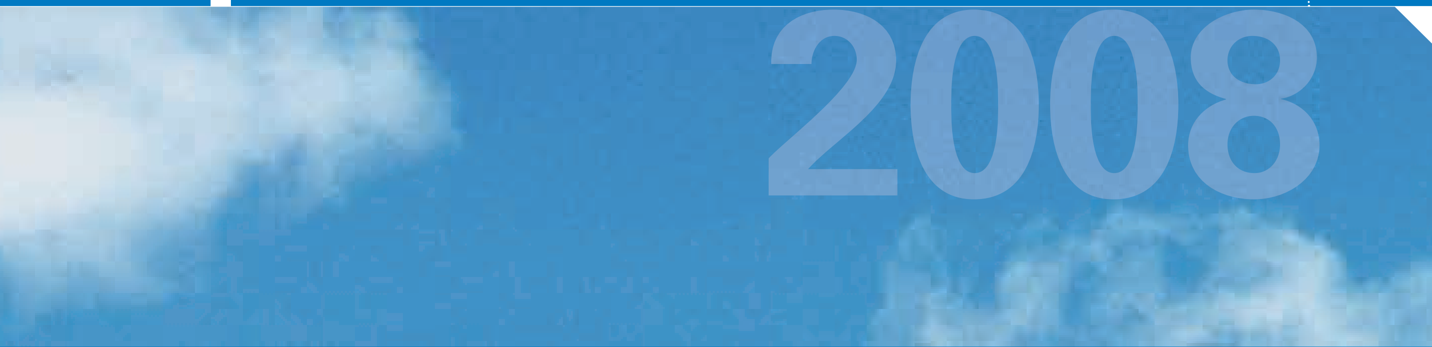
MOSENERGO



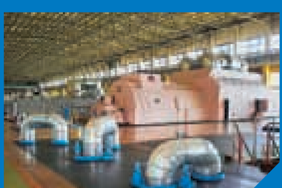
MOSENERGO GROUP

Consolidated financial statements

(prepared in accordance with IFRS)

for the year ended 31 December 2008

(with an independent auditor's report thereon)



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company Mosenergo

We have audited the accompanying consolidated financial statements of OJSC Mosenergo (AO MOSENERGO) and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 1 and 6 to the accompanying consolidated financial statements. The Government of the Russian Federation has an ultimate controlling interest in AO MOSENERGO and Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
18 May 2009

MOSENERGO Group Consolidated Balance Sheet

(in millions of Russian Roubles)

	Note	31 December 2008	31 December 2007 (as restated)
ASSETS			
Non–current assets			
Property, plant and equipment	7	195,307	108,375
Investment property	8	4,552	2,091
Investments in equity accounted investees	9	4	1,246
Advances for acquisition of property, plant and equipment	3	10,692	8,582
Other non–current assets	13	581	551
Total non–current assets		**211,136**	**120,845**
Current assets			
Inventories	10	4,446	4,444
Investments	11	13,485	23,201
Income tax receivable		78	41
Trade and other receivables	12	15,078	10,730
Cash and cash equivalents	14	3,315	11,161
Other current assets	13	1,301	1,516
Total current assets		**37,703**	**51,093**
Total assets		**248,839**	**171,938**
EQUITY AND LIABILITIES			
Equity	15		
Share capital		166,124	166,124
Treasury stock		(899)	–
Share premium		49,213	49,213
Reserves		88,600	30,280
Accumulated loss		(117,168)	(120,200)
Total equity		**185,870**	**125,417**
Non–current liabilities			
Non–current borrowings	16	10,199	129
Deferred tax liabilities	28	26,108	14,498
Employee benefits	17	485	1,279
Other payables	18	140	110
Total non–current liabilities		**36,932**	**16,016**
Current liabilities			
Current borrowings and current portion of non–current borrowings	16	12,500	17,476
Trade and other payables	18	11,963	10,925
Income tax payable		323	478
Other taxes payable	19	998	611
Provisions	20	253	1,015
Total current liabilities		**26,037**	**30,505**
Total liabilities		**62,969**	**46,521**
Total equity and liabilities		**248,839**	**171,938**

General Director V.G. Yakovlev Chief Accountan S.A. Suraev

"18" May 2009

The accompanying notes are an integral part of these consolidated financial statements

MOSENERGO Group Consolidated Income Statement

(in millions of Russian Roubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007 (as restated)
Revenue	21	94,819	78,324
Income from change in fair value of investment property	8	1,999	278
Other operating income	26	431	356
Cost of materials	22	(52,493)	(41,691)
Heat transmission		(14,737)	(12,738)
Personnel expenses	24	(9,338)	(8,160)
Depreciation of property, plant and equipment	7	(6,621)	(5,625)
Impairment of property, plant and equipment	7	(3,443)	–
Maintenance and repairs expenses		(2,043)	(2,373)
Other external supplies	23	(2,156)	(1,795)
Taxes other than income tax		(1,444)	(1,440)
Other operating expenses	25	(3,255)	(3,725)
Results from operating activities		**1,719**	**1,411**
Financial income	27	1,686	1,595
Financial expenses	27	(1,590)	(421)
Share of profit of equity accounted investees	9	5	64
Loss on withdrawal from equity investee	9	(397)	–
Profit before income tax		**1,423**	**2,649**
Income tax benefit / (expense)	28	632	(1,022)
Profit for the year		**2,055**	**1,627**
Profit per ordinary share – basic and diluted (in Russian Roubles)	29	0.05	0.05

General Director V.G. Yakovlev Chief Accountan S.A. Suraev

"18" May 2009

The accompanying notes are an integral part of these consolidated financial statements

MOSENERGO Group Consolidated Statement of Cash Flows

(in millions of Russian Roubles)

	Note	Year ended 31 December 2008	Year ended 31 December 2007 (as restated)
Cash flow from operating activities			
Profit before income tax		**1,423**	**2,649**
Adjustments for:			
Depreciation of property, plant and equipment	7	6,621	5,625
Loss on disposal of property, plant and equipment		41	507
Financial income	27	(1,686)	(1,595)
Financial expenses	27	1,590	421
Share of profit of equity accounted investee	9	(5)	(64)
Trade and other receivables impairment (gain)/loss		60	585
Loss on withdrawal from equity investee	9	397	–
Impairment of property, plant and equipment	7	3,443	–
Change in fair value of investment property	8	(1,999)	(278)
Change in provisions	20	207	344
Other non–cash items		11	(14)
Operating profit before changes in working capital and provisions		**10,103**	**8,180**
Change in inventories		(14)	(99)
Change in trade and other receivables		(3,007)	(6,832)
Change in other current assets		29	(53)
Change in trade and other payables		914	2,165
Change in taxes payables, other than income tax		408	18
Change in employee benefits		(939)	(65)
Cash flows from operations before income tax and interest paid		**7,495**	**3,315**
Income tax paid		(559)	(1,147)
Interest paid		(1,082)	(207)
Cash flows from operating activities		**5,853**	**1,961**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		9	723
Proceeds from disposal of investments		38,737	16,681
Interest received		991	924
Dividends received		8	121
Acquisition of property, plant and equipment		(28,102)	(30,136)
Acquisition of bank deposits		(15,520)	(8,000)
Acquisition of investments		(13,411)	(31,882)
Interest paid and capitalized	7	(449)	(1,381)
Cash flows from investing activities		**(17,737)**	**(52,950)**
Cash flows from financing activities			
Proceeds from the issue of share capital		–	60,720
Costs of the share capital issue		–	(7)
Proceeds from borrowings		7,806	7,793
Repayment of borrowings		(2,869)	(11,189)
Buy–out of own shares		(899)	–
Dividends paid	15	–	(896)
Cash flows from financing activities		**4,038**	**56,421**
Net (decrease) / increase in cash and cash equivalents		**(7,846)**	**5,432**
Cash and cash equivalents at the beginning of the year	14	11,161	5,729
Cash and cash equivalents at the end of the year	**14**	**3,315**	**11,161**

General Director V.G. Yakovlev Chief Accountan S.A. Suraev

"18" May 2009

The accompanying notes are an integral part of these consolidated financial statements

MOSENERGO Group Consolidated Statement of Changes in Equity

(in millions of Russian Roubles)

		Attributable to equity holders of OJSC Mosenergo					
	Note	Share capital	Treasury stock	Share premium	Revaluation reserve (as restated)	Accumulated loss (as restated)	Total
Balance at 31 December 2006 as previously reported		**154,624**	**–**	**–**	**–**	**(116,394)**	**38,230**
Correction of prior period errors	3	–	–	–	–	(3,568)	(3,568)
Balance at 1 January 2007		**154,624**	**–**	**–**	**–**	**(119,962)**	**34,662**
Profit for the year		–	–	–	–	1,627	1,627
Revaluation of property, plant and equipment	7	–	–	–	30,280	–	30,280
Total recognized profit for the period							31,907
Shares issued	15	11,500		49,213	–	–	60,713
Buy–out of own shares reserve	20	–	–	–	–	(969)	(969)
Dividends to shareholders	15	–	–	–	–	(896)	(896)
Balance at 31 December 2007		**166,124**	**–**	**49,213**	**30,280**	**(120,200)**	**125,417**
Balance at 1 January 2008		**166,124**	**–**	**49,213**	**30,280**	**(120,200)**	**125,417**
Profit for the year		–	–	–	–	2,055	2,055
Change in tax rate through equity		–	–	–	1,593	–	1,593
Revaluation of property, plant and equipment	7	–	–	–	56,358	–	56,358
Revaluation of investment property	8	–	–	–	369	–	369
Total recognized profit for the period							60,375
Contribution from shareholders		–	–	–	–	8	8
Buy–out of own shares	15, 20	–	(899)	–	–	969	70
Balance at 31 December 2008		**166,124**	**(899)**	**49,213**	**88,600**	**(117,168)**	**185,870**

General Director V.G. Yakovlev Chief Accountan S.A. Suraev

"18" May 2009

The accompanying notes are an integral part of these consolidated financial statements

Note 1. The Group and its operations

(a) Organization and operations

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

The Group's power and heat generation base includes 17 power stations with operational capacity equalled approximately 11,904.3 megawatts ("MW") and 34,897.4 gigacalories ("Gkal") of electricity and heat capacity, respectively.

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

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

(b) Group formation

On 1 April 2005, the Company was reorganized in form of spin-off following the reorganization 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 on 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 on 20 December 2006 approved a closed subscription for the additional shares issued in favour of OJSC Gazprom and its affiliates (together referred as the "Gazprom Group"). As a result, the majority shareholder of OJSC Mosenergo changed from RAO UES of Russia to Gazprom Group holding 53.47% of ordinary shares.

Following the reorganization process, an extraordinary general shareholder's meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including OJSC Mosenergo, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganization. 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 the program related to the Company's organisational structure optimisation aimed at concentration of production resources, optimization of labour capacity and supply chain. Organisational structure optimisation included the merge of several production branches situated geographically close to each other, reallocation and outsourcing of non-core functions.

(c) Business environment

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

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC Gazprom (the "Parent"), which held 53.47% in the Company. Thus 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 Commissions of Moscow and Moscow region (the "RECs"), respectively. OJSC "System Operator - Central Dispatch Unit of Unified Energy System" (the "SO - CDU UES"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base 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 No. 529 dated 31 August 2006, were adopted. Under this new framework, electricity and power purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and power produced and consumed.

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

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

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

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

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

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

Note 3. Significant accounting policies

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

(a) Restatement and reclassification of comparatives

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

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

The impact of restating the 31 December 2007 financial statements is presented below. Note that such financial statements were also restated for some other, less material, matters which are noted below.

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

(i) Consolidated balance sheet

The following are the consolidated balance sheet captions as at 31 December 2007 as reported previously and adjusted:

	As originally presented	Items	Changes due to restatement	Items	Changes due to reclassification	As adjusted
Property, plant and equipment	131,036	1, 22	(14,172)	11–	(8,489)	108,375
Investment property	1,288	2	803	–	–	2,091
Advances for acquisition of PPE	–	–	(81)	11,12	8,663	8,582
Other non–current assets	347	3	225	11,12	(21)	551
Trade and other receivables	11,566	4	163	11,14	(999)	10,730
Investments	15,201	–	–	13	8,000	23,201
Cash and cash equivalents	11,136	–	–	–	25	11,161
Other current assets	8,720	–	–	11,13,14	(7,204)	1,516
Total assets	**185,025**		**(13,062)**		**(25)**	**171,938**
Reserves	37,534	5, 6	(7,254)	–	–	30,280
Accumulated loss	(117,211)	7	(2,989)	–	–	(120,200)
Deferred tax liabilities	17,427	8	(2,929)	–	–	14,498
Trade payables	10,950	–	–	–	(25)	10,925
Other payables	–	9	110	–	–	110
Total liabilities	**185,025**		**(13,062)**		**(25)**	**171,938**

(ii) Consolidated Income Statement

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

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

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

Item 1 Decrease in property, plant and equipment in total amount of RR 13,368 million is due to reduction concurrent with adjustment at 1 January 2007 discussed above offset by reduced depreciation in amount of RR 1,100 million;

Item 2 Decrease in property, plant and equipment in amount of RR 803 million is due to correction of an error to properly account for certain items of property, plant and equipment as investment property;

Item 3 Increase in other non-current assets in amount of RR 225 million is due to improper written-off of biological and intangible assets with adjustment to increase opening retained earnings at 1 January 2007 in amount of RR 173 million;

Item 4 Increase in trade and other receivables in amount of RR 163 million are due to correction of an error caused by improper calculation of bad debt provision;

Item 5 Decrease in revaluation surplus in amount of RR 6,473 million is due to correction of property, plant and equipment valuation of above mentioned item in amount of RR 8,517 million net of related deferred tax in amount of RR 2,044 million;

Item 6 Decrease in revaluation surplus in amount of RR 781 million is due to correction of an error to properly account of revaluation of investment property mentioned above items in amount RR 1,027 million net of related deferred tax in amount of RR 246 million. This also resulted in the increase in the opening retained earnings at 1 January 2007 by RR 781 million;

Item 7 Increase in accumulated deficit in amount of RR 2,989 million is due to correction of property, plant and equipment valuation above mentioned item in amount of RR 3,687 million, correction of revaluation result from investment property in amount of RR 781 million and impact of RR 83 million as a result of other items;

Item 8 Decrease in deferred tax liability in amount of RR 2,928 million is due to correction of an error caused by improper recognition of deferred tax asset in respect of the reserve for buy-out of own shares in amount of RR 233 million, deferred tax impact of RR 3,208 million as a result of correction of property, plant and equipment valuation above mentioned items and impact of deferred tax of other items in amount RR 47 million;

Item 9 Increase in other payables in amount of RR 110 million is due to correction of an error caused by unrecognised in previous interest payables for mortgages of Group employees in amount RR 167 million net of discount in amount RR 58 million;

Item 10 Increase in income on change in fair value of investment property in amount RR 278 million is due to correction of an error to properly account for revaluation result from investment property recognized directly to equity as result in profit or loss;

Item 11 Advances given to the suppliers of equipment and capital construction contractors, were reclassified from "Property, plant and equipment" to "Advances for acquisition of property, plant and equipment" in amount of RR 8,489 million with corresponding VAT in amount of RR 1,095 million being reclassified to "Other current assets" in amount RR 879 million and to "Other non-current assets" in amount RR 216 million;

Item 12 Advances given under the financial lease contracts were reclassified from "Other non-current assets" to "Advances for acquisition of property, plant and equipment" in amount of RR 174 million with corresponding VAT in amount of RR 31 million being reclassified to "Other current assets";

Item 13 Deposits placed in banks were reclassified from "Other current assets" to "Investments" in amount of RR 8,000 million;

Item 14 VAT on advances received related to operational activity of the Group were reclassified from "Other current assets" to "Trade and other receivables" in amount of RR 114 million;

Item 15 Subsidies on difference in tariffs for sales to the urban population were reclassified from "Revenue" to "Other operating income" in amount RR 274 million.

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

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

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

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

(d) Financial instruments

(i) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

(ii) Share capital

Ordinary shares

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

Repurchase of share capital (treasury stock)

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating expenses" in profit or loss. The revaluation surplus is not transferred from reserve when the assets are disposed.

(ii) Reclassification to investment property
Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified to investment property. Any gain or loss arising on remeasurement is recognized in profit or loss.

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

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

(iv) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Depreciation of an asset begins when it is available for use.

The estimated useful lives for the current year are as follows:

- Buildings and constructions 20-75 years
- Plant and equipment 10-29 years
- Transmission networks 7-35 years
- Other 1-15 years

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

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

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

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

(f) Intangible assets

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

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

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

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

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

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

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

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

(j) Impairment

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

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

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

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

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(k) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Termination benefits

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

(iv) Short-term benefits

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

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

(l) Provisions

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

(m) Revenues

(i) Goods sold

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

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

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

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

(n) 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 income statement on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognized on profit or loss when subsidy becomes receivable.

(o) 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.

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

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

Foreign currency gains and losses are reported on gross basis.

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit 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.

(r) Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(s) Segment reporting
The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in the city of Moscow and Moscow region. It is not feasible to identify distinguishable business segments for electric power and heat production. The generation of electricity and heat are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(t) New Standards and Interpretations not yet adopted
The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Revised IAS 1 Presentation of Financial Statements (2007) which becomes mandatory for the Group's 2009 consolidated financial statements is not expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The amendments to IAS 23 which become mandatory for the Group's 2009 consolidated financial statements with earlier application permitted are not expected to have a significant impact on the consolidated financial statements as were already adopted by the Group.
- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership

interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 financial statements, with retrospective application required, are not expected to have a significant impact on the consolidated financial statements.
- Amendment to IAS 39 Financial Instruments: Recognition and – Measurement Eligible Hedged Items clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 financial statements, with retrospective application required, is not expected to have a significant impact on the consolidated financial statements.
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate published in May 2008 simplifies the first-time preparation of separate financial statements under IFRS. Amendments in particular are applied to the initial measurement of the cost of subsidiaries, jointly controlled entities and associates using either the fair value or the carrying amount under the previous accounting practice. The separation of the earnings "before" and "after" the acquisition is eliminated by removing the definition of the cost method from IAS 27. Revised IAS 27 requires that all dividends should be presented as income. The amendments, which become mandatory for the Group's 2009 financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Revised IFRS 1 First-time adoption of International Financial Reporting Standards published in November 2008 which simplifies its application shall be applied by the entity if its first IFRS financial statements are for a period beginning on or after 1 January 2009 with earlier application permitted. Revised standard is not applicable to the consolidated financial statements.
- Amendment to IFRS 2 Share-based Payment – Vesting conditions and cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 financial statements, with retrospective application required, are not expected to have a significant impact on the consolidated financial statements.
- Revised IFRS 3 Business Combinations (2008) and amended IAS 27 (2008) Consolidated and Separate Financial Statements come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity. The amendments are not expected to have a significant impact on the consolidated financial statements.
- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8 Operating Segments, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group does not present segment information in respect of its business and geographical segments as operates in one geographical and business segments. The new Standard is not expected to have a significant impact on the consolidated financial statements.
- Amendments to IFRIC 9 and IAS 39 which becomes mandatory for annual periods ending on or after 30 June 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendments are not expected to have a significant impact on the consolidated financial statements.
- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have a significant impact on the consolidated financial statements.
- IFRIC 15 Agreements for the Construction of Real Estate addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Group's 2009 financial statements, is not expected to have a significant impact on the consolidated financial statements.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. became mandatory for the Group's 2009 financial statements). IFRIC 16 is not expected to have a significant impact on the consolidated financial statements.
- IFRIC 17 Distributions of Non-cash Assets to Owners addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009 and is not expected to have significant impact on consolidated financial statements.
- IFRIC 18 Transfers of Assets from Customers applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measure-

ment of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. It is not expected to have significant impact on consolidated financial statements. IFRIC 18 is not expected to have a significant impact on the consolidated financial statements. Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.
- Improving Disclosures about Financial Instruments - Amendment to IFRS 7 Financial Instruments: Disclosures (issued in March 2009) which becomes effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Note 4. Determination of fair values

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

(a) Property, plant and equipment and investment property

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

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

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

(b) Investments in equity and debt securities

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

(c) Trade and other receivables

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

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 5. Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

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

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

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

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

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

(ii) Guarantees

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

(iii) Investments

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its 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.

The Group has credit line in form of overdraft limited to RR 1,300 million to mitigate liquidity risk related to possible cash gaps. Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

(d) Market risk

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

(i) Currency risk

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

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

The Group's policy in respect of mitigating currency risk includes minimizing share of borrowings in foreign currencies comparing to total credit portfolio, which is 0,5% as at the year end. To minimize currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks by means of corresponding derivatives in the future.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

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

The gearing ratios at 31 December 2008 and at 31 December

2007 were as follows:

	31 December 2008	31 December 2007
Total borrowings (Note 16)	(22,699)	(17,605)
Cash (Note 14)	3,315	11,161
Net debt	(19,384)	(6,444)
Total equity (Note 15)	(185,870)	(125,417)
Total capital	**(205,254)**	**(131,861)**
Gearing ratio	**9.4%**	**4.9%**

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

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

As at 31 December 2008, the Group was in compliance with the above share capital requirements.

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

Note 6. Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2008 and the year ended 31 December 2007 or had significant balances outstanding at 31 December 2008 and at 31 December 2007 are detailed below.

(a) Parent company and its affiliates

The Russian Federation was an ultimate controlling party of the Group during the current and prior reporting periods.

(i) Transactions with Gazprom Group

As at 31 December 2008 the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC Gazprom (the "Parent"), which in its turn held 53.47% in the Company.

In June 2007 Gazprom Group acquired additional shares of OJSC Mosenergo and thus increased its interest in the Company up to the controlling stake.

Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity	13	–
Heat	25	–
Other revenue	167	366
Total	**205**	**366**

Expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Fuel expenses	(44,516)	(22,852)
Other operating expenses	(468)	–
Total	**(44,984)**	**(22,852)**

Financial income and expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Financial income	1,167	1,130
Financial expenses	(3)	(4)
Net financial income	**1,164**	**1,126**

Outstanding balance

	Outstanding balance at 31 December 2008	Outstanding balance at 31 December 2007
Investments	13,444	15,201
Trade and other receivables	4,581	2,923
Other current assets	50	31
Cash and cash equivalents	1,897	5,353
Total assets	**19,972**	**23,508**
Trade and other payables	(134)	(46)
Total liabilities	**(134)**	**(46)**

Borrowings

	Amount loaned for the year ended 31 December 2008	Amount loaned for the year ended 31 December 2007	Outstanding balance at 31 December 2008	Outstanding balance at 31 December 2007
Current borrowings and current portion of non–current borrowings	(3,086)	(3,721)	–	–
Total borrowings	**(3,086)**	**(3,721)**	**–**	**–**

(ii) Transactions with RAO UES of Russia, its affiliates and successor companies

Until the end of May 2007 the Russian Federation owned (both direct and indirect ownership) over 50% in RAO UES of Russia, which in its turn held 52.68% in the Company thus exercising control over the Group.

Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity	34,796	32,793
Heat	1,653	1,291
Other revenue	1,960	2,216
Total	**38,409**	**36,300**

Expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Purchased heat and electricity	–	–
Electricity market administration fees	(743)	(537)
Heat transmission	(14,737)	(12,738)
Other operating expenses	(335)	(30)
Total	**(15,815)**	**(13,305)**

Outstanding balance

	Outstanding balance at 31 December 2008	Outstanding balance at 31 December 2007
Trade and other receivables	1,670	2,108
Total assets	**1,670**	**2,108**
Trade and other payables	(2,754)	(2,325)
Total liabilities	**(2,754)**	**(2,325)**

(b) Transactions with equity accounted investees

The Group provided rent services to LLC CB Transinvestbank (the "Transinvestbank") for RR 4.1 million and RR 6 million during the year ended 31 December 2008 and the year ended 31 December 2007, respectively.

The Group received bank services from Transinvestbank for RR 160 million and RR 171 million during the year ended 31 December 2008 and the year ended 31 December 2007, respectively.

Cash and cash equivalents balance of the Group in Transinvestbank at 31 December 2008 and 31 December 2007 were RR 66 million and RR 1,145 million, respectively (see Note 9).

(c) Transactions with key management

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

Expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Wages and salaries	108	158
Pension benefits expenses	22	–
Termination benefits	147	22
Total	**277**	**180**

Outstanding balance

	Outstanding balance at 31 December 2008	Outstanding balance at 31 December 2007
Wages and salaries	1	11
Remunerations for service in Board of Directors and Management Committee	–	–
Termination benefits	–	–
Total liabilities	**1**	**11**

(d) Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with OJSC Gazprom and its affiliates and RAO UES of Russia, its affiliates and successor companies as disclosed in Note 6(a).

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

Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity	14,813	6,727
Heat	26,658	21,850
Other revenue	175	933
Total	**41,646**	**29,510**

Expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Purchased heat and electricity	(4,885)	(2,920)
Fuel expenses	(673)	(2,521)
Water usage expenses	(423)	(312)
Other operating expenses	(1,318)	(466)
Total	**(7,299)**	**(6,219)**

Financial income and expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Financial income	344	351
Financial expenses	(9)	(2)
Net financial income	**335**	**349**

Outstanding balance

	Outstanding balance at 31 December 2008	Outstanding balance at 31 December 2007
Investments	–	8000
Trade and other receivables	714	334
Other current assets	523	523
Cash and cash equivalents	770	4,503
Total assets	**2,007**	**13,360**
Trade and other payables	(743)	(783)
Total liabilities	**(743)**	**(783)**

Borrowings

	Amount loaned for the year ended 31 December 2008	Amount loaned for the year ended 31 December 2007	Outstanding balance at 31 December 2008	Outstanding balance at 31 December 2007
Non–current borrowings	–	(1,213)	–	–
Current borrowings and current portion of non–current borrowings	(3,550)	(2,859)	(3,550)	–
Total borrowings	**(3,550)**	**(4,072)**	**(3,550)**	**–**

Note 7. Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2007	**41,741**	**29,772**	**11,216**	**2,703**	**7,038**	**92,470**
Elimination of accumulated depreciation	(22,743)	(15,559)	(5,862)	(1,413)	(20)	(45,597)
Revaluation	18,959	13,104	5,286	1,272	2,248	40,869
Additions	58	41	13	4	26,849	26,965
Disposals	(412)	(287)	(93)	(26)	(106)	(924)
Transfers	2,824	6,323	1,587	609	(11,343)	–
Balance at 31 December 2007	**40,427**	**33,394**	**12,147**	**3,149**	**24,666**	**113,783**
Balance at 1 January 2008	**40,427**	**33,394**	**12,147**	**3,149**	**24,666**	**113,783**
Reclassification	(738)	(122)	(34)	894	–	–
Additions	–	–	–	–	26,669	26,669
Disposals	(27)	(65)	–	(8)	(26)	(126)
Transfers	11,502	13,745	64	4,365	(29,676)	–
Transfer to investment property	(1)	–	–	–	–	(1)
Elimination of accumulated depreciation	(3,360)	(3,976)	(3,524)	(1,162)	–	(12,022)
Revaluation	44,659	12,263	4,776	2,986	2,320	67,004
Balance at 31 December 2008	**92,462**	**55,239**	**13,429**	**10,224**	**23,953**	**195,307**

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2007	**(22,743)**	**(15,559)**	**(5,862)**	**(1,413)**	**(20)**	**(45,597)**
Elimination of accumulated depreciation	22,743	15,559	5,862	1,413	20	45,597
Depreciation charge	(1,703)	(1,857)	(1,799)	(266)	–	(5,625)
Disposals	109	76	24	8	–	217
Balance at 31 December 2007	**(1,594)**	**(1,781)**	**(1,775)**	**(258)**	**–**	**(5,408)**
Balance at 1 January 2008	**(1,594)**	**(1,781)**	**(1,775)**	**(258)**	**–**	**(5,408)**
Reclassification	13	7	5	(25)	–	–
Depreciation charge	(1,780)	(2,207)	(1,754)	(880)	–	(6,621)
Disposals	1	5	–	2	–	8
Elimination of accumulated depreciation	3,360	3,976	3,524	1,161	–	12,021
Balance at 31 December 2008	**–**	**–**	**–**	**–**	**–**	**–**

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2007	18,998	14,212	5,354	1,290	7,018	**46,873**
At 1 January 2008	38,833	31,613	10,372	2,891	24,666	**108,375**
At 31 December 2008	92,462	55,239	13,429	10,224	23,953	**195,307**

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2007	21,599	18,171	1,956	3,858	7,240	**52,824**
At 31 December 2007	15,265	29,014	2,043	4,183	22,761	**73,266**
At 31 December 2008	44,811	26,300	6,394	4,869	11,407	**93,781**

Borrowing costs of RR 449 million and RR 1,381 million for the year ended 31 December 2008 and 31 December 2007, respectively, are capitalised in additions above. Capitalisation rates of 7.64% and 4.44% for the year ended 31 December 2008 and 31 December 2007, respectively, were used to determine the amount of borrowing costs eligible for capitalization representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

(a) Change in classification

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

At 31 December 2008 the Group modified the classification of certain buildings and accordingly transferred these assets from property, plant and equipment to investment property in amount RR 1 million to reflect more appropriately the way in which economic benefits are derived from the use of the assets (see Note 8).

(b) Revaluation

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

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

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

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

The depreciated replacement cost was estimated based on internal sources, statistical data, catalogues and market data in respect of prices of construction companies and suppliers of equipment. The economic obsolescence was determined based on cash flow test results for each of 19 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 20,892 million in arriving at the above values.

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

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

As a result of revaluation, the Group's equity increased by RR 56,358 million, comprising net increase in the carrying value of property, plant and equipment of RR 70,447 million and the related deferred tax of RR 14,089 million.

Net increase in the carrying value of property, plant and equipment amounted to RR 67,004 million consisted of increase in amount of RR 79,181 million related to revaluation recognized within the equity in amount of RR 77,744 million and recognized in the consolidated income statement in amount RR 1,437 million and decrease of RR 12,177 million related to impairment charge out of which RR 7,297 million were recognized within the equity and RR 4,880 million were recognized in the consolidated income statement (see Note 8(c)).

(c) Impairment charges

During 2008 management performed impairment testing of property, plant and equipment owing to changes in market conditions in Russian Federation related with the global financial and economic crisis. Management determined that recoverable amounts of property, plant and equipment at GRES-3, HPP-11, HPP-12, Teplosbyt, HPP-9, GES-1, HPP-27 (excluding new CHP energy blocks) and others electricity and heat generation stations fall short of their carrying amounts and an impairment charge was recognized. The fair values comparing and impairment amounts of the related property, plant and equipment at 31 December 2008 were as follows:

	Fair value	Impairment amount
GRES–3	–	1,211
HPP–11	4,657	1,171
HPP–12	4,604	921
Teplosbyt	8,121	875
HPP–9	3,256	857
GES–1	2,477	826
HPP–27 (excluding new CHP energy blocks)	31,716	265
Others	78,405	6,051
Total	**133,236**	**12,177**

This resulted in RR 4,880 million impairment of the property, plant and equipment included in "Impairment of property, plant and equipment" in the Consolidated income statement and RR 7,297 million impairment recognized within the write-down included in the Consolidated statement of changes in equity.

(d) Security

Properties with a carrying amount of RR 9,961 million and RR 2,057 million at 31 December 2008 and 31 December 2007, respectively, are pledged as security for Group's bank loans (see Note 16).

Note 8. Investment property

	2008	2007
Balance at 1 January	**2,091**	**1,813**
Transfer from property, plant and equipment	1	–
Change in fair value	2,460	278
Balance at 31 December	**4,552**	**2,091**

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

Changes in fair value of investment property amounted to RR 2,460 million for the year ended 31 December 2008 (31 December 2007: RR 278 million) were recognized in the Consolidated income statement in amount RR 1,999 million for the year ended 31 December 2008 (31 December 2007: RR 278 million) and increase the revaluation surplus within equity in amount RR 461 million for the year ended 31 December 2008 (31 December 2007: RR 0 million).

As a result of revaluation, the Group's net equity increased by RR 369 million, comprising increase in the carrying value of investment property of RR 461 million and the related deferred tax of RR 92 million.

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

Rental income for the year ended 31 December 2008 and for the year ended 31 December 2007 amounted to RR 269 million and RR 217 million, respectively, was recognised in the Consolidated income statement in other revenue.

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

	31 December 2008	31 December 2007
Less than one year	247	196
Between one and five years	789	1,001
More than five years	109	85
Total	**1,145**	**1,282**

Note 9. Investments in equity accounted investees

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

			31 December 2008		31 December 2007	
Legal name	Principal activities	Country	Ownership	Voting	Ownership	Voting
LLC CB Transinvestbank	banking	Russia	–	–	72.44 %	33.33%
LLC SP Seba Energo	production of the laboratory equipment	Russia	44.00 %	44.00 %	44.00 %	44.00 %

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

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

According to the Federal law of Russian Federation on Limited Companies No.14FZ dated 8 February 1998 Transinvestbank has an obligation to pay to the Company the amount that equals the value of the Company's share in the book value of statutory net assets of Transinvestbank as of the end of the year when the application for withdrawal was submitted.

As a result of withdrawal the Group recognized a loss amounted to RR 397 million representing the difference between the fair value of receivable from Transinvestbank amounting to RR 849 million and the carrying value of the Group's investment amounted to RR 1,246 million at the date of withdrawal.

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

	2008	2007
Carrying amount at 1 January	**1,246**	**346**
Share of profit of equity accounted investees	5	64
Change in ownership interest in of equity accounted investees	(1,246)	957
Dividends received	(1)	(121)
Carrying amount at 31 December	**4**	**1,246**

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

	31 December 2008	31 December 2007
Current assets	36	4,768
Non–current assets	3	166
Total assets	**39**	**4,934**
Current liabilities	(28)	(3,242)
Total liabilities	**(28)**	**(3,242)**
Total equity	**11**	**1,692**

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue	92	2,022
Expenses	(87)	(1,851)
Profit for the year	**5**	**172**

Note 10. Inventories

	31 December 2008	31 December 2007
Fuel	2,854	2,754
Raw materials and consumables	1,450	1,638
Other inventories	142	52
Total	**4,446**	**4,444**

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

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

Note 11. Investments

	31 December 2008	31 December 2007
Loans given to CJSC Gazenergoprom–Invest	13,375	–
Promissory notes of CJSC Gazenergoprombank	69	9,569
Promissory notes of OJSC Gazprombank	–	5,632
Call deposits placed in OJSC SB RF	–	5,000
Call deposits placed in OJSC Bank VTB	–	3,000
Other investments	41	–
Total	**13,485**	**23,201**

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

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

Note 12. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	7,197	4,855
Other receivables	2,021	786
Financial assets	**9,218**	**5,641**
Advances to suppliers and prepaid expenses	4,724	3,345
VAT recoverable and pre-paid	861	674
Taxes other than income tax prepaid	61	956
Other receivables	214	114
Total	**15,078**	**10,730**

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

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

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

Note 13. Other assets

	31 December 2008	31 December 2007
Other non–current assets		
Intangible assets	275	101
Biological assets	271	225
Available–for–sale investments	35	9
Other non–current assets	–	216
Total	**581**	**551**
Other current assets		
Constructed assets financed by the government of Moscow city	523	523
Other current assets	778	993
Total	**1,301**	**1,516**

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

Note 14. Cash and cash equivalents

	31 December 2008	31 December 2007
Bank balances	3,315	8,161
Call deposits	–	3,000
Total	**3,315**	**11,161**

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

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

	31 December 2008		31 December 2007	
Bank	%	Balances	%	Balances
OJSC Bank VTB	–	–	8.3	3,000

Note 15. Equity

(a) Share capital and share premium

At 31 December 2008 the authorised share capital comprised 39,749,359,700 ordinary shares (31 December 2007: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

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

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

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

(b) Treasury stock

Treasury stock represents cost of Company's shares held by the Group. At 31 December 2008 the Group held 163,904,251 of the Company's own shares. No decisions regarding further operations with treasury stock pursuant to the requirements of the Russian legislation were made by the Company's management.

(c) Revaluation reserve

Revaluation reserve relates to the revaluation of property, plant and equipment made pursuant to change accounting policy at 1 January 2007 (see Note 7).

(d) Dividends

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

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

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

The discussions related to dividends distribution for fiscal 2008 are scheduled at the general shareholders' meeting in June 2009.

Note 16. Borrowings

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

	31 December 2008	31 December 2007
Non–current borrowings		
Secured bank loans	5,332	–
Unsecured bond issues	4,783	–
Notes	84	129
Total	**10,199**	**129**
Current borrowings and current portion of non–current borrowings		
Current portion of unsecured bank loans	5,276	–
Current portion of unsecured bond issues	4,629	10,000
Current portion of secured bank loans	2,595	7,476
Total	**12,500**	**17,476**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2008		31 December 2007	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loans				**7,927**	**7,927**	**7,476**	**7,476**
EBRD	Russian Roubles	MosPrime+ from 2.5% to 3.5%	2018	6,578	6,578	7,200	7,200
EBRD	USD dollars	LIBOR+3.5%	2009	99	99	166	166
IFC	USD dollars	LIBOR+3.5%	2009	–	–	110	110
OJSC SB RF	Russian Roubles	16%	2009	1, 250	1 ,250	–	–
Unsecured bank loans				**5,276**	**5,276**	**–**	**–**
OJSC ACB Bank of Moscow	Russian Roubles	17%	2009	700	700	–	–
OJSC ACB Bank of Moscow	Russian Roubles	18%	2009	1, 600	1, 600	–	–
CJSC Mezhdunarodny prommyshlenny bank	Russian Roubles	13.7%	2009	2 ,976	2, 976	–	–
Unsecured bond issues				**9,412**	**9,412**	**10,000**	**10,000**
Unsecured bond issue #1	Russian Roubles	7.54%	2009	4,629	4,629	5,000	5,000
Unsecured bond issue #2	Russian Roubles	7.65%	2012	4,783	4,783	5,000	5,000
Notes				**95**	**84**	**152**	**129**
OJSC Mezhtopener-gobank	Russian Roubles	free of in-terest	2009	–	–	57	50
OJSC Mezhtopener-gobank	Russian Roubles	free of in-terest	2010	95	84	95	79
Total				**22,710**	**22,699**	**17,628**	**17,605**

(b) Secured bank loans

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

Other borrowings from the EBRD and the International Finance Corporation (the "IFC") provided in April 1998 and June 1998 are primarily repayable in US dollars maturing from 2008 through 2009.

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

As at 31 December 2007 the Company failed to comply with some of the financial covenants discussed above. Accordingly, at 31 December 2007 bank loans in the amount of RR 7,476 million were stated as current liabilities as the lenders had the right to demand immediate repayment of the loans.

At 2 September 2008 and 29 December 2008, the Company received waivers from the EBRD which stated that the EBRD agreed to waive any default, event of default or potential event of default which could occur as a result of the breaches of the particular terms and conditions of the 1998 and 2005 Loan agreements, covering compliance with the financial covenants defined based on the consolidated financial statements for 2008 prepared in accordance with IFRS and an interdiction of loans or other investments issued by the Group exceeding USD 100 million.

In December 2008, the Company received a new secured bank loan from SB RF. This fact was not communicated to the EBRD on a timely basis, as required by the loan agreements. This resulted in a breach of the non-financial covenants related to the creation of liens. A waiver from the EBRD approving the extra pledge is in the process of agreement. Notwithstanding the event of default, management does not expect the immediate repayment of the respective loans and continues classifying the liability in amount of RR 5,332 million as non-current at 31December 2008.

Property, plant and equipment with a carrying amount of RR 9,961 million (31 December 2007: RR 2,057 million) are pledged as security for the loans received from SB RF, EBRD and IFC.

(c) Unsecured bond issues

At 2 March 2006 OJSC Mosenergo issued 5,000,000 non-convertible bonds with a face value of RR 1,000 each maturing in 10 years and a coupon yield at 7.65% per annum. At 19 September 2006 the Company registered the second issue of 5,000,000 non-convertible bonds with face value of RR 1,000 each maturing in 5 years and coupon yield at 7.54% per annum. All bonds were placed at nominal value and have half-year coupon period.

At shareholders' meeting on 28 December 2007 decision to merge OJSC Mosenergo with Mosenergo Holding was approved (see Note 1). In accordance with the pronouncements of Federal law No 208-FZ as of 26 December 1995 "On joint stock companies" bondholders could call for early redemption of bonds in case of company's reorganization. Accordingly as at 31 December 2007 bonds amounted to RR 10,000 million were stated current liabilities. The last day for early redemption claim was determined to be 28 February 2008. As at 30 June 2008, all bonds on amount RR 588 million presented for early redemption were paid.

As at 31 December 2008 bonds of the first issue amounted to RR 4,783 million were stated as non-current liabilities as were not called for early redemption and bonds of the second issue amounted to RR 4,629 million were classified as current liabilities as are subject to early redemption in September 2009.

Note 17. Employee benefits

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

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

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

The cancellation of benefits to the majority of the Company's current and future pensioners resulted in a decrease in defined benefit obligation to RR 482 million. Settlement payments related to benefiit cancellation amounted to RR 451 million were recognised in the consolidated income statement on a aggregated basis with the curtailment gain.

Compensations for voluntary redundancy paid by the Company amounted to RR 275 million were recognised in the consolidated income statement in termination benefits.

	31 December 2008	31 December 2007
Present value of unfunded obligations	**482**	**3,008**
Recognised liability for defined benefit obligations	482	3,008
Unrecognised actuarial gains/(losses)	3	(248)
Unrecognised past service cost	–	(1,481)
Net liability recognized in balance sheet	**485**	**1,279**

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

	2008	2007
Defined benefit obligations at 1 January	3,008	1,149
Benefits paid	(498)	(340)
Current service cost	81	127
Interest on obligation	145	180
Actuarial (gains)/ losses	(114)	263
Past service cost	–	1,629
Curtailment and settlement	(2,140)	–
Defined benefit obligations at 31 December	**482**	**3,008**

(b) Expenses recognised in profit or loss

	Year ended 31 December 2008	Year ended 31 December 2007
Current service cost	81	127
Interest cost	145	180
Amortization of past service cost	–	148
Termination benefits	275	–
Effect of curtailment and settlement	(72)	–
Total	**429**	**455**

(c) Actuarial assumptions

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

(i) Financial assumptions

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

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 17% pa for employees with 1 year of past service to around 6% pa for those who have 5 or more years of service. Similar withdrawal rates were used at 31 December 07.

Retirement ages assumption is as follows: average retirement ages are 62 years for men and 59 years for women comparing with 61.5 and 59 years for men and women respectively used at 31 December 2007.

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

(d) Historical information

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

Note 18. Trade and other payables

	31 December 2008	31 December 2007
Trade payables	3,734	3,637
Other payables	5,252	5,092
Financial liabilities	**8,986**	**8,729**
Advances received	1,495	855
Other payable	1,622	1,451
Total	**12,103**	**11,035**
Non–current liabilities	140	110
Current liabilities	11,963	10,925
Total	**12,103**	**11,035**

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

Note 19. Other taxes payable

	31 December 2008	31 December 2007
VAT payable	270	238
Social taxes and contributions payable	151	150
Property tax payable	445	82
Other taxes payable	132	141
Total	**998**	**611**

Note 20. Provisions

	Provision for buy–out of own shares	Litigations provision	Total
Balance at 1 January 2007	**–**	**390**	**390**
Provisions made during the year	969	38	1 007
Provisions used during the year	–	(331)	(331)
Provision reversed during the year	–	(51)	(51)
Balance at 31 December 2007	**969**	**46**	**1,015**
Non–current provision	–	–	–
Current provision	969	46	1,015
Total	**969**	**46**	**1,015**

	Provision for buy–out of own shares	Litigations provision	Total
Balance at 1 January 2008	**969**	**46**	**1,015**
Provisions made during the year	–	253	253
Provisions used during the year	(969)	–	(969)
Provision reversed during the year	–	(46)	(46)
Balance at 31 December 2008	**–**	**253**	**253**
Non–current provision	–	–	–
Current provision	–	253	253
Total	**–**	**253**	**253**

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

As of the date of these financial statements authorization there is an unsettled claim against the Company from JSC MTK regarding levy of interests for "use of other entity's funds" due to late payment as per contract on supply of heat energy and heat-transfer medium in total amount of RR 112 million. The Company's management estimated probability of this claim settlement not in favour of the Company as 100%. Accordingly, the reserve was created covering the whole claim in amount of RR 112 million.

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

Note 21. Revenue

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity	52,953	39,520
Heat	37,540	33,476
Other revenue	4,326	5,328
Total	**94,819**	**78,324**

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

Approximately 9% of sales of electricity for the year ended 31 December 2008 relates to resale of purchased power on wholesale market NOREM (for the year ended 31 December 2007 – 7%).

Note 22. Cost of materials

	Year ended 31 December 2008	Year ended 31 December 2007
Fuel expenses	45,326	36,873
Purchased heat and electricity	5,335	3,261
Water usage expenses	714	609
Other materials expenses	1,119	948
Total	**52,493**	**41,691**

Electricity is purchased mainly on wholesale electricity market.

Note 23. Other external supplies

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity market administration fees	795	576
Connection services	313	298
Security services	307	274
Transport services	271	259
Fire prevention services	87	62
Other services	383	326
Total	**2,156**	**1,795**

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

Note 24. Personnel expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Wages and salaries	7,219	6,527
Payroll taxes	1,548	1,310
Termination benefits	422	22
Amortization of past service costs	–	148
Pension benefits expenses	81	127
Personnel training expenses	68	26
Total	**9,338**	**8,160**

AO Mosenergo Group average headcount totalled 16,725 and 17,492 at 31 December 2008 and 31 December 2007, respectively.

Note 25. Other operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Fines and penalties related to contracts violations	831	217
Legal, consulting and data processing services	674	486
Lease payments, including rent expenses	383	333
Maintenance of non–core and social assets	382	564
Bank services	216	197
Insurance expenses	209	453
Safety arrangement and precautions	131	112
Environmental payments	112	116
Loss on impairment of other investments	62	–
Trade and other receivables impairment loss	60	585
Loss on disposal of property, plant and equipment	39	507
Entertaining expenses	31	22
Property, plant and equipment dismantlement costs	29	48
Other miscellaneous	96	85
Total	**3,255**	**3,725**

Note 26. Other operating income

	Year ended 31 December 2008	Year ended 31 December 2007
Subsidies on the difference in tariffs for sales to the urban population	324	274
Curtailment gain	72	–
Other miscellaneous	35	82
Total	**431**	**356**

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

Note 27. Financial income and expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Financial income		
Interest income on call deposits	835	780
Foreign exchange gain	156	112
Other interest income	695	703
Total	**1,686**	**1,595**
Financial expenses		
Interest expenses on borrowings	(1,572)	(1,581)
Foreign exchange loss	(300)	(29)
Interest on employee benefit obligations	(145)	(180)
Other interest expenses	(22)	(12)
Total	**(2,039)**	**(1,802)**
Less capitalized interest expenses on borrowings related to qualifying assets (Note 7)	449	1,381
Net financial expenses recognized in the consolidated income statement	**(1,590)**	**(421)**

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	1,530	1,483
Interest expenses	(1,145)	(212)
Net interest	**385**	**1,271**

Net interest result by categories of assets and liabilities

	Year ended 31 December 2008	Year ended 31 December 2007
Investments	1,180	981
Cash and cash equivalents	316	490
Liabilities carried at amortised cost	(1,111)	(200)
Total	**385**	**1,271**

Note 28. Income tax

On 26 November 2008 legislation was enacted that reduced the Russian corporate income tax rate from 24% to 20% with effect from 1 January 2009. Accordingly, deferred tax balances were re-measured based on a corporate income tax rate of 20%. The effect of the re-measurement was recognised in income, except to the extent that it relates to items previously charged or credited to equity.

(a) Income tax

The Group's applicable tax rate is the income tax rate of 20% (for the year ended 31 December 2007: 24%).

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax expense		
Current year	(1,282)	(1,450)
Over provided in prior periods	936	534
Deferred tax expense		
Origination and reversal of temporary differences	(164)	(39)
Effect from decrease in value of property, plant and equipment	689	–
Effect from increase in value of investment property	(400)	(67)
Change in tax rate	853	–
Income tax benefit/(expense)	**632**	**(1,022)**

Reconciliation of effective tax rate is as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income tax	1,421	2,649
Income tax at applicable tax rate	(341)	(636)
Non–deductible / non–taxable items	(816)	(920)
Change in tax rate	853	–
Over provided in prior periods	936	534
Income tax benefit/(expense)	**632**	**(1,022)**

(b) Income tax recognised directly in equity

	Year ended 31 December 2008	Year ended 31 December 2007
Revaluation of property, plant and equipment	(12,496)	(9,562)
Revaluation of investment property	(92)	–
Total	**(12,588)**	**(9,562)**

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Property, plant and equipment	–	–	(25,605)	(14,543)	(25,605)	(14,543)
Investment property	–	–	(756)	(313)	(756)	(313)
Investments in associates	–	–	(1)	(293)	(1)	(293)
Trade and other receivables	–	167	(33)	–	(33)	167
Employee benefits	97	307	–	–	97	307
Provisions	50	11	–	–	51	11
Trade and other payables	131	187	–	–	131	187
Other	11	–	(2)	(21)	8	(21)
Total	**289**	**672**	**(26,397)**	**(15,170)**	**(26,108)**	**(14,498)**

Movements in deferred income tax during the year are as follows:

	31 December 2006	Recognized in income	Recognized in equity	Reclassification	31 December 2007
Property, plant and equipment	(5,339)	358	(9,562)	–	(14,543)
Investment property	(246)	(67)	–	–	(313)
Investments in associates	–	(293)	–	–	(293)
Trade and other receivables	173	(6)	–	–	167
Employee benefits	279	28	–	–	307
Provisions	94	(83)	–	–	11
Trade and other payables	127	60	–	–	187
Other	82	(103)	–	–	(21)
Total	**(4,830)**	**(106)**	**(9,562)**	**–**	**(14,498)**

	31 December 2007	Recognized in income	Recognized in equity	Reclassification	31 December 2008
Property, plant and equipment	(14,543)	1,434	(12,496)	–	(25,605)
Investment property	(313)	(351)	(92)	–	(756)
Investments in associates	(293)	292	–	–	(1)
Trade and other receivables	167	(200)	–	–	(33)
Employee benefits	307	(210)	–	–	97
Provisions	11	40	–	–	51
Trade and other payables	187	(56)	–	–	131
Other	(21)	29	–	–	8
Total	**(14,498)**	**978**	**(12,588)**	**–**	**(26,108)**

Note 29. Earnings per share

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

The following is a reconciliation of the weighted average number of ordinary shares outstanding during the year (in thousand of shares):

	Year ended 31 December 2008	Year ended 31 December 2007
Issued shares	39,749,360	28,249,360
Effect of own shares held	(125,704)	–
Effect of shares issued in July 2007	–	7,203,296
Weighted average number of ordinary shares (thousands)	**39,623,656**	**35,452,656**

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

	Year ended 31 December 2008	Year ended 31 December 2007
Weighted average number of ordinary shares issued (thousands)	39,623,656	35,452,656
Profit for the year	2,055	1,627
Profit per ordinary share (basic and diluted) (in Russian Roubles)	**0.05**	**0.05**

Note 30. Financial instruments

(a) Credit risk

(i) Exposure to credit risk

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

	Carrying amount	
	31 December 2008	31 December 2007
Held–to–maturity investments	**13,444**	**15,201**
Investments (Note 11)	13,444	15,201
Loans and receivables	**9,259**	**13,641**
Trade and other receivables (Note 12)	9,218	5,641
Investments (Note 11)	41	8,000
Cash and cash equivalents (Note 14)	**3,315**	**11,161**
Total financial assets	**26,018**	**40,003**

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

	Carrying amount	
	31 December 2008	31 December 2007
Electricity	1,567	723
Heat	5,027	2,209
Other	2,624	2,709
Total	**9,218**	**5,641**

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

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

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

(ii) Impairment losses

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

	31 December 2008		31 December 2007	
	Gross	Impairment	Gross	Impairment
Not past due	6,954	–	4,659	–
Past due 0–30 days	529	–	6	–
Past due 31–120 days	470	–	708	–
Past due 121–365 days	615	–	44	–
More than one year	2,415	1,765	1,991	1,767
Total	**10,983**	**1,765**	**7,408**	**1,767**

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

	2008	2007
Balance at 1 January	1,767	1,416
Impairment loss recognized	60	585
Allowance used during the period	(62)	(234)
Balance at 31 December	**1,765**	**1,767**

The impairment allowance at 31 December 2008 of RR 1,765 million relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 365 days; 78.02 percent of the balance (at 31 December 2007: 73.13 percent), which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group.

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

Investments at the reporting date was past due up to 30 days in amount of RR 13,375 million which is loan given to related party.

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

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

Name of the bank	Rating agency	Rating	31 December 2008	Rating	31 December 2007
OJSC Gazprombank	Standart & Poor's	BB+	1,847	BBB–	5,291
Bank of Moscow	Fitch Ratings	BBB–	717	BBB	254
CJSC Gazenegoprombank	Moody's Interfax	Aa3.ru	358	Aa3.ru	63
Sberbank RF	Fitch Ratings	BBB	280	BBB+	1,243
LLC CB Transinvestbank	–	–	66	–	1,145
OJSC ACB Eurofinance–Mosnarbank	Fitch Ratings		15	BBB	21
OJSC VTB	Fitch Ratings	BBB	13	BBB+	3,006
CJSC Reiffeisenbank	Fitch Ratings	BBB+	9	–	–
Alfa–Bank	Fitch Ratings	BB	2	–	–
Others	–		9	–	138
Total			**3,315**		**11,161**

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

(b) Liquidity risk

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

	Carrying amount	Contractual cash flows	0–6 mths	6–12 mths	1–2 yrs	2–3 yrs	3–4 yrs	4–5 yrs	Over 5 yrs
Non–derivative financial liabilities									
Secured bank loans	7,927	13,228	1,558	2,710	2,410	2,045	1,814	646	2,045
Unsecured bank loans	5,276	5,648	3,910	1,738	–	–	–	–	–
Unsecured bond issues	9,412	11,225	357	4,987	366	366	5,149	–	–
Notes	84	95	–	–	95	–	–	–	–
Trade and other payables	8,986	8,986	8,986	–	–	–	–	–	–
Total	**31,685**	**39,182**	**14,811**	**9,435**	**2,871**	**2,411**	**6,963**	**646**	**2,045**

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

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

(c) Currency risk

(i) Exposure to currency risk

	31 December 2008	31 December 2007
	USD-denominated	USD-denominated
Secured bank loans	(99)	(276)
Gross balance sheet exposure	**(99)**	**(276)**
Estimated forecasted interest expenses	(3)	(12)
Gross exposure	**(3)**	**(12)**
Net exposure	(102)	(288)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
USD 1	24.8740	25.5516	29.3804	24.5462

(ii) Sensitivity analysis

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

	31 December 2008	31 December 2007
USD	(34)	(95)

A 33% weakening of the RR against the USD at 31 December 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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

The actual decrease in the exchange rates in 2008 was approximately 20% for the USD, although the difference between the two actual extremes in 2008 was approximately 25.3% for the USD.

(d) Interest rate risk

(i) Profile

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

	Carrying amount	
	31 December 2008	31 December 2007
Fixed rate instruments		
Financial assets (Note 11, 12 and 14)	26,018	40,003
Financial liabilities (Note 16,18)	(25,007)	(18,858)
Total	**1,011**	**21,145**
Variable rate instruments		
Financial liabilities (Note 16)	(6,677)	(7,476)
Total	**(6,677)**	**(7,476)**

(ii) Fair value sensitivity analysis for fixed rate instruments

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

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

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2007.

	31 December 2008		31 December 2007	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(86.4)	86.4	(77.8)	77.8
Cash flow sensitivity (net)	**(86.4)**	**86.4**	**(77.8)**	**77.8**

(e) Fair values

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

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Investments (Note 11)	13,485	13,485	23,201	23,201
Trade and other receivables (Note 12)	9,218	9,218	5,641	5,641
Cash and cash equivalents (Note 14)	3,315	3,315	11,161	11,161
Secured bank loans (Note 16)	(7,927)	(7,927)	(7,476)	(7,476)
Unsecured bank loans (Note 16)	(5,276)	(5,276)	–	–
Unsecured bond issues (Note 16)	(9,412)	(8,361)	(10,000)	(9,989)
Notes (Note 16)	(84)	(84)	(129)	(129)
Trade and other payables (Note 18)	(8,986)	(8,986)	(8,729)	(8,729)

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

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

	Carrying amount	
	31 December 2008	31 December 2007
Borrowings	16.9	11.5

Note 31. Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where Group's generation facilities are located. The leases typically run for a periods from 5 to 45 years with an option to renew the lease. During the year ended 31 December 2008 and 31 December 2007 RR 383 million and RR 333 million were recognized as expenses in profit or loss in respect of operating lease.

Non-cancellable operating lease rentals are payable as follows:

	31 December 2008	31 December 2007
Less than one year	345	348
Between one and five years	1,354	1,070
More than five years	8,732	5,587
Total	**10,431**	**7,005**

Note 32. Commitments and contingencies

(a) Capital commitments

During the year ended 31 December 2008 the Group entered into a number of contracts for construction and purchase of property, plant and equipment for RR 16,701 million (at 31 December 2007: RR 20 406 million). These commitments are expected to be settled in 2009 financial year.

(b) Taxation environment

The taxation systems in the Russian Federation are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Legal proceedings

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

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

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

(d) Other Claims

In April 2009 OJSC MOESK filed a claim regarding services provided by the Company under contract on execution of activities on technological connection to the electric networks of OJSC Mosenergo. The possible amount of the claim has not been reliably evaluated yet. As of the date of these financial statements authorization OJSC MOESK did not begin legal proceedings on the claim.

(e) 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 underscored liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(f) 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.

(g) Guarantees
The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounted to RR 381 million as of 31 December 2008 (31 December 2007: RR 345 million).

Note 33. Events after the Balans Sheet Date

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