisions used during the period	-	(15)
Provisions recovered during the period	(6)	(8)
Balance at 30 June	86	188

The legal provision balance was made by the Company in amount of RR 86 million and RR 67 million at 30 June 2013 and at 31 December 2012, respectively. At 30 June 2013 the majority of this balance in amount of RR 44 million and RR 30 million was made in respect of the claims from OJSC "MOEK" and LLC "Prestigniy proect", respectively (at 31 December 2012: RR 28 million and RR 30 million, respectively).

Note 21. Revenue

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Electricity	19,103	17,196	44,782	42,561
Heat	8,309	9,635	34,999	41,617
Other revenue	586	789	1,570	1,468
Total	27,998	27,620	81,351	85,646

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

Approximately 4% and 4%, 4% and 5% of sales of electricity for the three and six months ended 30 June 2013 and for the three and six months ended 30 June 2012, respectively, relates to resale of purchased electricity on wholesale market NOREM.

Note 22. Cost of materials

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
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	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Fuel expenses	15,549	13,962	44,844	42,322
Purchased heat and electricity	1,998	1,888	4,565	5,196
Water usage expenses	297	289	567	559
Other materials expenses	193	258	322	342
Total	18,037	16,397	50,298	48,419

Electricity is purchased mainly on wholesale electricity market.

Note 23. Other external supplies

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Electricity market administration fees	320	290	646	586
Desalted water supply	299	201	563	500
Security services	127	119	249	241
Transport services	129	95	199	153
Cleaning services	78	74	143	141
Communication services	22	21	47	43
Certification and testing services	23	12	30	85
Fire prevention services	11	20	21	39
Other services	57	70	89	101
Total	1,066	902	1,987	1,889

Electricity market administration fees include payments to OJSC “Administrator trgovoi sistemy” and CJSC “Centr finansovyh raschetov” for arrangement of settlements between parties on electricity market and payments to JSC “SO UES” for regulation of generating assets operation of the Group.

Note 24. Personnel expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Wages and salaries	1,824	1,630	3,710	3,296
Payroll tax	496	431	1,052	912
Voluntary medical insurance expenses	25	24	50	50
Catering	23	26	46	51
Personnel training expenses	32	27	39	48
Termination benefits	14	9	23	11
Amortisation of past service cost	5	5	9	9
Current service cost	2	2	4	4
Net actuarial gains recognised in period	-	-	(1)	
Total	2,421	2,154	4,932	4,381

The Group average headcount totaled 8,505 and 7,800 at 30 June 2013 and at 30 June 2012, respectively.

Note 25. Other operating expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
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	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Trade and other receivables impairment loss and derecognition	1,583	(433)	2,312	115
Rent payments	229	231	458	413
Legal, consulting and data processing services	205	272	380	343
Loss on disposal of property, plant and equipment	215	150	194	165
Software expenses	64	60	119	101
Insurance expenses	30	(76)	77	(20)
Safety arrangement and precautions	18	20	30	32
Environmental payments	10	14	20	26
Impairment loss/(reversal of impairment loss) on assets classified as held for sale	-	(5)	16	(6)
Bank services	4	3	8	12
Other miscellaneous	61	45	77	64
Total	2,419	281	3,691	1,245

Note 26. Other operating income

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Subsidies on the difference in tariffs for sales to the urban population	92	90	373	387
Fines and penalties business contracts	68	497	67	421
Gain from disposal of assets classified as held for sale	-	(11)	18	10
Effect of curtailment and settlement	2	1	2	1
Cession agreements	-	29	-	29
Reversal of property, plant and equipment impairment loss	-	2	-	2
Other miscellaneous	26	6	35	29
Total	188	614	495	879

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

Note 27. Financial income and expenses

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Financial income				
Interest income on bank deposits	169	405	375	736
Other interest income	43	22	88	79
Total	212	427	463	815
Financial expenses				
Foreign exchange (loss)/gain	(756)	(341)	(669)	51
Interest expenses on borrowings	(288)	(31)	(526)	(280)
Interest on employee benefit obligations	(6)	(5)	(13)	(10)
Lease expenses	(5)	(13)	(10)	(19)
Other interest expenses	-	(2)	(4)	(55)
Total	(1,055)	(392)	(1,222)	(313)

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	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Less capitalised interest expenses on borrowings related to qualifying assets (Note 7)	288	31	526	280
Net financial expenses recognised in profit or loss	(767)	(361)	(696)	(33)

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Interest income	212	427	463	815
Interest expenses	(5)	(15)	(14)	(74)
Net interest	207	412	449	741

Net interest result by categories of assets and liabilities

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash and cash equivalents	203	389	436	777
Investments	9	38	27	38
Liabilities carried at amortised cost	(5)	(15)	(14)	(74)
Total	207	412	449	741

Note 28. Income tax

(a) *Income tax*

The applicable tax rate of the Group is the income tax rate of 20% (for the six months ended 30 June 2012: 20%).

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Current tax expense				
Current period	293	20	(1,774)	(1,886)
Over provided in prior periods	-	1,357	131	1,414
Deferred tax expense				
Origination and reversal of temporary differences	164	(1,265)	385	(814)
Income tax (expense)/benefit	457	112	(1,258)	(1,286)

Reconciliation of effective tax rate is as follows:

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Profit/(loss) before income tax	(2,622)	(255)	6,448	6,455
Income tax at applicable tax rate	524	49	(1,290)	(1,291)
Non-deductible / non-taxable items	(67)	(1,294)	(99)	(1,409)
Over provided in prior periods	-	1,357	131	1,414
Income tax (expense)/benefit	457	112	(1,258)	(1,286)

(b) *Tax effects of components of other comprehensive income*

Three months ended
30 June 2013

Six months ended
30 June 2013

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	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Reversal of property, plant and equipment impairment loss	560	(112)	448	560	(112)	448
Total	560	(112)	448	560	(112)	448

	Three months ended 30 June 2012			Six months ended 30 June 2012		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Reversal of property, plant and equipment impairment loss	14	(3)	11	14	(3)	11
Total	14	(3)	11	14	(3)	11

(c) *Deferred income tax*

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Property, plant and equipment	-	-	(25,127)	(26,229)	(25,127)	(26,229)
Assets classified as held for sale	-	-	(70)	(292)	(70)	(292)
Investment property	-	-	(53)	(47)	(53)	(47)
Trade and other receivables	-	-	(374)	(464)	(374)	(464)
Trade and other payables	-	130	(72)	-	(72)	130
Employee benefits	48	44	-	-	48	44
Provisions	17	37	-	-	17	37
Borrowings	-	-	(190)	(112)	(190)	(112)
Other current and non-current assets	-	-	(124)	(305)	(124)	(305)
Other	14	59	-	-	14	59
Total	79	270	(26,010)	(27,449)	(25,931)	(27,179)

Movements in deferred income tax during the six months ended 30 June 2012 and the six months ended 30 June 2013 are as follows:

	31 December 2011	Recognised in income	Recognised in equity	Reclassification	30 June 2012
Property, plant and equipment	(25,448)	(777)	(3)	(1)	(26,229)
Assets classified as held for sale	(301)	8	-	1	(292)
Investment property	(45)	(2)	-	-	(47)
Trade and other receivables	(584)	120	-	-	(464)
Trade and other payables	154	(24)	-	-	130
Employee benefits	45	(1)	-	-	44
Provisions	18	19	-	-	37
Borrowings	(59)	(53)	-	-	(112)
Other current and non-current assets	(182)	(123)	-	-	(305)
Other	40	19	-	-	59

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	31 December 2011	Recognised in income	Recognised in equity	Reclassification	30 June 2012
Total	(26,362)	(814)	(3)	-	(27,179)
	31 December 2012	Recognised in income	Recognised in equity	Reclassification	30 June 2013
Property, plant and equipment	(25,491)	668	(112)	(192)	(25,127)
Assets classified as held for sale	(268)	6	-	192	(70)
Investment property	(50)	(3)	-	-	(53)
Trade and other receivables	(223)	(151)	-	-	(374)
Trade and other payables	55	(127)	-	-	(72)
Employee benefits	49	(1)	-	-	48
Provisions	13	4	-	-	17
Borrowings	(207)	17	-	-	(190)
Other current and non-current assets	(98)	(26)	-	-	(124)
Other	16	(2)	-	-	14
Total	(26,204)	385	(112)	-	(25,931)

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 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Issued shares	39,749,360	39,749,360	39,749,360	39,749,360
Effect of own shares held	(140,229)	(140,229)	(140,229)	(140,229)
Weighted average number of ordinary shares (thousands)	39,609,131	39,609,131	39,609,131	39,609,131

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

	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Weighted average number of ordinary shares issued (thousands)	39,609,131	39,609,131	39,609,131	39,609,131
Profit/(loss) for the period	(2,165)	(133)	5,190	5,169
Profit/(loss) per ordinary share (basic and diluted) (in Russian Roubles)	(0.05)	(0.00)	0.13	0.13

There are no dilutive potential ordinary shares as of 30 June 2013 and 31 December 2012.

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:

	Carrying amount	
	30 June 2013	31 December 2012
Loans and receivables	23,860	26,179

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	Carrying amount	
	30 June 2013	31 December 2012
Trade and other receivables (Note 12)	23,860	26,179
Held-to-maturity investments	428	5,056
Investments (Note 11)	428	4,833
Other investments (Note 13)	-	223
Available-for-sale financial assets (Note 13)	9	9
Cash and cash equivalents (Note 14)	13,758	12,632
Total financial assets	38,055	43,876

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

	Carrying amount	
	30 June 2013	31 December 2012
Heat	14,376	13,172
Electricity	5,630	9,224
Other	3,854	3,783
Total	23,860	26,179

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

The account receivables of the Group are primarily comprised of a few, large, reputed customers who purchase electricity and heat. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default from such customers is very low.

The most important customers of the Group, OJSC “MOEK” and CJSC “ZFR”, accounts for RR 9,999 million and RR 1,409 million, respectively, for the trade receivables carrying amount at 30 June 2013 (at 31 December 2012: RR 7,733 million and RR 2,909 million, respectively).

(ii) Impairment losses

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

	30 June 2013		31 December 2012	
	Gross	Impairment	Gross	Impairment
Not past due	13,587	-	11,573	-
Past due 0-30 days	1,362	72	8,764	-
Past due 31-120 days	5,681	733	3,417	48
Past due 121-365 days	4,058	1,461	2,047	720
More than one year	5,090	3,652	3,995	2,849
Total	29,778	5,918	29,796	3,617

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

	2013	2012
Balance at 1 January	3,617	2,727
Impairment loss recognised during the period	2,315	115
Allowance used during the period	(14)	-
Balance at 30 June	5,918	2,842

The impairment allowance at 30 June 2013 of RR 5,918 million (at 31 December 2012: RR 3,617 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

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Based on historic default rates, the Group believes that no significant impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 120 days; 69.28 percent of the balance (at 31 December 2012: 79.72 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

The allowance accounts in respect of trade and other 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.

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

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

Name of the bank	Rating agency	Rating	30 June 2013	Rating	31 December 2012
OJSC "Alfa-Bank"	Fitch Ratings	BBB-	10,962	AA+(rus)	5,205
OJSC "Sberbank Russia"	Moody's Interfax	Aaa.ru	2,116	Aaa.ru	4,675
PJSC "CREDIT AGRICOLE BANK"	Fitch Ratings	B	363	-	-
OJSC "AB "Russia"	Moody's Interfax	A3.ru	265	A3.ru	1,143
OJSC "Bank VTB"	Fitch Ratings	BBB	29	-	-
OJSC "Vozrozhdenie"	Standard & Poor's	ruAA-	13	-	-
OJSC "Gazprombank"	Standard & Poor's	ruAAA	10	ruAAA	1,607
Other	-	-	-	-	2
Total			13,758		12,632

The Company pursues the policy of cooperation with a number of the top Russian banks, which is approved by the Board of Directors.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 30 June 2013:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	11,372	13,910	1,088	732	1,446	1,420	1,397	1,375	6,452
Unsecured bond issues	5,105	5,760	221	217	5,217	105	-	-	-
Other loans	1,706	2,807	80	61	123	123	123	123	2,174
Trade and other payables	10,161	10,161	9,833	-	328	-	-	-	-
Total	28,344	32,638	11,222	1,010	7,114	1,648	1,520	1,498	8,626

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2012:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	11,343	14,377	886	869	1,530	1,337	1,312	1,285	7,158
Unsecured bond issues	5,471	6,342	691	217	5,434	-	-	-	-
Other loans	1,700	2,866	31	61	123	123	123	123	2,282
Trade and other payables	10,035	10,035	9,853	-	182	-	-	-	-

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	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Total	28,549	33,620	11,461	1,147	7,269	1,460	1,435	1,408	9,440

All of the Group's financial liabilities are carried at amortised cost.

(b) Currency risk

(i) Exposure to currency risk

	30 June 2013		31 December 2012	
	EURO-denominated	USD-denominated	EURO-denominated	USD-denominated
Investments	-	-	4,475	-
Cash and cash equivalents	2,477	3	26	-
Unsecured bank loans	(11,372)	-	(11,343)	-
Gross balance sheet exposure	(8,895)	3	(6,842)	-
Estimated forecasted interest income	-	-	120	-
Estimated forecasted interest expenses	(238)	-	(238)	-
Gross exposure	(238)	-	(118)	-
Net exposure	(9,133)	3	(6,960)	-

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012
EURO 1	40.7444	39.9524	42.7180	40.2286
USD 1	31.0169	31.0987	32.7090	30.3727

(ii) Sensitivity analysis

A 2% strengthening of the RR against EUR at 30 June 2013 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 2012.

	30 June 2013	31 December 2012
EURO	181	138

A 2% weakening of the RR against the EUR at 30 June 2013 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 actual increase in the average exchange rates for the period ended 30 June 2013 was approximately 2% for the EURO (for the period ended 30 June 2012: decrease approximately 2% for the EURO), although the difference between the two actual extremes in the reported period was approximately 9% (for the period ended 30 June 2012: 6%).

(c) Interest rate risk

(i) Profile

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

	Carrying amount	
	30 June 2013	31 December 2012
Fixed rate instruments		
Financial assets (Note 11, 12, 13, 14)	38,055	43,876

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	Carrying amount	
	30 June 2013	31 December 2012
Financial liabilities (Note 16,18)	(17,326)	(17,706)
Total	20,729	26,170
Variable rate instruments		
Financial liabilities (Note 16)	(11,018)	(10,843)
Total	(11,018)	(10,843)

(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.

(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 30 June 2013 and 30 June 2012.

	30 June 2013		30 June 2012	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(62.5)	62.5	(36.4)	36.4
Cash flow sensitivity (net)	(62.5)	62.5	(36.4)	36.4

(d) *Fair values*

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

	30 June 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables (Note 12)	23,860	23,860	26,179	26,179
Cash and cash equivalents (Note 14)	13,758	13,758	12,632	12,632
Investments (Note 11)	428	428	4,833	4,833
Available-for-sale financial assets (Note 13)	9	9	9	9
Other investments (Note 13)	-	-	223	223
Unsecured bank loans (Note 16)	(11,372)	(11,372)	(11,343)	(11,343)
Trade and other payables (Note 18)	(10,161)	(10,161)	(10,035)	(10,035)
Unsecured bond issues (Note 16)	(5,105)	(5,158)	(5,471)	(5,496)
Other loans (Note 16)	(1,706)	(1,706)	(1,700)	(1,700)

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

Note 31. Leases

(a) *Operating leases*

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for periods from 5 to 45 years with an option to renew the lease. During for the three and six months ended 30 June 2013 and for the three and six months ended 30 June 2012 operating lease expenses in the amounts of RR 229 million and RR 458 million, and RR 231 million and RR 413 million respectively, were recognised in the interim consolidated statement of comprehensive income.

Non-cancellable operating lease rentals are payable as follows:

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	30 June 2013	31 December 2012
Less than one year	459	481
Between one and five years	1,789	1,850
More than five years	12,792	13,573
Total	15,040	15,904

(b) Finance leases

Finance lease rentals are payable as follows (see Note 7):

	30 June 2013			31 December 2012		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	31	10	21	77	38	39
Between one and five years	17	2	15	30	6	24
More than five years	-	-	-	-	-	-
Total	48	12	36	107	44	63

Note 32. Commitments and contingencies

(a) Capital commitments

At 30 June 2013 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 26,275 million (at 31 December 2012: RR 50,034 million). The amount includes Capacity Supply Contracts capital commitments for the amount RR 25,744 million (at 31 December 2012: RR 32,789 million).

(b) Taxation environment

The taxation systems in the Russian Federation are relatively new and are characterised 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) 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 there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(d) 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.

(e) Guarantees

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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 amounting to RR 85 million at 30 June 2013 (at 31 December 2012: RR 94 million).

(f) 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 action and proceeding against the Company in connection with the invalidation of the long-term lease contract with MP “Khimkinskaya teploset” for a heating property located in Khimki, Moscow Region.

Note 33. Operating segments

The chief operating decision-maker has been identified as the Board of Directors and Chief Executive Officer. The decision-maker reviews 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-maker assesses the operating performance of these individual power generating units based on its revenue and directly attributable costs. Interest income and expenditure are treated as central costs of the Group. Other information provided to the decision-maker is measured in a manner consistent with that in the financial statements.

The operating segments are aggregated into two primary reporting segments; electricity and heat. Despite of the fact that there are modernised and unmodernised power generating units amongst operating segments which show significantly different gross margins, this aggregation is premised on the identical nature of their products, production process, the class of customers, the methods used to distribute their products and the nature of the regulatory environment. 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 and maintenance services. These are not included within the reportable operating segments. The results of these operations are included in the “all other segments” column.

Taxes balances 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 statement of financial position assets.

(a) Segment information

The segment information for six months ended 30 June 2013 and at 30 June 2013 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	21	44,782	34,999	1,570	81,351
Expenses:					
Fuel and water usage expenses	22	(45,140)	(271)	-	(45,411)
Heat transmission		-	(4,817)	-	(4,817)
Purchased electricity	22	(4,182)	(68)	-	(4,250)
Purchased heat	22	-	(315)	-	(315)
Segment result		(4,540)	29,528	1,570	26,558
Segment assets		226,733	30,851	12,894	270,478

The segment information for the six months ended 30 June 2012 and at 31 December 2012 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	21	42,561	41,617	1,468	85,646
Expenses:					
Fuel and water usage expenses	22	(42,881)	-	-	(42,881)
Heat transmission		-	(15,162)	-	(15,162)
Purchased electricity	22	(4,726)	-	-	(4,726)
Purchased heat	22	-	(470)	-	(470)

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	Note	Electricity	Heat	All other segments	Total
Segment result		(5,046)	25,985	1,468	22,407
Segment assets		221,344	31,482	14,755	267,581

The Group assets was not impaired at 30 June 2013 (at 31 December 2012: RR 661 million which was allocated to the electricity segment in amount RR 642 million, to the heat segment in amount RR 17 million and RR 2 million to all other segments).

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

	Note	Three months ended 30 June 2013	Three months ended 30 June 2012	Six months ended 30 June 2013	Six months ended 30 June 2012
Segment result for reportable segments		8,586	7,339	24,988	20,939
Other segments gross margin		586	789	1,570	1,468
Financial income	27	212	427	463	815
Other operating income	26	188	614	495	879
Depreciation of property, plant and equipment	7	(3,579)	(3,364)	(7,131)	(6,689)
Personnel expenses	24	(2,421)	(2,154)	(4,932)	(4,381)
Other operating expenses	25	(2,419)	(281)	(3,691)	(1,245)
Other external supplies	23	(1,066)	(902)	(1,987)	(1,889)
Maintenance and repairs expenses		(1,252)	(1,584)	(1,740)	(2,042)
Financial expenses	27	(767)	(361)	(696)	(33)
Taxes other than income tax		(497)	(510)	(569)	(1,025)
Other materials expenses	22	(193)	(258)	(322)	(342)
Profit/(loss) before income tax		(2,622)	(245)	6,448	6,455

(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:

	Note	30 June 2013	31 December 2012
Segment assets		270,478	267,581
Unallocated:			
Taxes other than income tax prepaid	12	1,010	150
Income tax receivables		894	4
Available-for-sale financial assets	13	9	9
Total assets per consolidated statement of financial position		272,391	267,744

(c) Information about major customers

During the three and six months ended 30 June 2013 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the three and six months ended 30 June 2013 amounted to RR 11,564 million and RR 27,588 million. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.
- Revenue from OJSC "MOEK" for the three and six months ended 30 June 2013 amounted to RR 5,201 million and RR 20,306 million. The revenue was obtained from sales of heat relating to the heat segment.

During the three and six months ended 30 June 2012 there were certain external customers, revenues from transactions with

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whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the three and six months ended 30 June 2012 amounted to RR 9,885 million and RR 25,685 million. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.
- Revenue from OJSC "MOEK" for the three and six months ended 30 June 2012 amounted to RR 6,379 million and RR 26,321 million. The revenue was obtained from sales of heat relating to the heat segment.

Note 34. Events after the reporting period

In July 2013 the Group increased interest in LLC "OGK-Investproject" to 90.50%.