

MOSENERGO Group

**International Financial Reporting Standards
Consolidated Interim Financial Statements
for the three and nine months ended 30 September 2014
(unaudited)**

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

	Note	30 September 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	275,855	273,766
Investment property	8	805	800
Goodwill	4	2,059	2,059
Advances for acquisition of property, plant and equipment		3,772	6,372
Long-term financial assets	11	3,213	3,350
Trade and other receivables	12	3,581	784
Other non-current assets	14	2,083	856
Total non-current assets		291,368	287,987
Current assets			
Cash and cash equivalents	10	8,037	2,871
Short-term financial assets	11	596	541
Trade and other receivables	12	52,585	39,017
Inventories	13	8,420	7,136
Income tax receivable		1,448	384
Other current assets	14	101	457
		71,187	50,406
Assets classified as held for sale	9	347	563
Total current assets		71,534	50,969
Total assets		362,902	338,956
EQUITY AND LIABILITIES			
Equity			
Share capital	15	166,124	166,124
Treasury stock		(871)	(871)
Share premium		49,213	49,213
Reserves		128,668	130,779
Accumulated loss		(93,491)	(86,860)
Total equity attributable to equity holders of the Group		249,643	258,385
Non-controlling interest	1	625	737
Total equity		250,268	259,122
Non-current liabilities			
Non-current borrowings	16	44,083	19,202
Deferred tax liabilities	28	34,714	37,791
Employee benefits	17	349	374
Trade and other payables	18	10,282	919
Total non-current liabilities		89,428	58,286
Current liabilities			
Trade and other payables	18	15,016	13,288
Income tax payable		-	4
Other taxes payable	19	969	861
Current borrowings and current portion of non-current borrowings	16	7,038	7,275
Provisions	20	136	50
		23,159	21,478
Liabilities classified as held for sale	9	47	70
Total current liabilities		23,206	21,548
Total liabilities		112,634	79,834
Total equity and liabilities		362,902	338,956

General Director

V.G. Yakovlev

Chief Accountant

E.Y. Novenkova

«28» November 2014

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

	Note	Three months ended 30 September 2014	Three months ended 30 September 2013 (restated)	Nine months ended 30 September 2014	Nine months ended 30 September 2013 (restated)
Revenue	21	25,475	26,815	110,168	108,166
Other operating income	26	388	145	1,211	638
Cost of materials	22	(17,462)	(19,400)	(72,108)	(69,698)
Depreciation of property, plant and equipment	7	(3,632)	(3,625)	(11,028)	(10,756)
Personnel expenses	24	(3,167)	(2,192)	(9,749)	(7,124)
Heat transmission		(315)	(354)	(4,549)	(5,171)
Other external supplies	23	(1,114)	(999)	(3,473)	(2,986)
Maintenance and repairs expenses		(805)	(1,342)	(2,616)	(3,082)
Taxes other than income tax		(422)	(60)	(1,288)	(629)
Impairment loss on property, plant and equipment	7	(446)	-	(747)	-
Other operating expenses	25	(2,208)	(706)	(3,796)	(4,397)
Results from operating activities		(3,708)	(1,718)	2,025	4,961
Financial income	27	263	100	688	563
Financial expenses	27	(1,228)	(192)	(1,606)	(888)
Profit/(loss) before income tax		(4,673)	(1,810)	1,107	4,636
Income tax (expense)/benefit	28	1,068	359	(354)	(898)
Profit/(loss) for the period		(3,605)	(1,451)	753	3,738
Other comprehensive (loss)/income					
Items that will not be reclassified to profit or loss:					
Impairment loss on property, plant and equipment	28	-	-	(2,110)	-
Reversal of property, plant and equipment impairment loss	28	-	-	-	448
Remeasurement of post employee benefit obligation	28	17	30	(1)	22
Effect of acquisitions under common control	28	(3,270)	-	(5,892)	-
Other comprehensive (loss)/income for the period, net of tax		(3,253)	30	(8,003)	470
Total comprehensive (loss)/income for the period		(6,858)	(1,421)	(7,250)	4,208
Profit/(loss) attributable to:					
Equity holders of the Group		(3,608)	(1,452)	845	3,734
Non-controlling interest		3	1	(92)	4
Total comprehensive (loss)/income is attributable to:					
Equity holders of the Group		(6,861)	(1,422)	(7,158)	4,204
Non-controlling interest		3	1	(92)	4
Basic and diluted earnings per share (in Russian Roubles)	29	(0.09)	(0.04)	0.02	0.09

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 E.Y. Novenkova
 «28» November 2014

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

	Note	Ninemonths ended 30 September 2014	Ninemonths ended 30 September 2013 (restated)
Cash flow from operating activities			
Profit before income tax		1,107	4,636
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	7	11,028	10,756
Impairment loss on trade and other resivables	25	912	2,461
Financial income	27	(688)	(563)
Financial expenses	27	1,601	1,110
Loss on disposal of property, plant and equipment	25	71	112
Litigations provision charge	20	135	9
(Gain)/loss from disposal of assets classified as held for sale	26	(354)	71
Impairment loss on property, plant and equipment		747	-
Impairment loss on assets classified as held for sale	25	137	16
Other non-cash items		-	(2)
Operating cash flows before changes in working capital and provisions		14,696	18,606
Change in trade and other receivables		(16,631)	(5,401)
Change in inventories		(1,284)	346
Change in other current and non-current assets		72	329
Change in taxes payables, other than income tax		106	(395)
Change in trade and other payables		(491)	(2,944)
Change in employee benefit		(42)	(45)
Change in provisions		(49)	(17)
Cash flows from operations before income tax and interest paid		(3,623)	10,479
Income tax paid		(3,429)	(2,666)
Cash flows from operating activities		(7,052)	7,813
Cash flows used in investing activities			
Proceeds from sale of assets classified as held for sale		656	473
Proceeds from disposal of investments		477	4,846
Interest received		242	235
Acquisition of property, plant and equipment		(8,645)	(16,876)
Acquisition of subsidiary, net cash acquired		(497)	-
Interest paid and capitalised		(2,008)	(494)
Acquisition of investments		-	(484)
Debt fee		-	(199)
Cash flows used in investing activities		(9,775)	(12,499)
Cash flows from financing activities			
Proceeds from borrowings		36,385	1,827
Return of comission		368	-
Repayment of borrowings		(13,156)	(3,279)
Dividends paid		(1,599)	(1,179)
Cash flows from/(used in) financing activities		21,998	(2,631)
Net increase/(decrease) in cash and cash equivalents		5,171	(7,317)
Cash and cash equivalents at the beginning of the period	10	2,871	12,632
Exchange (loss)/gain on cash and cash equivalents		(5)	222
Cash and cash equivalents at the end of the period	10	8,037	5,537

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« 28 » November 2014

MOSENERGO Group

Notes to 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 31 December 2012 (restated)		166,124	(871)	49,213	83,781	(93,142)	205,105	531	205,636
Effect of changes in accounting policies	3	-	-	-	(94)	(3)	(97)		(97)
Balance at 1 January 2013 (restated)		166,124	(871)	49,213	83,687	(93,145)	205,008	531	205,539
Profit for the period		-	-	-	-	3,734	3,734	4	3,738
Remeasurement of post employee benefit obligation		-	-	-	22	-	22	-	22
Other comprehensive income for the period:									
Reversal of property, plant and equipment impairment loss	28	-	-	-	448	-	448	-	448
Total comprehensive income for the period (restated)		-	-	-	470	3,734	4,204	4	4,208
Dividends		-	-	-	-	(1,188)	(1,188)	-	(1,188)
Balance at 30 September 2013 (restated)		166,124	(871)	49,213	84,157	(90,599)	208,024	535	208,559
Balance at 1 January 2014		166,124	(871)	49,213	130,779	(86,860)	258,385	737	259,122
Profit/(loss) for the period		-	-	-	-	845	845	(92)	753
Other comprehensive loss for the period:									
Remeasurement of post employee benefit obligation	28	-	-	-	(1)	-	(1)	-	(1)
Impairment loss on property, plant and equipment	28	-	-	-	(2,110)	-	(2,110)	-	(2,110)
Effect of acquisitions under common control	28	-	-	-	-	(5,892)	(5,892)	-	(5,892)
Total comprehensive loss for the period		-	-	-	(2,111)	(5,047)	(7,158)	(92)	(7,250)
Dividends	1,15	-	-	-	-	(1,584)	(1,584)	(20)	(1,604)
Balance at 30 September 2014		166,124	(871)	49,213	128,668	(93,491)	249,643	625	250,268

General Director

Chief Accountant



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« 28 » November 2014

MOSENERGO Group

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

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 12,292 megawatts ("MW") and 34,391 gigacalories/hour ("Gcal/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 favor 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 in April 2009 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.

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

MOSENERGO Group

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

Commissions of Moscow and Moscow region (the "RECs"). OJSC "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 from 2011, electricity and capacity (except for supplies to the population and equivalent consumer categories under regulated contracts) have been supplied at unregulated prices. Electricity is supplied at free prices on the day-ahead market and balancing market while capacity is supplied based on competitive capacity selection under the contracts for sales of capacity. Furthermore, separate contracts are concluded for capacity, which is generated by assets operating under forced mode and traded at tariffs approved by the Russian Federal Tariff Service (FTS). Non-regulated bilateral contracts for supply of electricity and capacity may be also concluded.

Agreements for the provision of facilities provide on the one hand the obligations for suppliers to implement approved investment programs, and on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities from the Russian Government.

(f) Scope of consolidation

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

	Percentage of ownership	
	30 September 2014	31 December 2013
LLC "TSK Mosenergo"	100%	100%
LLC "Centralny remontno-mekhanicheskiy zavod"	100%	100%
LLC "OGK-Investproject"	90.5%	90.5%
LLC "Teploenergoremont"	65%	65%
LLC "Teploenergoremont-Novomichurinsk"	65%	65%
LLC "Teploenergoremont-Moskva"	72%	72%
OJSC "Remont inzhenernyh kommunikatsiy"	65%	65%
Autonomous Non-Commercial Organization "KvaliTEK"	65%	65%
LLC "GES-2"	100%	-

On 30 October 2013 the Group acquired 65% of the share capital of LLC "Teploenergoremont" for cash consideration of RR 1,951 million and 20% of the share capital of LLC "Teploenergoremont-Moskva" for cash consideration of RR 487 million (80% of the share capital of LLC "Teploenergoremont-Moskva" is held by LLC "Teploenergoremont"). As a result of the acquisition the Group obtained control over the LLC "Teploenergoremont" and its subsidiaries listed above (the "TER Group") which is presented by the group of companies providing repair and modernization of power plants equipment. The acquisition price was determined by the independent appraiser.

On 23 April 2014 the Group formed 100% subsidiary LLC "GES-2". The company involved in generation of heat and electric.

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

(g) Principal subsidiaries

	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by Mosenergo Group (%)	Proportion of ordinary shares held by non-controlling interests (%)
LLC "TSK Mosenergo"	Russia	Heat and water supplier	100%	100%	-
LLC "Centralny remontno-mekhanicheskiy zavod"	Russia	Repair and reconstruction services	100%	100%	-
LLC "OGK-Investproject"	Russia	Construction	90.5%	90.5%	9.5%
LLC "Telpoenergoremont"	Russia	Repair and reconstruction services	65%	65%	35%
LLC "Telpoenergoremont-Novomichurinsk"	Russia	Repair and reconstruction services	-	65%	35%
LLC "Telpoenergoremont-Moskva"	Russia	Repair and reconstruction services	20%	72%	28%
OJSC "Remont inzhenernykh kommunikatsiy"	Russia	Repair and reconstruction services	-	65%	35%
Autonomous Non-Commercial Organization KvaliTEK	Russia	Education services	-	65%	35%
LLC "GES-2"	Russia	Heat and electricity supplier	100%	100%	-

No preference shares held by the Group.

The following table provides information about each subsidiary that has material non-controlling interest:

	Proportion of non-controlling interest's voting rights held	Profit/(loss) attributable to non-controlling interest	Other comprehensive income attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the period
As of and for nine months ended 30 September 2014					
LLC "OGK-Investproject"	9.5%	2	-	537	-
LLC "Telpoenergoremont-Moskva"	28%	(117)	-	(74)	-
LLC "Telpoenergoremont-Novomichurinsk"	35%	16	-	142	(20)
Total	-	(92)	-	625	(20)
As of and for the nine months ended 30 September 2013					
LLC "OGK-Investproject"	9.5%	4	-	535	-
Total	-	4	-	535	-

The following table summarised financial information about each subsidiary, that has material non-controlling interest, before any intra-group eliminations:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive income/(loss)
As of and for the six month ended 30 September 2014							
LLC "OGK-Investproject"	1,174	17,719	(1,586)	(6,692)	14	22	22
LLC "Telpoenergoremont-Moskva"	1,614	139	(887)	(1,201)	497	(419)	(419)
LLC "Telpoenergoremont-Novomichurinsk"	806	122	(504)	-	1,899	52	52
Total	3,681	17,985	(3,004)	(7,893)	2,620	(320)	(320)
As of and for the six month ended 30 September 2013							
LLC "OGK-Investproject"	338	10,752	(1,218)	(2,051)	2	6	6
Total	338	10,752	(1,218)	(2,051)	2	6	6

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 3.

(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.

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 17 – measurement of defined benefit obligation: key actuarial assumptions;
- Note 28 – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used;
- Note 7 – impairment test: key assumptions underlying recoverable amounts;
- Note 20, 32 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow;
- Note 33 – aggregation of operating segments.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 7 – fair value determination of property, plant and equipment;
- Note 8 – fair value determination of investment property;
- Note 9 – fair value determination of non-current assets classified as held for sale;
- Note 30 – fair value determination of financial instruments.

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

Note 3. Significant accounting policies

(a) Adoption of new or revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2014 or later:

- Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities - (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).
- 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).
- IFRIC 21 - Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).
- Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on its financial statements.
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013 and effective for annual periods beginning 1 January 2014).
- Amendments to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of the amendments on its financial statements.
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to seven standards:
 - IFRS 2 was amended to clarify the definition of a ‘vesting condition’ and to define separately ‘performance condition’ and ‘service condition’.
 - IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.
 - IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity’s assets when segment assets are reported.
 - The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
 - IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
 - IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (‘the management entity’), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards: IFRS 1, IFRS 3, IFRS 13 and IAS 40.

Unless otherwise described above, these standards, amendments to standards and interpretations did not have a material impact on these consolidated financial statements

(b) Restatement and reclassification of comparatives

Starting 1 January 2013 the Group made changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for employee benefits in accordance with revised IAS 19 “Employee Benefits”.

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

Also presentation of comparative amounts in the consolidated statement of financial position has been reclassified to conform with the current period's presentation.

The effect on the consolidated interim financial statements at 30 September 2013 is presented below.

The consolidated financial statements at 31 December 2012 were not presented due to insignificant effect. In the consolidated interim statement of changes in equity retrospective application of the revised standard IAS 19 corrected opening balance of reserves and accumulated loss at 1 January 2012 in amount of RR 94 million and RR 3 million, respectively.

The effect on the consolidated interim statement of financial position at 30 September 2013:

	As originally presented	Items	Effect of adopting revised IAS 19	Reclassification	As adjusted
Non-current assets					
Advances for capital construction	11,255	3	-	(3,486)	7,769
Long-term financial assets	-	4	-	130	130
Trade and other receivables	1,566	2	-	(140)	1,426
Other non-current assets	2,643	2.4	-	(1,630)	1,013
Current assets					
Trade and other receivables	29,540	2.3	-	3,084	32,624
Other current assets	787	2	-	(263)	524
Total assets	268,767		-	(2,305)	266,462
Equity					
Revaluation surplus	84,229	1	(72)	-	84,157
Accumulated loss	(90,596)	1	(3)	-	(90,599)
Non-current liabilities					
Deferred tax liabilities	25,952	1	(19)	-	25,933
Employee benefits	242	1	94	-	336
Trade and other payables	1,004	2	-	(10)	994
Current liabilities					
Trade and other payables	13,891	2	-	(2,295)	11,596
Total equity and liabilities	268,767		-	(2,305)	266,462

The effect on the consolidated interim statement of comprehensive income for the nine months ended 30 September 2013:

	As originally presented	Items	Effect of adopting revised IAS 19	Reclassification	As adjusted
Other operating income	730	1	(3)	(89)	638
Personnel expenses	(7,126)	1	2	-	(7,124)
Other operating expenses	(4,486)	1	-	89	(4,397)
Finance costs	(889)	1	1	-	(888)
Profit for the period	3,738	-	-	-	3,738
Remeasurement of post employee benefit obligation	-	1	22	-	22
Total comprehensive income for the period	4,186		22	-	4,208

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

- Item 1 Increase in employee benefits was due to adoption of revised IAS 19 "Employee Benefits" under which unrecognized past service costs, actuarial gains/losses and contributions to social security payable together with certain benefits are included into amount of obligations.
- Item 2 Value added taxes related to advances received and to advances paid were netted off against trade and other receivables and trade and other payables.
- Item 3 Advances paid for grid connection were reclassified from advances for capital construction to other advances paid.
- Item 4 Investments held-to-maturity were reclassified from other non-current assets to respective non-current financial assets.

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

The effect of reclassification on the consolidated interim statement of financial position at 31 December 2013:

	As originally presented	Items	Reclassification	As adjusted
Non-current assets				
Advances for capital construction	10.700	2	(4.328)	6.372
Long-term financial assets	-	3	3.350	3.350
Trade and other receivables	704	1	80	784
Other non-current assets	4.286	1.3	(3.430)	856
Current assets				
Trade and other receivables	34.689	2	4.328	39.017
Total assets	338,956		-	338,956
Total equity and liabilities	338,956		-	338,956

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

Item 1 Loans issued were reclassified from other non-current assets to trade and other receivables.

Item 2 Advances paid for grid connection were reclassified from advances for capital construction to other advances paid.

Item 3 Investments held-to-maturity and available-for-sale financial assets were reclassified from other non-current assets to respective non-current financial assets.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which 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.

(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

MOSENERGO Group

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

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.

(d) 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.

(e) 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 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.

(f) 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 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) Subsequent costs

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

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets under finance lease 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.

As part of revaluation at 31 December 2013 estimates in respect of useful lives of certain classes of property, plant and equipment were revised for the year 2014 and were as follows:

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

• Buildings and constructions	30-70 years
• Plant and equipment	25-40 years
• Transmission networks	30 years
• Other	5-25 years

(g) Intangible assets

(i) Goodwill

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill, bargain purchase”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

(ii) 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.

(iii) 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.

(iv) 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.

(h) 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.

(i) 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.

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

(j) 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 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.

(k) 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"). To calculate the recoverable amount in respect of a specific group of assets, the Group uses the fair value method, based on the possibility of alternative use. 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.

(iii) 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, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment loss is recognised in

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

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. 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.

(l) Employee benefits

(i) Defined contribution pension plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have

terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Current service cost, interest on employee benefit obligations, past service cost, effect of curtailment and settlement are recognised to profit or loss immediately.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is 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 payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(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.

(m) 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.

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

(n) 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 makes strategic decisions.

(o) Revenues

(i) Goods sold

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

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

(p) 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.

(q) 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.

(r) 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 certain 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.

(s) 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.

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

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. 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.

(t) 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.

(u) 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 30 September 2014 and 31 December 2013.

(v) New Standards and Interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 July 2015 or later, and which the Group has not early adopted.

- IFRS 9, Financial Instruments Part 1: 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 and November 2013 to address the classification and measurement of financial liabilities. The mandatory effective date of IFRS 9 is to be determined once the standard is complete. The standard is available for early adoption. The Group does not plan to adopt the standard before the mandatory effective date. The Group is currently assessing the impact of the amendments on its financial statements.
- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

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

Note 4. Goodwill

	2014	2013
Goodwill at 1 January	2 059	-
Acquisition through business combination	-	-
Impairment loss	-	-
Goodwill at 30 September	2 059	-

Goodwill arose in 2013 as a result of the acquisition of shares of LLC "Teploenergoremont" and LLC "Teploenergoremont-Moskva".

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

Management reviews the business performance based on power generating units and type of business. It has identified repair and reconstruction services as the minor type and included in other reportable segments. During 2013, repair and reconstruction service did not qualify as a separate reportable operating segment. Goodwill is monitored by the management at the operating segment level. The recoverable amount of all CGUs has been determined based on value-in-use calculations made by independent appraiser. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a eight-year period. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates.

Since no significant changes have occurred during the nine months 2014 in assumptions described above, management considers that as at 30 September 2014 there are no indicators of impairment.

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.

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 Department 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 Department 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 of Liquidity and Credit. Liquidity risk is addressed by the Efficiency and Control union. These departments are accountable to the Deputies of General Director 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. 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

MOSENERGO Group

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

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.

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 high credit rating provided by rating agencies, 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 currency in which these transactions primarily are denominated is 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.

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

(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 reporting period.

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 September 2014 and at 31 December 2013 were as follows:

	30 September 2014	31 December 2013
Borrowings (Note 16)	(51,121)	(26,477)
Cash and cash equivalents (Note 10)	8,037	2,871
Net debt	(43,084)	(23,606)
Equity attributable to equity holders of the Group	(249,643)	(258,385)
Total capital	(292,727)	(281,991)
Gearing ratio	14.72%	8.37%

(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/EBITDA;
- minimum level of EBITDA/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 September 2014 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 nine months ended 30 September 2014 and 30 September 2013, or had significant

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

balances outstanding at 30 September 2014 and at 31 December 2013 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), including OJSC “MOEK”, which is a part of the Gazprom Group since September 2013. Prior to the above date OJSC “MOEK” was under control of the Russian Federation government.

Revenue

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Heat	3,712	93	24,792	435
Electricity	192	186	621	509
Other revenue	518	10	1,437	32
Total	4,422	289	26,850	976

Other operating income

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Gain on disposal of assets held for sale	1,352	-	1,352	-
Total	1,352	-	1,352	-

Expenses

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Fuel expenses	(5,044)	(2,014)	(38,133)	(29,281)
Heat transmission	(314)	-	(4,537)	-
Rent payments	(144)	(89)	(406)	(267)
Legal, consulting and data processing services	(42)	(14)	(69)	(31)
Purchased heat and electricity	(5)	-	(11)	(1)
Other expenses	(10)	(16)	(20)	(55)
Total	(5,559)	(2,133)	(43,176)	(29,635)

Rent payments for the three and nine months ended 30 September 2014 include payments in amount of RR 66 million and RR 205 million, respectively, to OJSC “Neftyanoi dom”, an associate of OJSC “Gazprom” (for the three and nine months ended 30 September 2013: RR 74 million and RR 221 million).

Financial income and expenses

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Financial income	39	29	54	75
Financial expense	(45)	(36)	(122)	(97)
Net financial (expense)/ income	(6)	(7)	(68)	(22)

Financial income for the three and nine months ended 30 September 2014 include income associated with transactions with OJSC “Gazprombank”, an associates of OJSC “Gazprom”, in amount of RR 39 million and RR 54 million (for the three and nine months ended 30 September 2013: RR 29 million and RR 75 million, respectively).

Financial expenses for the three and nine months ended 30 September 2014 include expenses associated with transactions with OJSC “Gazprombank”, an associates of OJSC “Gazprom”, in amount of RR 0 million and RR 14

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

million (for the three and nine months ended 30 September 2013 RR 12 million and RR 35 million) and OJSC “Gazprom energoholding”, subsidiary of OJSC “Gazprom”, in amount of RR 17 million and RR 52 (for the three and nine months ended 30 September 2013 RR 0 million and RR 0 million).

Outstanding balance

	Outstanding balance at 30 September 2014	Outstanding balance at 31 December 2013
Cash and cash equivalents	5,296	69
Trade and other receivables	30,472	15,419
Advances for acquisition of property, plant and equipment	2,450	4,624
Total assets	38,218	20,112
Trade and other payables	(15,085)	(5,400)
Total liabilities	(15,085)	(5,400)

Trade and other receivables include an outstanding balance with OJSC “MOEK”, subsidiary of OJSC “Gazprom”, in amount of RR 30,352 million 30 September 2014 (at 31 December 2013: RR 15,267 million).

Advances for acquisition of property, plant and equipment include an outstanding balance with OJSC “Mehregionenergostroy”, a subsidiary of OJSC “Gazprom”, in amount of RR 2,450 million at 30 September 2014 (at 31 December 2013: RR 4,613 million).

Cash and cash equivalents at 30 September 2014 and 31 December 2013 are from OJSC “Gazprombank”, an associate of OJSC “Gazprom”.

Trade and other payables include outstanding balances with OJSC “MOEK”, LLC “Mehregionenergostroy” and LLC “Gazprom mezhregiongaz Moskva”, subsidiaries of OJSC “Gazprom”, in amount of RR 11,500 million, RR 2,801 million and RR 40 million, respectively, at 30 September 2014 (at 31 December 2013: RR 1,316 million, RR 3,477 million, RR 303 million, respectively).

Borrowings

	Amount loaned for the nine months ended 30 September 2014	Amount loaned for the nine months ended 30 September 2013	Outstanding balance at 30 September 2014	Outstanding balance at 31 December 2013
Non-current borrowings	-	-	1,700	1,700
Current borrowings	10,785	3,600	565	-
Total borrowings	10,785	3,600	2,265	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 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Wages and salaries	(30)	(60)	(128)	(114)
Social taxes and contributions	(3)	(3)	(11)	(9)
Termination benefits	-	-	(7)	-
Total	(33)	(63)	(146)	(123)

Outstanding balance

Outstanding balance at 30 September 2014 for transactions with key management is in amount of RR 3 million (at 31 December 2013: RR 0 million).

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

(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, which are under control of the Russian Federation government. OJSC "MOEK" became Gazprom Group in September 2013, prior to that date it was under control of government of the Russian Federation.

Revenue

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Electricity	17,641	19,720	61,879	62,008
Heat	438	4,357	6,354	30,767
Other revenue	153	59	221	1,072
Total	18,232	24,136	68,454	93,847

Expenses

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Purchased heat and electricity	(1,637)	(489)	(5,907)	(4,988)
Electricity market administration fees	(347)	(344)	(1,047)	(990)
Water usage expenses	(289)	(325)	(847)	(887)
Rent payments	(156)	(124)	(405)	(386)
Security services	(96)	(93)	(290)	(270)
Fuel expenses	(10)	(3)	(78)	(68)
Communication services	(17)	(13)	(51)	(37)
Fire prevention services	(8)	(9)	(24)	(27)
Legal, consulting and data processing services	(20)	(30)	(20)	(71)
Heat transmission	(1)	(354)	(12)	(5,171)
Other expenses	(23)	(25)	(55)	(55)
Total	(2,604)	(1,809)	(8,736)	(12,950)

Financial income and expenses

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Financial income	126	17	443	153
Financial expenses	(681)	-	(1,532)	-
Net financial expenses/income	(555)	17	(1,089)	153

Outstanding balance

	Outstanding balance at 30 September 2014	Outstanding balance at 31 December 2013
Trade and other receivables	8,472	8,742
Cash and cash equivalents	822	178
Advances for acquisition of property, plant and equipment	2	-
Other non-current assets	1,841	523
Other current assets	58	-
Total assets	11,195	9,443

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

	Outstanding balance at 30 September 2014	Outstanding balance at 31 December 2013
Trade and other payables	(2 409)	(2,215)
Total liabilities	(2,409)	(2,215)

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

Borrowings

	Amount loaned for the nine months ended30 September 2014	Amount loaned for the nine months ended30 September 2013	Outstanding balance at 30 September 2014	Outstanding balance at 31 December 2013
Current borrowings	25,450	-	31,750	7,500
Total borrowings	25,450	-	31,750	7,500

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 2013	104,103	77,669	11,668	8,463	41,038	242,941
Additions	1	11	-	47	27,463	27,522
Disposals	(116)	(64)	-	(93)	(591)	(864)
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(3)	-	-	-	-	(3)
Transfers	228	1 100	1	79	(1,408)	-
Transfer from assets classified as held for sale	1,000	-	-	-	-	1,000
Transfer to assets classified as held for sale	(16)	-	-	-	-	(16)
Balance at 30 September 2013	105,197	78,716	11,669	8,496	66,502	270,580
Balance at 1 January 2014	94,622	91,036	9,310	6,226	72,572	273,766
Additions	2,748	1,335	22	48	16,240	20,393
Disposals	(40)	(71)	(6)	(51)	(11)	(179)
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(18)	(50)	(367)	(13)	-	(448)
Transfers	5,788	1,980	135	2,775	(10,678)	-
Transfer from assets classified as held for sale	2	-	-	-	-	2
Transfer to assets classified as held for sale	(278)	(34)	(3 272)	(50)	(105)	(3 739)
Transfer to investment property	(6)	-	-	-	-	(6)
Balance at 30 September 2014	102,818	94,196	5,822	8,935	78,018	289,789

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

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2013	(25,494)	(16,914)	(5,233)	(4,324)	(589)	(52,554)
Depreciation charge	(4,704)	(3,518)	(1,401)	(1,134)	-	(10,757)
Disposals	21	34	-	59	-	114
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	3	-	-	-	-	3
Reversal of impairment loss	560	-	-	-	-	560
Balance at 30 September 2013	(29,614)	(20,398)	(6,634)	(5,399)	(589)	(62,634)
Balance at 1 January 2014	-	-	-	-	-	-
Depreciation charge	(3,576)	(6,136)	(592)	(724)	-	(11,028)
Disposals	9	10	1	11	-	31
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	18	50	367	13	-	448
Impairment loss	(22)	(273)	(2,883)	(30)	(177)	(3,385)
Balance at 30 September 2014	(3,571)	(6,349)	(3,107)	(730)	(177)	(13,934)

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2013	78,609	60,755	6,435	4,139	40,449	190,387
At 30 September 2013	75,583	58,318	5,035	3,097	65,913	207,946
At 1 January 2014	94,622	91,036	9,310	6,226	72,572	273,766
At 30 September 2014	99,247	87,847	2,715	8,205	77,841	275,855

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2013	34,931	48,360	2,053	3,517	33,284	122,145
At 30 September 2013	34,187	46,017	1,151	2,622	61,194	145,171
At 1 January 2014	32,657	47,592	1,785	2,834	69,364	154,232
At 30 September 2014	38,061	45,420	881	4,539	75,217	164,118

Borrowing costs of RR 2,292 million and RR 790 million for the nine months ended 30 September 2014 and 30 September 2013, respectively, are capitalised in additions above. Capitalisation rates of 7.34% and 5.73% for nine months ended 30 September 2014 and 30 September 2013, were used to determine the amount of borrowing costs eligible for capitalization. The capitalisation rate represented the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

During the nine month ended 30 September 2014 the Company purchased heating stations from OJSC "MOEK". Assets were recognised at the predecessor entity's carrying amounts and equaled to RR 4,107 million. The difference between the total consideration given and the carrying amounts of the assets was recognised in equity in retained earnings.

During the period in line with asses structuring process the Company classified part of transmission networks as assets held for sale at the lower of its carrying amount and fair value less costs to sell. It caused impairment loss recognition in amount of RR 2,638 million within the equity and RR 301 million within the profits and loss. At 30 September 2014 the Company sold the transmission networks (see Note 9).

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

In the second half of 2014 management approved plan of disposal LLC "GES-2" which led to change in identification of cash-generating unit. Previously assets of GES-1 and GES-2 was included in CGU GES-1. After disposal plan approved assets of separate GES-1 were impaired by RR 446 million within the profits and loss.

There were no properties pledged as security for Company's bank loans at 30 September 2014 and at 31 December 2013.

(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.

In 2013 the Group contracted an independent appraiser to estimate the fair value of the Group's property, plant and equipment and investment property at 31 December 2013. The fair value of property, plant and equipment was determined to be RR 273,766 million.

The majority of the Group's property, plant and equipment (except for the office buildings) is specialized in nature and is rarely sold on the open market other than as part of a continuing business. Consequently, the fair value of property, plant and equipment was primarily determined using depreciated replacement cost method and tested for adequate profitability using discounted cash-flows method. Depreciated replacement cost method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation and obsolescence.

The depreciated replacement cost was estimated based on internal sources, statistical data, catalogues and market data in respect of prices of construction companies and suppliers of equipment. The economic obsolescence was determined based on discounted cash flow test results for each of 25 cash-generating units.

In addition to determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of these values, which resulted in the depreciated replacement cost values being decreased by RR 32,635 million in arriving at the above values.

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

- 25 cash-generating units were identified.
- For each cash generating unit the Appraiser determined the recoverable amount as a highest of value in use and fair value less cost to sell.
- Cash flows were projected based on actual operating results, the 3-year business plan, macroeconomic forecasts prepared by Ministry of economic development of Russian Federation and long-term forecasts prepared by management.
- Cash flows forecast assumed gradual increase in heat tariff up to economically reasonable from 2017 till 2025. The growth of the heat tariff for main producing cash generating units varies from 4.7% till 6.5% for that period.
- The anticipated annual production growth included in cash flow projections was 3.5%.
- A discount rate of 11.5% was applied in determining the recoverable amount of the plants.

The fair value measurement for property, plant and equipment was categorised as a Level 3 fair value based on inputs to the valuation technique used (see Note 2).

As a result of revaluation, the Group's equity increased by RR 46,771 million, comprising net increase in the carrying value of property, plant and equipment of RR 58,464 million and the related deferred tax of RR 11,693 million.

(b) 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 September 2014 the net carrying amount of leased plant and equipment was RR 2,643 million (at 31 December 2013: RR 49 million).

Note 8. Investment property

	2014	2013
Balance at 1 January	800	792
Transfer from property, plant and equipment	6	-
Disposals	(1)	-
Balance at 30 September	805	792

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

For the year ended 31 December 2013 the fair value of investment property was determined by independent appraiser and equaled to RR 800 million. The fair value of the Group's investment property at 30 September 2014 was determined to be RR 805 million based on the market trends for the year 2014.

The fair value measurement for investment property was categorised as a Level 3 fair value based on inputs to the valuation technique used (see Note 2).

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Market approach	Market prices for identical assets

Rental income for the three and nine months ended 30 September 2014 and 30 September 2013 amounted to RR 44 million and RR 82 million, RR 31 million and RR 87 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 September 2014	31 December 2013
Less than one year	99	98
Between one and five years	-	-
More than five years	-	-
Total	99	98

Note 9. Disposal group classified as held for sale

	30 September 2014	31 December 2013
Assets classified as held for sale		
Property, plant and equipment	107	530
Investment property	31	33
Disposal group held for sale		
Property, plant and equipment	127	-
Cash and cash equivalents	57	-
Taxes receivable	25	-
Total	347	563

	30 September 2014	31 December 2013
Liabilities classified as held for sale		
Deferred tax liabilities	44	70
Liabilities of disposal group held for sale		
Trade and other payables	3	-
Total	47	70

At 30 September 2014 the Group is in the process of disposing non-core assets in amount of RR 347 million and the corresponding liabilities in amount of RR 44 million (at 31 December 2013: RR 563 million and RR 70 million, respectively). The sale is expected during 2014-2015.

During the nine months ended 30 September 2014 the Group recognised impairment loss in amount of RR 137 million within the profits and loss as result of subsequent measurement of assets held for sale (for the nine months ended 30 september 2013: RR 16 million), (see Note 25).

During the period in line with asses structuring process part of transmission networks were classified as assets held for sale in amount of RR 3,272 million. Disposal was completed in September 2014.

The fair value measurement for assets and disposal group classified as held for sale was categorised as a Level 3 fair value based on inputs to the valuation technique used (see Note 2).

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

The following table shows the valuation technique used in measuring the fair value, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs
Cost approach	Replacement cost and index method
Discounted Cash Flows	EBITDA
	Risk-adjusted discount rate

Note 10. Cash and cash equivalents

	30 September 2014	31 December 2013
Call deposits	6,290	929
Bank balances	1,747	1,942
Total	8,037	2,871

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 September 2014			31 December 2013		
	Currency	%	Balances	Currency	%	Balances
OJSC "Gazprombank"	Russian Roubles	9.10	5,254	Russian Roubles	6.00	68
OJSC "VTB"	Russian Roubles	11.18	796	-	-	-
OJSC "Bank Finservice"	Russian Roubles	6.00	240	-	-	-
OJSC "AB Rossia"	Russian Roubles	-	-	Russian Roubles	6.00	700
OJSC "Sberbank Rossii"	EURO	-	-	EURO	0.20	113
OJSC "Sberbank Rossii"	-	-	-	Russian Roubles	6.02	48
Total			6,290			929

Note 11. Financial assets

	30 September 2014	31 December 2013
Investments held-to-maturity		
Promissory notes	596	541
Short-term financial assets	596	541
Available-for-sale financial assets	3,159	3,159
Investments held-to-maturity		
Promissory notes	54	191
Long-term financial assets	3,213	3,350

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

Promissory note in amount of RR 92 million held by LLC "Teploenergoremont-Moskva" was pledged as security under construction contract with OJSC "TGK-5".

(a) Available-for-sale financial assets

Available-for-sale financial assets include investment in LLC "Gazeks-Management" in total amount of RR 3,149 million at 30 September 2014 that was received in settlement for accounts receivable in October 2013 (31 December 2013: RR 3,149 million).

Management assessed the level of the Company's influence on LLC "Gazeks-Management". Holding 33,3% of interest the Company has no significant influence due to the following factors:

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

- OJSC “Mosenergo” does not have any representative in the LLC “Gazeks-Management” Board of Directors and does not have a right to appoint them;
- OJSC “Mosenergo” does not participate in LLC “Gazeks-Management” policy-making decisions and does not have a right to participate in such policy-making decisions;
- There are no material transactions between the Group and LLC “Gazeks-Management”, there is no interchange of personnel between the two companies and there is no sharing of technical information between the companies.

Note 12. Trade and other receivables

	30 September 2014	31 December 2013
Trade receivables	38,867	31,488
Loans to organizations	745	80
Other receivables	4,365	52
Financial assets	43,977	31,620
Advances to suppliers and prepaid expenses	9,383	5,888
Taxes other than income tax prepaid	985	794
VAT recoverable	220	429
Other receivables	1,601	1,070
Total	56,166	39,801
Current assets	52,585	39,017
Non-current assets	3,581	784
Total	56,166	39,801

Trade receivables balances are recorded net of provision for impairment in amount of RR 6,580 million and RR 5,866 million at 30 September 2014 and at 31 December 2013, respectively.

Other receivables balances are recorded net of provision for impairment in amount of RR 103 million and RR 72 million at 30 September 2014 and at 31 December 2013, 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. Inventories

	30 September 2014	31 December 2013
Fuel	4,216	4,192
Raw materials and consumables	4,187	2,944
Other inventories	17	-
Total	8,420	7,136

Raw materials and consumables are stated net of a provision for obsolete inventory amounting to RR 9 million and RR 8 million at 30 September 2014 and at 31 December 2013, 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 14. Other assets

	30 September 2014	31 December 2013
Other non-current assets		
Grid connection	1,318	-
Constructed assets financed by the government of Moscow city	523	523
Intangible assets	206	323
Other assets	36	10

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

	30 September 2014	31 December 2013
Total other non-current assets	2,083	856
Other current assets		
VAT recovered from advances for capital construction	43	42
Other assets	58	415
Total	101	457

(a) Constructed assets

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 15. Equity

(a) Share capital and share premium

At 30 September 2014 the authorised share capital comprised 39,749,359,700 ordinary shares (at 31 December 2013: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

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 September 2014 and at 31 December 2013 amounted to RR 871 million.

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

(c) Reserves

At 30 September 2014 reserves composed of the revaluation of available-for-sale financial assets in amount of RR 3 million (at 31 December 2013: RR 3 million), the revaluation reserve relates to the revaluation of property, plant and equipment in amount of RR 128,725 million (at 31 December 2013: RR 130,835 million) and reserve of post employee benefit obligation remeasurement in amount of RR (60) million (at 31 December 2013: RR (59) million).

(d) Dividends

In 4 June 2014 the general shareholders meeting of OJSC "Mosenergo" made the decision to pay dividends for the result of financial year 2013. The amount of declared dividends on the issuer shares was RR 0.04 per share, total amount of dividends is RR 1,584 million.

In 5 June 2013 the general shareholders meeting of OJSC "Mosenergo" 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 September 2014	31 December 2013
Non-current borrowings		
Unsecured bank loans	42,278	17,397
Unsecured bond issues	105	105
Other loans	1,700	1,700
Total	44,083	19,202

Current borrowings and current portion of non-current borrowings

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

	30 September 2014	31 December 2013
Current portion of unsecured bond issues	5,000	5,000
Current portion of unsecured bank loans	1,323	2,275
Other borrowings	715	-
Total	7,038	7,275

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	30 September 2014		31 December 2013	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans							
				44,355	43,601	20,541	19,672
OJSC "Sberbank Rossii"	Russian Roubles	8.14%	2018	23,500	23,500	3,750	3,750
OJSC "VTB"	Russian Roubles	8.14%	2018	8,250	8,250	3,750	3,750
BNP Paribas Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+2.00%	2022	6,774	6,309	6,459	5,921
OJSC "TKB"	EURO Russian Roubles	EURIBOR 6M+1.95%	2024	5,831	5,542	5,508	5,177
OJSC "AB Rossia"	Russian Roubles	12.5%	2014	-	-	844	844
OJSC "Promsvazbank"	Russian Roubles	9.85%	2014	-	-	200	200
OJSC "Promsvazbank"	Russian Roubles	11.1%	2014	-	-	30	30
Unsecured bond issues				5,105	5,105	5,105	5,105
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	105	105
Other loans				2,415	2,415	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 "Gazprom energoholding"	Russian Roubles	10.90%	2014	565	565	-	-
OJSC "AB Rossia"	Russian Roubles	11.85%	2014	150	150	-	-
Total				51,875	51,121	27,346	26,477

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 2014. There were no significant changes in benefits provided via the agreement compared to the version effective in the prior year.

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

Compensations for redundancies paid by the Group for the three and nine months ended 30 September 2014 and for the three and nine months ended 30 September 2013 amounted to RR 30 million and 106 million, RR 19 million and 39 million, respectively, were recognised in profit or loss in personnel expenses.

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

	2014			2013		
	Post-employment benefits	Other long-term benefits	Total	Post-employment benefits	Other long-term benefits	Total
Opening defined benefit obligation as at 1 January	305	69	374	328	36	364
Current service cost	14	3	17	7	4	11
Interest on employee benefit obligations	16	2	18	16	2	18
Remeasurements:						
Actuarial (gains)/losses - Experience	1	(12)	(11)	(26)	6	(20)
Actuarial gains arising from changes in financial assumptions	-	-	-	(3)	(3)	(6)
Actuarial losses arising from changes in demographic assumptions	-	-	-	1	4	5
Benefits paid	(47)	(2)	(49)	(36)	-	(36)
Closing defined benefit obligation as at 30 September	289	60	349	287	49	336

(b) Amounts recognised in profit and loss in respect of these defined benefit plans are as follows

	Nine months ended 30 September 2014			Nine months ended 30 September 2013		
	Post-employment benefits	Other long-term benefits	Total	Post-employment benefits	Other long-term benefits	Total
Service cost:						
Current service cost	14	3	17	7	4	11
Interest on employee benefit obligations	16	2	18	16	2	18
Remeasurements:						
Actuarial (gains)/losses - Experience	-	(12)	(12)	-	6	6
Actuarial losses arising from changes in assumptions	-	-	-	-	1	1
Components of defined benefit costs recorded in profit or loss	30	(7)	23	23	13	36

(c) Amounts recognised in other comprehensive income in respect of these defined benefit plans

	Nine months ended 30 September 2014			Nine months ended 30 September 2013		
	Post-employment benefits	Other long-term benefits	Total	Post-employment benefits	Other long-term benefits	Total
Remeasurement on the net defined benefit liability						
Remeasurement losses/(gains) - Experience	1	-	1	(26)	-	(26)
Remeasurement gains - changes in assumptions	-	-	-	(2)	-	(2)
Components of defined benefit costs recorded in other comprehensive income	1	-	1	(28)	-	(28)

(d) The amount included in the consolidated statement of financial position

	30 September 2014			31 December 2013		
	Post-employment benefits	Other long-term benefits	Total	Post-employment benefits	Other long-term benefits	Total
Present value of defined benefit obligation	289	60	349	305	69	374
Net liability arising from defined benefit obligation	289	60	349	305	69	374

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

(e) Movements in net liability in the current period were as follows

	30 September 2014			30 September 2013		
	Post-employment benefits	Other long-term benefits	Total	Post-employment benefits	Other long-term benefits	Total
Opening net liability arising from defined benefit obligation	305	69	374	328	36	364
Components of defined benefit costs recorded in profit or loss	30	(7)	23	23	13	36
Components of defined benefit costs recorded in other comprehensive income	1	-	1	(28)	-	(28)
Contributions from the employer	(47)	(2)	(49)	(36)	-	(36)
Closing net liability arising from defined benefit obligation	289	60	349	287	49	336

(f) Actuarial assumptions

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

(iv) Financial assumptions

	30 September 2014	31 December 2013
Discount rate	7.9%	7.9%
Inflation rate	5.0%	5.0%
Salaries increase	7.0%	7.0%
Duration of liabilities, years	5.2	5.3
	Calculated for each participant based on limits and rates stated in social contribution rule	Calculated for each participant based on limits and rates stated in social contribution rule
Social contributions		

(v) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 20% p.a. for employees with 1 year of past service to around 6% 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.

Note 18. Trade and other payables

	30 September 2014	31 December 2013
Trade payables	4,685	4,519
Other payables	16,927	6,527
Financial liabilities	21,612	11,046
Advances received	2,182	1,745
Other payable	1,504	1,416
Total	25,298	14,207
Non-current liabilities	10,282	919
Current liabilities	15,016	13,288
Total	25,298	14,207

Other payables as part of financial liabilities include accounts payable for acquisition of property, plant and equipment amounting to RR 7,136 million at 30 September 2014 (at 31 December 2013: RR 5,544 million).

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

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

Note 19. Other taxes payable

	30 September 2014	31 December 2013
Social contributions payable	335	252
Property tax payable	329	173
VAT payable	207	398
Other taxes payable	98	38
Total	969	861

Note 20. Provisions

	2014	2013
Balance at 1 January	50	67
Provisions made during the period	197	25
Provisions used during the period	(49)	(17)
Provisions recovered during the period	(62)	(16)
Balance at 30 September	136	59

The legal provision balance was made by the Company in amount of RR136 million at 30 September 2014 (at 31 December 2013: RR 50 million). The majority of this balance was made in amount of RR 109 million in respect of the claims from CJSC "TKS" and in amount of RR 27 million in respect of the claims from CJSC "DZhKHiB" (at 31 December 2013: RR 37 million from OJSC "MOEK").

Note 21. Revenue

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Electricity	18,964	20,889	66,029	65,671
Heat	4,693	5,148	39,354	40,147
Other revenue	1,818	778	4,785	2,348
Total	25,475	26,815	110,168	108,166

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

Approximately 2% and 3%, 4% and 4% of sales of electricity for the three and nine months ended 30 September 2014 and 30 September 2013, respectively, relates to resale of purchased electricity on wholesale market OREM.

Note 22. Cost of materials

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Fuel expenses	15,158	16,790	64,221	61,634
Purchased heat and electricity	1,642	2,143	6,153	6,708
Water usage expenses	296	333	878	900
Other materials expenses	366	134	856	456
Total	17,462	19,400	72,108	69,698

Electricity is purchased mainly on wholesale electricity market.

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

Note 23. Other external supplies

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Electricity market administration fees	347	347	1,047	993
Construction and assembly services	292	-	732	-
Desalted water supply	-	248	429	811
Security services	148	126	420	375
Transport services	117	105	304	304
Cleaning services	92	85	226	228
Communication services	31	25	91	72
Certification and testing services	34	34	56	64
Fire prevention services	8	9	24	30
Other services	45	20	144	109
Total	1,114	999	3,473	2,986

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 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Wages and salaries	2,516	1,745	7,468	5,477
Social contributions	577	355	2,051	1,407
Voluntary medical insurance expenses	39	26	95	76
Catering	23	24	69	70
Personnel training expenses	21	37	61	76
Current service cost	-	(6)	17	11
Net actuarial (gains)/losses recognised in period	(9)	11	(12)	7
Total	3,167	2,192	9,749	7,124

The Group average head count totaled 13,138 and 8,182 at 30 September 2014 and at 30 September 2013, respectively.

Note 25. Other operating expenses

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Rent payments	349	197	1,011	655
Trade and other receivables impairment loss recognized during the period and derecognition	1,120	149	912	2,461
Legal, consulting and data processing services	146	176	526	556
Cession agreements	102	32	398	32
Software expenses	72	34	198	153
Insurance expenses	58	49	170	126
Impairment loss on assets classified as held for sale	137	-	137	16
Loss/(gain) on disposal of property, plant and equipment	36	(82)	71	112
Safety arrangement and precautions	16	14	51	44
Environmental payments	16	18	44	38
Loss on disposal of matireals	19	-	27	-
				37

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

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Bank services	2	9	12	17
Other miscellaneous	135	110	239	187
Total	2,208	706	3,796	4,397

Note 26. Other operating income

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Fines and penalties business contracts	31	182	394	249
Subsidies on the difference in tariffs for sales to the urban population	40	50	374	423
Gain/(loss) from disposal of assets classified as held for sale	298	(89)	354	(71)
Other miscellaneous	19	2	89	37
Total	388	145	1,211	638

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 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Financial income				
Interest income on bank deposits	182	79	538	454
Other interest income	81	21	150	109
Total	263	100	688	563
Financial expenses				
Interest expenses on borrowings	(954)	(300)	(2,365)	(790)
Foreign exchange loss	(1,071)	(163)	(1,310)	(832)
Lease expenses	(126)	(4)	(193)	(14)
Interest on employee benefit obligations	(6)	(5)	(18)	(18)
Other interest expenses	(8)	(20)	(12)	(24)
Total	(2,165)	(492)	(3,898)	(1,678)
Less capitalised interest expenses on borrowings related to qualifying assets (Note 7)	937	300	2,292	790
Net financial (expenses) recognised in profit or loss	(1,228)	(192)	(1,606)	(888)

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Interest income	263	100	688	563
Interest expenses	(151)	(24)	(278)	(38)
Net interest	112	76	410	525

Net interest result by categories of assets and liabilities

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

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Cash and cash equivalents	263	100	688	536
Investments held-to-maturity	-	-	-	27
Liabilities carried at amortised cost	(151)	(24)	(278)	(38)
Total	112	76	410	525

Note 28. Income tax

(a) Income tax

The applicable tax rate of the Group is the income tax rate of 20% (for the three and nine months ended 30 September 2013: 20%).

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Current tax expense				
Current period	981	452	(1,454)	(1,322)
Over provided in prior periods	(3)	-	(3)	131
Deferred tax expense				
Origination and reversal of temporary differences	(155)	(93)	929	293
Unrecognised tax loss carry forwards for the period	233	-	174	-
Income tax (expense)/benefit	1,056	359	(354)	(898)

Reconciliation of effective tax rate is as follows:

	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Profit/(loss) before income tax	(4,673)	(1,810)	1,107	4,636
Income tax at applicable tax rate	935	362	(221)	(927)
Non-deductible / non-taxable items	136	(3)	(130)	(102)
Over provided in prior periods	(3)	-	(3)	131
Income tax (expense)/benefit	1,068	359	(354)	(898)

(b) Tax effects of components of other comprehensive income

	Three months ended 30 September 2014			Nine months ended 30 September 2014		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Impairment loss on property, plant and equipment	(1)	1	-	(2,638)	528	(2,110)
Remeasurement of post employee benefit obligation	21	(4)	17	(1)	-	(1)
Effect of acquisitions under common control	(4,087)	817	(3,270)	(7,364)	1,472	(5,892)
Total	(4,067)	814	(3,253)	(10,003)	2,000	(8,003)

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

	Three months ended 30 September 2013			Nine months ended 30 September 2013		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Reversal of property, plant and equipment impairment loss	-	-	-	560	(112)	448
Remeasurement of post employee benefit obligation	38	(8)	30	28	(6)	22
Total	38	(8)	30	588	(118)	470

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	30 September 2014	30 September 2013 (restated)	30 September 2014	30 September 2013 (restated)	30 September 2014	30 September 2013 (restated)
Property, plant and equipment	-	-	(35,477)	(24,706)	(35,477)	(24,706)
Assets classified as held for sale	-	-	(44)	(71)	(44)	(71)
Investment property	-	-	(47)	(56)	(47)	(56)
Trade and other receivables	-	-	(1,468)	(909)	(1,468)	(909)
Trade and other payables	2,147	-	-	(61)	2,147	(61)
Employee benefits	69	67	-	-	69	67
Unrecognised tax loss carry forwards for the year	174	-	-	-	174	-
Provisions	27	11	-	-	27	11
Borrowings	-	-	(151)	(182)	(151)	(182)
Other current and non-current assets	-	-	(38)	(115)	(38)	(115)
Other	50	18	-	-	50	18
Total	2,467	96	(37,225)	(26,100)	(34,758)	(26,004)

Movements in deferred income tax during the nine months ended 30 September 2013 and 30 September 2014 are as follows:

	31 December 2012	Recognised in income	Recognised in equity	Reclassification	30 September 2013 (restated)
Property, plant and equipment	(25,491)	1,089	(112)	(192)	(24,706)
Assets classified as held for sale	(268)	5	-	192	(71)
Investment property	(50)	(6)	-	-	(56)
Trade and other receivables	(236)	(673)	-	-	(909)
Trade and other payables	55	(116)	-	-	(61)
Employee benefits	73	-	(6)	-	67
Provisions	13	(2)	-	-	11
Borrowings	(207)	25	-	-	(182)
Other current and non-current assets	(87)	(28)	-	-	(115)
Other	19	(1)	-	-	18
Total	(26,179)	293	(118)	-	(26,004)

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

	31 December 2013	Recognised in income	Recognised in equity	Reclassification	30 September 2014
Property, plant and equipment	(36,809)	683	528	121	(35,477)
Assets classified as held for sale	(70)	147	-	(121)	(44)
Investment property	(57)	10	-	-	(47)
Trade and other receivables	(815)	(653)	-	-	(1,468)
Trade and other payables	71	604	1,472	-	2,147
Employee benefits	74	(5)	-	-	69
Unrecognised tax loss carry forwards for the period	-	174	-	-	174
Provisions	9	18	-	-	27
Borrowings	(174)	23	-	-	(151)
Other current and non-current assets	(108)	70	-	-	(38)
Other	18	32	-	-	50
Total	(37,861)	1,103	2,000	-	(34,758)

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 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
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 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
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	(3,605)	(1,451)	753	3,738
Profit/(loss) per ordinary share (basic and diluted) (in Russian Roubles)	(0.09)	(0.04)	0.02	0.09

There are no dilutive potential ordinary shares as of 30 September 2014 and 31 December 2013.

Note 30. Financial instruments

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their fair value hierarchy:

	30 September 2014								
	Carrying amount				Fair value				
	Held-to- maturity	Loans and receivables	Available- for-sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Other investments (Note 11)	-	-	3,159	-	3,159	-	-	3,159	3,159

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

30 September 2014

	Carrying amount				Total	Fair value			
	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities		Level 1	Level 2	Level 3	Total
Total	-	-	3,159	-	3,159				
Financial assets not measured at fair value									
Promissory notes (Note 11)	650	-	-	-	650	-	-	650	650
Trade and other receivables (Note 12)	-	43,977	-	-	43,977	-	43,977	-	43,977
Cash and cash equivalents (Note 10)	-	8,037	-	-	8,037	-	8,037	-	8,037
Total	650	52,014	-	-	52,664				
Financial liabilities not measured at fair value									
Unsecured bank loans (Note 16)	-	-	-	(43,601)	(43,601)	-	(43,601)	-	(43,601)
Unsecured bond issues (Note 16)	-	-	-	(5,105)	(5,105)	(5,097)	-	-	(5,097)
Other loans (Note 16)	-	-	-	(2,415)	(2,415)	-	-	(2,415)	(2,415)
Trade and other payables (Note 18)	-	-	-	(21,612)	(21,612)	-	(21,612)	-	(21,612)
Total	-	-	-	(72,733)	(72,733)				

30 December 2013

	Carrying amount				Total	Fair value			
	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Other investments (Note 11)	-	-	3,159	-	3,159	-	-	3,159	3,159
Total	-	-	3,159	-	3,159				
Financial assets not measured at fair value									
Promissory notes (Note 11)	732	-	-	-	732	-	-	732	732
Trade and other receivables (Note 12)	-	31,620	-	-	31,620	-	31,620	-	31,620
Cash and cash equivalents (Note 10)	-	2,871	-	-	2,871	-	2,871	-	2,871
Total	732	34,491	-	-	35,223				
Financial liabilities not measured at fair value									
Unsecured bank loans (Note 16)	-	-	-	(19,672)	(19,672)	-	(19,672)	-	(19,672)
Unsecured bond issues (Note 16)	-	-	-	(5,105)	(5,105)	(5,158)	-	-	(5,158)
Other loans (Note 16)	-	-	-	(1,700)	(1,700)	-	-	(1,700)	(1,700)
Trade and other payables (Note 18)	-	-	-	(11,046)	(11,046)	-	(11,046)	-	(11,046)
Total	-	-	-	(37,523)	(37,523)				

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used. The fair values for financial instruments such as short-term trade and other receivables, trade and other payables is not disclosed because their carrying amounts are a reasonable approximation of fair values.

	Valuation technique	Significant unobservable inputs
Financial assets measured at fair value		
Other investments	Discounted Cash Flows ("DCF")	EBITDA
Financial assets not measured at fair value		Risk-adjusted discount rate
Promissory notes	DCF	Not applicable

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

	Valuation technique	Significant unobservable inputs
Financial liabilities not measured at fair value		
Other loans	DCF	Not applicable

There were no changes in valuation technique for Level 2 and Level 3 fair value measurements during the nine months ended 30 September 2014 (for the year ended 31 December 2013: none).

(b) Financial risk management

The group is exposed to a number of different financial risks arising from natural business exposures as well as its use of financial instruments including: market risks relating to foreign currency exchange rates and interest rates, credit risk and liquidity risk.

(i) Credit risk

Trade and other receivables

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

	Carrying amount	
	30 September 2014	31 December 2013
Heat	27,855	20,288
Electricity	5,878	7,709
Other	9,499	3,543
Total	43,232	31,540

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 "CFR", accounts for RR 26,864 million and RR 1,676 million, respectively, for the trade receivables carrying amount at 30 September 2014 (at 31 December 2013: RR 15,267 million and RR 2,237 million, respectively).

Impairment losses

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

	30 September 2014		31 December 2013	
	Gross	Impairment	Gross	Impairment
Not past due	35,985	-	24,478	-
Past due 0-30 days	595	106	1,246	96
Past due 31-120 days	867	47	1,516	46
Past due 121-365 days	4,557	550	4,175	1,425
More than one year	7,865	5,934	6,008	4,316
Total	49,869	6,637	37,423	5,883

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

	2014	2013
Balance at 1 January	5,883	3,539
Impairment loss recognized during the period	907	2,466
Allowance used during the period	(153)	(30)
Balance at 30 September	6,637	5,975

The impairment allowance at 30 September 2014 of RR 6,637million (at 31 December 2013: RR 5,883 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other

MOSENERGO Group

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

receivables not past due or past due by up to 120 days; 75.09 percent of the balance (at 31 December 2013: 72.79 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.

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 September 2014	Rating	31 December 2013
OJSC "Gazprombank"	Standard & Poor's	BBB-	5,296	BBB-	69
OJSC "AB "Rossia"	Moody's Interfax	A3.ru	1,440	A3.ru	1,240
OJSC "VTB"	Fitch Ratings	AA+(rus)	803	AA+(rus)	8
OJSC "Bank Finservice"	Moody's Interfax	Ba.ru	271	-	130
OJSC "Alfa-Bank"	Fitch Ratings	AA+(rus)	200	AA+(rus)	1,175
OJSC "Sberbank Rossii"	Moody's Interfax	Aaa.ru	19	Aaa.ru	170
OJSC "Promsvyazbank"	Standard & Poor's	-	-	BB	59
OJSC "Vozrozhdenie"	Standard & Poor's	-	-	BB-	18
Other	-	-	8	-	2
Total			8,037		2,871

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

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 30 September 2014:

	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	43,601	54,975	2,245	2,181	4,345	23,684	2,555	13,883	6,082
Unsecured bond issues	5,105	5,560	221	5,221	9	109	-	-	-
Other loans	2,415	3,171	581	31	123	124	123	123	2,066
Trade and other payables	21,612	39,840	12,789	407	989	806	806	806	23,237
Total	72,733	103,546	15,836	7,840	5,466	24,723	3,484	14,812	31,385

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 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	19,672	22,969	2,202	1,077	4,382	5,428	2,970	1,447	5,463
Unsecured bond issues	5,105	5,560	221	5,221	9	109	-	-	-
Other loans	1,700	2,790	62	61	123	123	123	123	2,175
Trade and other payables	11,046	11,046	10,840	-	206	-	-	-	-
Total	37,523	42,365	13,325	6,359	4,720	5,660	3,093	1,570	7,638

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

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

(iii) **Currency risk**

Exposure to currency risk

	EURO-denominated	
	30 September 2014	31 December 2013
Cash and cash equivalents	-	113
Unsecured bank loans	(11,851)	(11,098)
Gross balance sheet exposure	(11,851)	(10,985)
Interest payable	(359)	(254)
Gross exposure	(359)	(254)
Net exposure	(12,209)	(11,239)

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	30 September 2014	31 December 2013	30 September 2014	31 December 2013
EURO	47.9894	42.3129	49.9540	44.9699

Sensitivity analysis

A 13% strengthening of the RR against EUR at 30 September 2014 would have decreased 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 2013.

	30 September 2014	31 December 2013
EURO	1.638	1.508

A 13% weakening of the RR against the EUR at 30 September 2014 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 September 2014 was approximately 13% for the EURO (at 31 December 2013: 6%), the difference between the two actual extremes in the reported period was approximately 13% (at 31 December 2013: 14%).

(iv) **Interest rate risk**

Profile

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

	Carrying amount	
	30 September 2014	31 December 2013
Fixed rate instruments		
Financial assets (Note 10, 11, 12)	55,823	38,382
Financial liabilities (Note 16.18)	(60,882)	(26,425)
Total	(5,059)	11,957
Variable rate instruments		
Financial liabilities (Note 16)	(11,851)	(11,098)
Total	(11,851)	(11,098)

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.

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 30 September 2014 and 31 December 2013.

	30 September 2014		31 December 2013	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(94.1)	94.1	(126.2)	126.2
Cash flow sensitivity (net)	(94.1)	94.1	(126.2)	126.2

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 nine months ended 30 September 2014 and 30 September 2013 operating lease expenses in amounts of RR 349 million and RR 1,011 million and amounts of RR 197 million and RR 655 million respectively were recognised in the consolidated statement of comprehensive income.

Non-cancellable operating lease rentals are payable as follows:

	30 September 2014	31 December 2013
Less than one year	550	484
Between one and five years	2,189	1,920
More than five years	14,453	13,198
Total	17,192	15,602

(b) Finance leases

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

	30 September 2014			31 December 2013		
	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	444	403	41	32	7	25
Between one and five years	1,579	1,457	122	1	-	1
More than five years	11,371	7,076	4,295	-	-	-
Total	13,394	8,936	4,458	33	7	26

Note 32. Commitments and contingencies

(a) Capital commitments

At 30 September 2014 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 19,937 million (at 31 December 2013: RR 20,972 million). The amount includes Capacity Supply Contracts capital commitments for amount RR 14,864 million (at 31 December 2013: RR 14,613 million).

(b) Taxation environment

The Russian tax legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Management believes that as at 30 September 2014 its interpretation of the relevant legislation was appropriate and the

MOSENERGO Group

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

Group's tax position would be sustained.

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

(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

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 54 million at 30 September 2014 (at 31 December 2013: RR 66 million).

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 year ended 30 September 2014 and at 30 September 2014 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	21	66,029	39,354	4,785	110,168
Expenses:					
Fuel and water usage expenses	22	(64,690)	(498)	-	(65,188)
Heat transmission		-	(4,549)	-	(4,549)
Purchased electricity	22	(5,861)	(8)	-	(5,869)

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

	Note	Electricity	Heat	All other segments	Total
Purchased heat	22	-	(195)	-	(195)
Segment result		(4,522)	34,104	4,785	34,367
Segment assets		262,306	42,168	2,836	357,310

The segment information for the year ended 30 September 2013 and at 31 December 2013 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	21	65,671	40,147	2,348	108,166
Expenses:					
Fuel and water usage expenses	22	(62,168)	(366)	-	(62,534)
Heat transmission		-	(5,171)	-	(5,171)
Purchased electricity	22	(6,260)	(100)	-	(6,360)
Purchased heat	22	-	(348)	-	(348)
Segment result		(2,757)	34,162	2,348	33,753
Segment assets		278,544	28,395	27,680	334,619

The segment assets include impairment loss recognised for property, plant and equipment for nine months ended 30 September 2014 in total amount RR 747 million, allocated in amount of RR 262 million to the electricity segment, RR 477 million to the heat segment and RR 8 million to all other segments (at 31 December 2013: RR 532 million to the electricity segment, RR 30 million to the heat segment and RR 340 million to all other segments).

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

	Note	Three months ended 30 September 2014	Three months ended 30 September 2013	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Segment result for reportable segments		6,246	6,417	29,582	31,405
Other segments gross margin		1,818	778	4,785	2,348
Financial income	27	263	100	688	563
Other operating income	26	388	145	1,211	638
Depreciation of property, plant and equipment	7	(3,632)	(3,625)	(11,028)	(10,756)
Personnel expenses	24	(3,167)	(2,192)	(9,749)	(7,124)
Other external supplies	23	(1,114)	(999)	(3,473)	(2,986)
Maintenance and repairs expenses		(805)	(1,342)	(2,616)	(3,082)
Taxes other than income tax		(422)	(60)	(1,288)	(629)
Cost of materials	22	(366)	(134)	(856)	(456)
Financial expenses	27	(1,228)	(192)	(1,606)	(888)
Impairment loss of property, plant and equipment		(446)	-	(747)	-
Other operating expenses	25	(2,208)	(706)	(3,796)	(4,397)
Profit/(loss) before income tax		(4,673)	(1,810)	1,107	4,636

(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 September 2014	31 December 2013
Segment assets		357,310	334,619
Unallocated:			
Available for sale financial assets	14	3,159	3,159
Income tax receivables		1,448	384

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

	Note	30 September 2014	31 December 2013
Taxes other than income tax prepaid	12	985	794
Total assets per consolidated statement of financial position		362,902	338,956

(c) Information about major customers

During the three and nine months ended 30 September 2014 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 nine months ended 30 September 2014 amounted to RR 11,316 million and RR 40,373 million. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.
- Revenue from OJSC "MOEK" for the three and nine months ended 30 September 2014 amounted to RR 3,654 million and RR 24,385 million. The revenue was obtained from sales of heat relating to the heat segment.
- Revenue from OJSC "Mosenergosbyt" for the three and nine months ended 30 September 2014 amounted to RR 3,260 million and RR 11,206 million. The revenue was obtained from sales of heat relating to the electricity segment.

During the three and nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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.
- Revenue from OJSC "Mosenergosbyt" for the three and nine months ended 30 September 2013 amounted to RR 3,106 million and RR 10,764 million. The revenue was obtained from sales of heat relating to the electricity segment.

Note 34. Events after the reporting period

In the second half of 2014 management approved a plan to sell LLC "GES-2" presented within the "Electricity" and "Heat" segment. The transaction was completed in November 2014.

On October 2014 the Board of Directors approved disposal of interest in "TER Group" presented within the other segment. The transaction will be completed by the end of the year.