

MOSENERGO Group

**Consolidated interim financial statements
(prepared in accordance with IFRS)
for the three and nine month ended 30 September 2011
(unaudited)**

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

	Note	30 September 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	7	186,277	180,559
Investment property	8	792	898
Advances for acquisition of property, plant and equipment		12,811	15,195
Trade and other receivables	11	71	15
Other non-current assets	12	1,451	480
Total non-current assets		201,402	197,147
Current assets			
Inventories	10	6,639	6,438
Income tax receivable		1,968	17
Trade and other receivables	11	21,245	21,115
Cash and cash equivalents	13	23,414	28,334
Other current assets	12	930	1,896
Assets classified as held for sale	9	632	754
Total current assets		54,828	58,554
Total assets		256,230	255,701
EQUITY AND LIABILITIES			
Equity			
Share capital	14	166,124	166,124
Treasury stock		(871)	(871)
Share premium		49,213	49,213
Reserves		86,639	86,639
Accumulated loss		(100,363)	(107,336)
Total equity		200,742	193,769
Non-current liabilities			
Non-current borrowings	15	9,587	11,770
Deferred tax liabilities	27	25,475	24,758
Employee benefits	16	234	410
Trade and other payables	17	931	946
Total non-current liabilities		36,227	37,884
Current liabilities			
Current borrowings and current portion of non-current borrowings	15	5,343	4,976
Trade and other payables	17	12,871	15,683
Income tax payable		-	812
Other taxes payable	18	859	2,389
Provisions	19	87	71
Liabilities classified as held for sale	9	101	117
Total current liabilities		19,261	24,048
Total liabilities		55,488	61,932
Total equity and liabilities		256,230	255,701

General Director

Chief Accountant



V.G. Yakovlev

S.A. Suraev

6 December 2011

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

	Note	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Revenue	20	23,449	22,824	113,338	97,515
Other operating income	25	956	43	1,495	447
Cost of materials	21	(15,835)	(14,565)	(65,374)	(54,177)
Heat transmission		(1,871)	(1,639)	(17,885)	(15,830)
Depreciation of property, plant and equipment	7	(3,457)	(3,112)	(9,711)	(9,115)
Personnel expenses	23	(2,008)	(1,821)	(5,993)	(7,556)
Maintenance and repairs expenses		(1,552)	(1,570)	(3,078)	(2,812)
Other external supplies	22	(725)	(646)	(1,957)	(1,852)
Taxes other than income tax		(342)	(619)	(1,573)	(1,957)
Other operating expenses	24	(900)	(293)	(2,239)	(2,106)
Results from operating activities		(2,285)	(1,398)	7,023	2,557
Financial income	26	346	389	948	1,813
Financial expenses	26	(458)	(34)	(571)	(135)
Profit/(loss) before income tax		(2,397)	(1,043)	7,400	4,235
Income tax benefit/(expense)	27	2,295	204	365	(837)
Profit/(loss) for the period		(102)	(839)	7,765	3,398
Other comprehensive income:					
Revaluation of available-for-sale financial assets	27	-	-	4	-
Impairment loss on property, plant and equipment	27	-	(128)	(2)	(128)
Derecognition of revaluation of available-for-sale financial assets	27	-	-	-	(24)
Income tax relating to components of other comprehensive income	27	-	26	(2)	26
Other comprehensive loss for the period, net of tax		-	(102)	-	(126)
Total comprehensive income/(loss) for the period		(102)	(941)	7,765	3,272
Profit/(loss) attributable to:					
Equity holders of the company		(102)	(839)	7,765	3,398
Total comprehensive income/(loss) attributable to:					
Equity holders of the company		(102)	(941)	7,765	3,272
Basic and diluted earnings per share (in Russian Roubles)		0.00	(0.02)	0.20	0.09

General Director

Chief Accountant



V.G. Yakovlev

S.A. Suraev

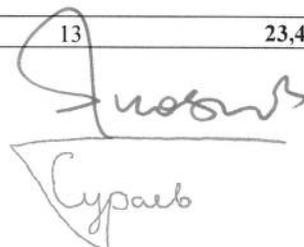
6 December 2011

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

	Note	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Cash flow from operating activities			
Profit before income tax		7,400	4,235
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	7	9,711	9,115
Gain from disposal of assets classified as held for sale	25	(535)	(34)
Financial income	26	(948)	(1,813)
Financial expenses	26	571	135
Trade and other receivables impairment loss	24	453	306
Loss/(gain) on disposal of property, plant and equipment	24	89	(14)
Litigations provision charge	19	83	209
Loss on change in fair value of investment property	8, 24	61	-
Derecognition of revaluation of available-for-sale financial assets	25	-	(24)
Gain from disposal of available-for-sale financial assets	25	-	(8)
Impairment loss on available-for-sale financial assets	24	-	77
Other non-cash items		17	13
Operating profit before changes in working capital and provisions		16,902	12,197
Change in provisions		(67)	(227)
Change in inventories		(201)	(1,914)
Change in trade and other receivables		(452)	14,981
Change in other current and non-current assets		(13)	(246)
Change in trade and other payables		(2,503)	(7,090)
Change in taxes payables, other than income tax		(1,499)	(538)
Change in employee benefits		(193)	(92)
Cash flows from operations before income tax and interest paid		11,974	17,071
Income tax paid		(1,734)	(2,331)
Cash flows from operating activities		10,240	14,740
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		307	19
Proceeds from sale of assets classified as held for sale		1,110	108
Proceeds from disposal of available-for-sale financial assets		6	60
Interest received		628	27
Acquisition of property, plant and equipment		(12,791)	(3,785)
Acquisition of bank deposits		-	(2,440)
Interest paid and capitalized		(1,270)	(1,207)
Debt fee		(249)	(58)
Cash flows used in investing activities		(12,259)	(7,276)
Cash flows from financing activities			
Dividends paid		(776)	-
Proceeds from borrowings		2,600	4
Repayment of borrowings		(4,725)	(2,000)
Cash flows used in financing activities		(2,901)	(1,996)
Net (decrease)/increase in cash and cash equivalents		(4,920)	5,468
Cash and cash equivalents at the beginning of the period	13	28,334	2,267
Exchange gain on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the period	13	23,414	7,735

General Director

Chief Accountant



V.G. Yakovlev

S.A. Suraev

6 December 2011

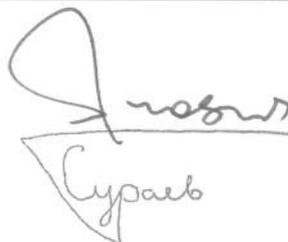
MOSENERGO Group
Consolidated Interim Statement of Changes in Equity
(in millions of Russian Roubles)

Attributable to equity holders of OJSC "Mosenergo"

	Note	Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total
Balance at 1 January 2010		166,124	(871)	49,213	86,746	(115,504)	185,708
Profit for the period		-	-	-	-	3,398	3,398
Other comprehensive income for the period:							
Impairment loss on property, plant and equipment	27	-	-	-	(102)	-	(102)
Derecognition of revaluation of available-for-sale financial assets	27	-	-	-	(24)	-	(24)
Total comprehensive income/(loss) for the period		-	-	-	(126)	3,398	3,272
Dividends to shareholders						(500)	(500)
Balance at 30 September 2010		166,124	(871)	49,213	86,620	(112,606)	188,480
Balance at 1 January 2011		166,124	(871)	49,213	86,639	(107,336)	193,769
Profit for the period		-	-	-	-	7,765	7,765
Other comprehensive income for the period:							
Revaluation of available-for-sale financial assets	27	-	-	-	2	-	2
Impairment loss on property, plant and equipment	27	-	-	-	(2)	-	(2)
Total comprehensive income/(loss) for the period		-	-	-	-	7,765	7,765
Dividends to shareholders		-	-	-	-	(792)	(792)
Balance at 30 September 2011		166,124	(871)	49,213	86,639	(100,363)	200,742

General Director

Chief Accountant



V.G. Yakovlev

S. A. Suraev

6 December 2011

Note 1. The Group and its operations

(a) Organisation and operations

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

The Group’s power and heat generation base includes 15 power stations with operational capacity equaled approximately 12,305 megawatts (“MW”) and 35,058 gigacalories/hour (“Gkal/h”) 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 privatisation process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation .

The Company’s registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

(b) Group formation

On 1 April 2005, the Company was reorganised through a spin-off following the reorganisation process within the Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of electricity sector to maintain and further expand production capacity. The Company’s restructuring was approved by general shareholder’s meeting 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 reorganisation 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 reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC “Mosenergo Holding” (the “Mosenergo Holding”) received stake in OJSC “Mosenergo” held by RAO UES of Russia. Simultaneously with the spin-off “Mosenergo Holding” was merged with the Company and its shares were converted into the Company’s shares.

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

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

(c) Business environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business. The financial

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

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 previous "Parent"), which held 53.47% of the Company through its 100% subsidiary LLC "Gazprom Energoholding" (immediate parent company). Thus the OJSC "Gazprom" is the ultimate parent company of the Group and Russian Federation is the ultimate controlling party of the Group.

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

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

As described in Note 6 and Note 31, the government's economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

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

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

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

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

Starting 2011 the majority of the contracts for electricity and capacity supply will be engaged at unregulated prices: free bilateral contracts or on a day-ahead market.

The introduction of the new wholesale market also covered capacity trading. Before the new market rules launch, suppliers were paid only for 85% of installed capacity at a flat-rate tariff. The new rules result in separate tariffs for electricity and capacity. Capacity tariffs are planned to be established at levels sufficient to maintain generation facilities of producers.

According to Russian Federation Government Resolution № 1172 of 27 December 2010 starting 1 January 2011 the capacity will be supplied using the following schemes at the wholesale market: capacity trading at regulated prices (tariffs) based on the sales contracts in volume, intended for supply to the population and equivalent to the population of consumer groups, trade capacity for open (unregulated) prices based on competitive selection of capacity, capacity trading of open contracts of sale of capacity - provided that this capacity is selected on the basis of competitive selection of capacity, capacity trading on the contracts for the provision of capacity, capacity trading under contracts of sale of capacity produced with the use of generating supply, capacity which comes in a forced regime (the generating facilities that are not selected on a competitive selection, but further work, which is necessitated by technological and other reasons).

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

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgment

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

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

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

- Note 7 – Property, plant and equipment;
- Note 8 – Investment property;
- Note 16 – Employee benefits;
- Note 19 – Provisions;
- Note 32 – Operating segments.

Note 3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

(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

MOSENERGO Group
Notes to Consolidated Interim Financial Statements
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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.

(b) Foreign currency transactions

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

Loans and receivables consist of financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the 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 at fair value through profit or loss.

Held-to-maturity investments

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

Available-for-sale financial assets

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

(ii) Share capital

Ordinary shares

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

Repurchase of share capital (treasury stock)

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

(d) 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 other comprehensive income under the heading revaluation reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated in equity.

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

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

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

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

(ii) Reclassification to investment property

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

(iii) Reclassification to assets held-for-sale

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use, the property is remeasured to fair value and reclassified as assets held for sale. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iv) Subsequent costs

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

MOSENERGO Group
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(in millions of Russian Roubles)

(v) Depreciation

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimate useful lives for the year 2010 were not changed for the year 2011 and were as follows:

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

(e) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

(f) Investment property

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

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

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

(g) Leased assets

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

(h) Inventories

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

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

(i) 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.

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

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

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

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

(ii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than 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 other comprehensive income if revaluation reserve existing to such assets, otherwise in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(j) Non-current assets held for sale

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

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Russian government bonds that have maturity dates approximating the

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

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

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

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

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

(iii) Other long-term employee benefits

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

(iii) Termination benefits

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

(iv) Short-term benefits

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

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

(l) Provisions

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

(m) Segment reporting

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

(n) Revenues

(i) Goods sold

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

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

(ii) Services

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

(iii) Rental income

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

(o) Government subsidies

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

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

(p) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

(q) Financial income and expenses

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

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

Foreign currency gains and losses are reported on gross basis.

(r) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the consolidated statement of changes in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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.

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A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) *Earnings per share*

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

(t) *New Standards and Interpretations*

(i) The following new Standards, amendments to Standards and Interpretations are not yet effective at 30 September 2011, and have not been applied in preparing these consolidated statements. The Group plans to adopt these pronouncements when they become effective.

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group expected that the revised standard does not have any effect on its financial statements.
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties. The Group does not expect the amendments to have any material effect on its financial statements.
- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group expected that the revised standard does not have any effect on its financial statements.

- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure are required to enable the effects of those risks to be understood. It did not expect to have significant impact on consolidated interim financial statements.

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- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group does not expect the amendments to have any effect on its financial statements.
- Amendment to IFRIC 14, Prepayments of minimum funding requirement – (issued in November 2009; effective for annual periods beginning on or after 1 January 2011). The amendments clarifies recognition as an asset some voluntary prepayments for minimum funding contributions. The Group does not expect the amendments to have any material effect on its financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective for annual periods beginning after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interests or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquire is share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

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

- (ii) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.
- 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

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Group's 2011 consolidated interim financial statements, did not 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 2011 financial statements, with retrospective application required, did not have a significant impact on the consolidated interim financial statements.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard did not have a significant impact on the consolidated interim financial statements.
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. It did not have impact on consolidated interim financial statements.
- Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions, Share-based Payment* (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group concluded the amendments to have any material effect on its 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 other comprehensive income. The amendments did not have a significant impact on the consolidated interim financial statements.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 comes into effect for annual periods beginning on or after 1 July 2009. It did not have significant impact on consolidated interim financial statements.
- IFRIC 18 *Transfers of Assets from Customers* applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. It did not have significant impact on consolidated interim 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 the 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 other comprehensive income 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 concluded that the amendments to standards did not have a significant impact on the consolidated interim financial statements.

- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group expected that the amendments do not have any effect on its financial statements.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect the amendments to have any material effect on its financial statements.
- Amendment to IAS 32 *Classification of Rights Issues* - (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group expected that the revised standard does not have any effect on 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, described further. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment and investment property

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

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

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

(b) Investments in equity and debt securities

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

(c) Trade and other receivables

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

(d) Non-derivative financial liabilities

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

Note 5. Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk, and
- market risk.

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

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

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of

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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 Baa 1 from Moody's and Aaa from Moody's, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

(d) Market risk

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

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are Euro, 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 minimising share of borrowings in foreign currencies comparing to total credit portfolio, which is 34% at 30 September 2011 (31 December 2010: 14%). To minimise currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks by means of corresponding derivatives in the future.

(ii) Interest rate risk

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

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

(e) Capital management

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

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

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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 30 September 2011 and at 31 December 2010 were as follows:

	30 September 2011	31 December 2010
Cash and cash equivalents (Note 13)	23,414	28,334
Borrowings (Note 15)	(14,930)	(16,746)
Net cash	8,484	11,588
Equity	(200,742)	(193,769)
Total capital	(192,258)	(182,181)
Gearing ratio	-	-

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

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

At 30 September 2011, the Group was in compliance with the above share capital requirements.

Note 6. Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the three and nine months ended 30 September 2011 and the three and nine months ended 30 September 2010 or had significant balances outstanding at 30 September 2011 and at 31 December 2010 are detailed below. OJSC "Gazprom" is an ultimate Parent Company of OJSC "Mosenergo" during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group and its associates

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

Revenue

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Electricity	269	-	306	-
Heat	37	3	80	30
Other revenue	8	90	13	128
Total	314	93	399	158

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Expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Fuel expenses	(13,655)	(12,666)	(55,428)	(47,690)
Purchased electricity	(2)	-	(5)	-
Other operating expenses	(180)	(47)	(326)	(149)
Total	(13,837)	(12,713)	(55,759)	(47,839)

Other operating expenses for the three and nine months ended 30 September 2011 are from OJSC “Neftyanoi dom”, associates of OJSC “Gazprom”, in the amount of RR 62 million and RR 189 million, respectively (for the three and nine months ended 30 September 2010: RR 34 million and RR 126 million, respectively).

Financial income and expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Financial income	84	592	184	1,603
Financial expenses	(2)	(11)	(12)	(50)
Net financial income	82	581	172	1,553

Financial income for the three and nine months ended 30 September 2011 is from OJSC “Gazprombank”, associates of OJSC “Gazprom”, RR 84 million and RR 184 million (for the three and nine months ended 30 September 2010: RR 70 million and RR 169 million, respectively).

Financial expenses for the three and nine months ended 30 September 2011 is from CJSC “Gazprombank Lizing”, associates of OJSC “Gazprom”, in the amount of RR 2 million and RR 12 million, respectively (for the three and nine months ended 30 September 2010: RR 11 million and RR 50 million, respectively).

Outstanding balance

	Outstanding balance at 30 September 2011	Outstanding balance at 31 December 2010
Cash and cash equivalents	3,550	8,478
Trade and other receivables	3,186	3,363
Total assets	6,736	11,841
Trade and other payables	(529)	(2,742)
Total liabilities	(529)	(2,742)

Trade and other receivables include an outstanding balance with CJSC “Gazenergoprom-Invest” and OJSC “Gazprombank”, associate of OJSC “Gazprom”, in the amount of RR 3,149 million and RR 11 million at 30 September 2011 (31 December 2010: RR 2,618 million and RR 50 million, respectively).

Cash and cash equivalents include an outstanding balance with OJSC “Gazprombank”, associate of OJSC “Gazprom”, in the amount of RR 3,550 million at 30 September 2011 (31 December 2010: RR 8,478 million).

Trade and other payables include an outstanding balance with LLC “Gazprom mezhregiongaz Moskva” and OJSC “Sibur Holding”, associate of OJSC “Gazprom”, in the amount of RR 513 million and RR 11 million at 30 September 2011 (31 December 2010: RR 2,484 million and RR 18 million, respectively).

(b) Transactions with key management

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

Expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Wages and salaries	(73)	(14)	(124)	(77)
Termination benefits	-	-	(9)	(2)
Social taxes and contributions	(1)	(2)	(2)	(2)
Total	(74)	(16)	(135)	(81)

Outstanding balance

	Outstanding balance at 30 September 2011	Outstanding balance at 31 December 2010
Wages and salaries	2	-
Total	2	-

(c) **Transactions with other state-controlled entities**

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

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

Revenue

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Electricity	11,997	17,452	54,772	52,982
Heat	4,142	882	39,394	37,044
Other revenue	433	478	1,382	1,346
Total	16,572	18,812	95,548	91,732

Expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Heat transmission	(1,871)	(1,639)	(17,885)	(15,830)
Purchased heat and electricity	(1,491)	(1,242)	(6,910)	(3,713)
Electricity market administration fees	(290)	(241)	(859)	(726)
Water usage expenses	(318)	(269)	(849)	(720)
Security services	(83)	(89)	(250)	(215)
Fuel expenses	(11)	(22)	(103)	(96)
Fire prevention services	(21)	(14)	(56)	(52)
Other operating expenses	(93)	(609)	(465)	(913)
Total	(4,178)	(4,125)	(27,377)	(22,265)

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Financial income and expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Financial income	31	17	140	27
Net financial income	31	17	140	27

Outstanding balance

	Outstanding balance at 30 September 2011	Outstanding balance at 31 December 2010
Trade and other receivables	12,645	15,321
Cash and cash equivalents	7,273	13,261
Other current assets	523	523
Total assets	20,441	29,105
Trade and other payables	(7,639)	(7,278)
Total liabilities	(7,639)	(7,278)

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 2010	99,563	62,265	13,683	3,839	21,036	200,386
Additions	-	-	-	9	4,187	4,196
Disposals	(27)	(4)	-	(63)	-	(94)
Transfers	799	2,483	-	1,133	(4,415)	-
Transfer to assets classified as held for sale	(228)	-	-	(62)	(48)	(338)
Balance at 30 September 2010	100,107	64,744	13,683	4,856	20,760	204,150
Balance at 1 January 2011	100,453	65,784	13,875	5,107	20,832	206,051
Additions	8	-	-	4	16,184	16,196
Disposals	(74)	(8)	(3)	(70)	(1)	(156)
Transfers	5,500	7,207	12	1,801	(14,520)	-
Elimination of accumulation depreciation on property, plant and equipment transferred to assets classified as held for sale	(82)	(22)	(1)	(4)	-	(109)
Transfer to assets classified as held for sale	(557)	(96)	-	(3)	-	(656)
Balance at 30 September 2011	105,248	72,865	13,883	6,835	22,495	221,326

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Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2010	(6,429)	(3,711)	(1,523)	(1,419)	(253)	(13,335)
Depreciation charge	(4,497)	(2,863)	(1,165)	(590)	-	(9,115)
Disposals	2	1	-	10	-	13
Elimination of accumulation depreciation on property, plant and equipment transferred to assets classified as held for sale	16	-	-	-	-	16
Impairment loss	(128)	-	-	-	-	(128)
Balance at 30 September 2010	(11,036)	(6,573)	(2,688)	(1,999)	(253)	(22,549)
Balance at 1 January 2011	(12,423)	(7,609)	(3,071)	(2,136)	(253)	(25,492)
Depreciation charge	(4,629)	(3,133)	(1,214)	(735)	-	(9,711)
Disposals	14	3	1	29	-	47
Elimination of accumulation depreciation on property, plant and equipment transferred to assets classified as held for sale	82	22	1	4	-	109
Impairment loss	(1)	-	-	(1)	-	(2)
Balance at 30 September 2011	(16,957)	(10,717)	(4,283)	(2,839)	(253)	(35,049)

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2010	91,459	53,386	12,299	9,124	20,783	187,051
At 30 September 2010	89,071	58,171	10,995	2,857	20,507	181,601
At 1 January 2011	88,030	58,175	10,804	2,971	20,579	180,559
At 30 September 2011	88,291	62,148	9,600	3,996	22,242	186,277

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2010	32,981	32,734	2,594	7,879	19,099	95,287
At 30 September 2010	33,316	37,559	2,322	2,582	15,808	91,587
At 1 January 2011	33,370	37,862	2,476	2,561	15,692	91,961
At 30 September 2011	36,734	42,815	2,185	3,599	17,308	102,641

Borrowing costs of RR 1,384 million and RR 1,301 million for the nine months ended 30 September 2011 and 30 September 2010, respectively, are capitalised in additions above. Capitalisation rates of 7.65% and 7.55% for the nine months ended 30 September 2011 and 30 September 2010, respectively, were used to determine the amount of borrowing costs eligible for capitalisation representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

There were no properties pledged as security for Company's bank loans at 30 September 2011 and 31 December 2010.

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(a) Revaluation

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

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

In 2010 the Group determined that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of reporting period and, therefore, revaluation was not performed in 2010.

(b) Impairment test

The Group assessed at 31 December 2010 whether there were any indicators that the Group assets may be impaired. During the procedure both external and internal indications were considered that could require the Group to estimate the recoverable amount of the assets.

At 31 December 2010 the Company assessed the indicators of the assets impairment through the sensitivity analysis, performed by the independent appraiser and concluded that significant changes with adverse effect did not take place in the period on the entity in the technological, market, economic or legal environment in which the entity operates as well as in the segment to which assets are dedicated. Additionally, there is strong evidence of an absence of physical obsolescence and damage of particular assets, as well as the worsening of economic performance of assets. Therefore impairment test was not performed at the reporting date.

For the purposes of impairment test the recoverable amount was determined as value in use and the following key assumptions were used:

- 21 cash-generating units were identified;
- Cash flows were projected based on actual operating results and the 12-year business plan;
- The anticipated annual production growth included in cash flow projections was 3.5%;
- A discount rate of 13.11% was applied in determining the recoverable amount of the plants.

The Group continues to be in the process of disposing non-core assets included in property, plant and equipment, which were reclassified to the assets held for sale during the reporting period. Before transferring assets to the disposed group a valuation was obtained for such items and, resultantly, a decrease in fair value of RR 2 million was recognised in the consolidated interim statement of change in equity for the nine months ended 30 September 2011 (for the nine months ended 30 September 2010: RR 102 million).

(c) Leased assets

The Group leases production plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (see Note 30). At 30 September 2011 and at 31 December 2010 the net carrying amount of leased plant was RR 252 million and RR 300 million, respectively.

Note 8. Investment property

	2011	2010
Balance at 1 January	898	1,020
Change in fair value	(61)	-
Transfer to assets classified as held for sale	(45)	(63)
Balance at 30 September	792	957

The fair value of the Group's investment property at 30 September 2011 was determined to be RR 792 million (31 December 2010: RR 898 million) and based on the market trends for the nine months 2011.

Rental income for the three and nine months ended 30 September 2011 and for the three and nine months ended 30 September 2010 amounted to RR 30 million and RR 76 million, RR 37 million and RR 75 million respectively, was recognised in the consolidated interim statement of comprehensive income in other revenue.

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

	30 September 2011	31 December 2010
Less than one year	75	121
Between one and five years	-	-
More than five years	-	-
Total	75	121

Note 9. Disposal group classified as held for sale

(a) Assets classified as held for sale

	30 September 2011	31 December 2010
Property, plant and equipment	585	463
Investment property	47	291
Total	632	754

(b) Liabilities classified as held for sale

	30 September 2011	31 December 2010
Deferred tax liabilities	101	117
Total	101	117

During the nine months ended 30 September 2011 the Group was in the process of disposing non-core assets which led to transfers to assets classified as held for sale from property, plant and equipment assets in amount of RR 656 million and from investment property in amount of RR 45 million (for the nine months ended 30 September 2010: RR 226 million and RR 63 million, respectively). At 30 September 2011 the Company keep on possessing assets for disposals in amount RR 632 million and corresponding to them liabilities in amount of RR 101 million (31 December 2010: RR 754 million and RR 117 million, respectively). The Company envisages selling its real estate portfolio listed above during the first half of 2012.

At 30 September 2011 the Group determined subsequent increase and subsequent write-down to fair value less cost to sale of assets classified as held for sale. The increase in amount of RR 7 million (for the nine months ended 30 September 2010: RR 0 million) was recognised as a gain in the consolidated interim statement of comprehensive income not in excess of the cumulative impairment loss that has been recognised in prior period. The write-down in amount of 24 million (for the nine months ended 30 September 2010: RR 0 million) was recognised as loss in the consolidated interim statement of comprehensive income.

Note 10. Inventories

	30 September 2011	31 December 2010
Fuel	4,461	4,528
Raw materials and consumables	2,091	1,847
Other inventories	87	63
Total	6,639	6,438

Raw materials and consumables are stated net of a provision for obsolete inventory amounted to RR 12 million and RR 11 million at 30 September 2011 and 31 December 2010, respectively. The write-downs and reversals are included in other materials expenses.

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

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Note 11. Trade and other receivables

	30 September 2011	31 December 2010
Trade receivables	13,167	15,860
Other receivables	3,858	3,026
Financial assets	17,025	18,886
Taxes other than income tax prepaid	2,833	39
Advances to suppliers and prepaid expenses	871	565
VAT recoverable	216	1,194
Other receivables	371	446
Total	21,316	21,130
Current assets	21,245	21,115
Non-current assets	71	15
Total	21,316	21,130

Trade receivables balances are recorded net of provision for impairment of RR 1,679 million and RR 1,241 million at 30 September 2011 and 31 December 2010, respectively.

Other receivables balances are recorded net of provision for impairment of RR 206 million and RR 193 million at 30 September 2011 and 31 December 2010, respectively.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 29.

Note 12. Other assets

	30 September 2011	31 December 2010
Other non-current assets		
Intangible assets	449	432
Available-for-sale financial assets	18	13
Investments in equity accounted investees	-	5
Other non-current assets	984	30
Total	1,451	480
Other current assets		
Constructed assets financed by the government of Moscow city	523	523
Other current assets	407	1,373
Total	930	1,896

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 13. Cash and cash equivalents

	30 September 2011	31 December 2010
Call deposits	20,710	24,529
Bank balances	2,704	3,805
Total	23,414	28,334

Call deposits are qualified as cash equivalents when the maturity date of the deposits is three months or less till the date of cash conversion.

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

Bank	30 September 2011		31 December 2010	
	%	Balances	%	Balances
OJSC "AB "Russia"	5.60	10,145	5.50	3,000
OJSC "Bank VTB"	3.70	7,273	3.72	13,260
OJSC "Gazprombank"	3.76	3,192	4.25	8,269
OJSC "Alfa-Bank"	3.47	100	-	-
Total		20,710		24,529

Note 14. Equity

(a) Share capital and share premium

At 30 September 2011 the authorised share capital comprised 39,749,359,700 ordinary shares (31 December 2010: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

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

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

(b) Treasury stock

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

Thus the treasury stock at 30 September 2011 and at 31 December 2010 amounted to RR 871 million.

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

(c) Reserves

At 30 September 2011 reserves composed of the revaluation of available-for-sale financial assets in amount of RR 10 million (31 December 2010: RR 8 million) and the revaluation reserve relates to the revaluation of property, plant and equipment in amount of RR 86,629 million (31 December 2010: RR 86,631 million).

(d) Dividends

In June 2011 the general shareholders meeting made the decision to pay dividends for the result of financial year 2010. The amount of declared dividends on the issuer's shares was RR 0.02 per share, total amount of dividends is RR 792 million (30 September 2010: RR 0.01262335 per share, total amount of dividends is RR 500 million).

Note 15. Borrowings

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

	30 September 2011	31 December 2010
Non-current borrowings		
Unsecured bond issues	5,000	9,783
Unsecured bank loans	4,587	1,987
Total	9,587	11,770
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bond issues	4,783	4,629
Current portion of unsecured bank loans	560	347
Total	5,343	4,976

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(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	30 September 2011		31 December 2010	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans				6,178	5,147	3,282	2,334
Credit Agricole CIB Deutschland	EURO	7.2%	2014	723	689	840	782
Credit Agricole CIB Deutschland	EURO	7.2%	2011	189	189	88	88
Credit Agricole CIB Deutschland	EURO	EURIBOR6M+ 1.95%	2025	2,802	2,622	128	-
Credit Agricole CIB Deutschland	EURO	EURIBOR6M+ 1.95%	2011	172	172	80	80
BNP Paribas	EURO	EURIBOR6M+ 2%	2023	2,093	1,276	1,967	1,205
BNP Paribas	EURO	EURIBOR6M+ 2%	2011	199	199	179	179
Unsecured bond issues				9,783	9,783	14,412	14,412
Unsecured bond issue № 3	Russian Roubles	10.25%	2012	5,000	5,000	5,000	5,000
Unsecured bond issue № 2	Russian Roubles	7.65%	2012	4,783	4,783	4,783	4,783
Unsecured bond issue № 1	Russian Roubles	12.50%	2011	-	-	4,629	4,629
Total				15,961	14,930	17,694	16,746

Note 16. 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. The plan is administrated by non-state pension fund.

To be entitled for participation in this defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer's contribution is limited and depends on employee's position in the Company.

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

A new collective employment agreement came into force since 1 January 2011. There were no significant changes benefits compared to the version effective in prior year.

During the nine months of 2011 the Company implemented the restructuring programme which resulted in redundancies. Compensations for redundancies paid by the Company for the three and nine months ended 30 September 2011 and for the three and nine months ended 30 September 2010 amounted to RR 35 million and RR 84 million, RR 48 million and RR 529 million, respectively, were recognised in the consolidated interim statement of comprehensive income in personal expenses.

	30 September 2011	31 December 2010
Present value of unfunded obligations	314	512
Recognised liability for defined benefit obligations	314	512
Unrecognised past service cost	(70)	(84)
Unrecognised actuarial gain	(10)	(18)
Net liability recognised in balance sheet	234	410

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

	2011	2010
Defined benefit obligations at 1 January	512	489
Interest on employee benefit obligations	17	32
Current service cost	6	15
Effect of settlement	-	(121)
Past service cost (immediate recognition)	(213)	-
Actuarial (gain)/losses	(7)	64
Benefits paid	(1)	(51)
Defined benefit obligations at 30 September	314	428

(b) Expenses recognised in profit or loss

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Termination benefits	35	48	84	529
Interest on employee benefit obligations	6	11	17	32
Amortisation of past service cost	4	4	13	13
Current service cost	2	5	6	15
Net actuarial loss recognised in period	-	(7)	-	15
Effect of curtailment and settlement	-	(29)	-	(84)
Past service cost (immediate recognition)	-	-	(213)	-
Total	47	32	(93)	520

(c) Actuarial assumptions

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

(i) Financial assumptions

	30 September 2011	31 December 2010
Discount rate	7.50%	7.50%
Inflation rate	6.00%	6.00%
Future salary increases	7.50%	7.50%
Future pension increase	6.00%	6.00%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 25% pa for employees with 1 year of past service to around 7% pa for those who have 20 or more years of service. 30 September 2010 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.

Retirement ages assumption is as follows: average retirement ages are 62 years for men and 59 years for women. The same retirement ages were used as at 30 September 2010.

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

(d) Historical information

	30 September 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Present value of the defined benefit obligation	314	512	489	482	3,008
Deficit in the plan	314	512	489	482	3,008
Experience adjustments arising on plan liabilities	(1)	8	62	42	(249)

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Note 17. Trade and other payables

	30 September 2011	31 December 2010
Trade payables	4,515	10,324
Other payables	5,492	2,462
Financial liabilities	10,007	12,786
Advances received	2,864	2,864
Other payable	931	979
Total	13,802	16,629
Current liabilities	12,871	15,683
Non-current liabilities	931	946
Total	13,802	16,629

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 29.

Note 18. Other taxes payable

	30 September 2011	31 December 2010
Property tax payable	620	579
Social taxes and contributions payable	154	189
VAT payable	13	1,588
Other taxes payable	72	33
Total	859	2,389

Note 19. Provisions

	2011	2010
Balance at 1 January	71	278
Provisions made during the period	119	209
Provisions used during the period	(67)	(227)
Provisions recovered during the period	(36)	-
Balance at 30 September	87	260

At 30 September 2011 legal provisions' balance made by the Company amounted to RR 87 million. The majority of this balance in amount of RR 60 million was made in respect of the claims from OJSC "MTK" and in amount of RR 13 million was made in respect of the claims from OJSC "HC "Elektrozavod".

Note 20. Revenue

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Electricity	17,715	17,533	64,334	54,103
Heat	5,051	4,171	47,016	40,379
Other revenue	683	1,120	1,988	3,033
Total	23,449	22,824	113,338	97,515

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

Approximately 8% and 10%, 7% and 6% of sales of electricity for the three and nine months ended 30 September 2011 and ended 30 September 2010, respectively, relates to resale of purchased electricity on wholesale market OREM.

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Note 21. Cost of materials

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Fuel expenses	13,731	12,740	56,886	49,001
Purchased heat and electricity	1,497	1,249	6,934	3,725
Water usage expenses	328	271	884	733
Other materials expenses	279	305	670	718
Total	15,835	14,565	65,374	54,177

Electricity is purchased mainly on wholesale electricity market.

Note 22. Other external supplies

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Electricity market administration fees	290	241	859	726
Security services	110	89	321	274
Transport services	42	76	139	186
Cleaning services	30	56	136	200
Connection services	24	20	65	63
Fire prevention services	24	18	60	58
Recycling of wastes	26	22	39	35
Other services	179	124	338	310
Total	725	646	1,957	1,852

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

Note 23. Personnel expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Wages and salaries	1,701	1,607	4,884	5,502
Payroll tax	233	147	1,105	1,138
Termination benefits	35	48	84	529
Voluntary medical insurance expenses	25	29	75	84
Personnel training expenses	8	(12)	39	7
Amortisation of past service cost	4	4	13	13
Current service cost	2	5	6	15
Personnel expenses from restructured operations	-	-	-	253
Net actuarial loss recognised in period	-	(7)	-	15
Past service cost (immediate recognition)	-	-	(213)	-
Total	2,008	1,821	5,993	7,556

The Group average headcount totaled 8,416 and 10,469 at 30 September 2011 and 30 September 2010, respectively.

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Note 24. Other operating expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Rent payments	146	139	493	518
Trade and other receivables impairment loss/(gain)	215	(198)	453	306
Legal, consulting and data processing services	209	117	357	405
Insurance expenses	59	54	185	197
Maintenance of non-core and social assets	50	89	146	215
Legal rights registration expenses	33	(1)	129	2
Software expenses	38	41	129	181
Loss/(gain) on disposal of property, plant and equipment	50	(19)	89	(14)
Loss on change in fair value of investment property	20	-	61	-
Safety arrangement and precautions	12	23	43	45
Environmental payments	18	17	40	33
Bank services	21	18	37	47
Cession agreement	3	-	30	37
Impairment loss on assets classified as held for sale	24	-	24	-
Impairment loss on available-for-sale financial assets	-	-	-	77
Other miscellaneous	2	13	23	57
Total	900	293	2,239	2,106

Note 25. Other operating income

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Gain from disposal of assets classified as held for sale	471	42	535	34
Fines and penalties from business contract	450	(54)	501	(75)
Subsidies on the difference in tariffs for sales to the urban population	17	24	392	306
Revaluation of assets classified as held for sale	-	-	7	-
Effect of curtailment and settlement	-	29	-	84
Derecognition of revaluation of available-for-sale financial assets	-	-	-	24
Gain from disposal of available-for-sale financial assets	-	-	-	8
Other miscellaneous	18	2	60	66
Total	956	43	1,495	447

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 26. Financial income and expenses

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Financial income				
Interest income on bank deposits	320	219	797	226
Foreign exchange gain	10	(218)	103	183
Interest income on loans given	-	267	-	793
Other interest income	16	121	48	611
Total	346	389	948	1,813

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	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Financial expenses				
Interest expenses on borrowings	(474)	(434)	(1,384)	(1,301)
Foreign exchange loss	(437)	(7)	(521)	(32)
Lease expenses	(4)	(16)	(17)	(61)
Interest on employee benefit obligations	(6)	(11)	(17)	(32)
Other interest expenses	(11)	-	(16)	(10)
Total	(932)	(468)	(1,955)	(1,436)
Less capitalised interest expenses on borrowings related to qualifying assets (Note 7)	474	434	1,384	1,301
Net financial expenses recognised in profit or loss	(458)	(34)	(571)	(135)

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Interest income	336	607	845	1,630
Interest expenses	(15)	(16)	(33)	(71)
Net interest	321	591	812	1,559

Net interest result by categories of assets and liabilities

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Cash and cash equivalents	336	121	570	233
Held to maturity investments	-	486	275	1,397
Liabilities carried at amortised cost	(15)	(16)	(33)	(71)
Total	321	591	812	1,559

Note 27. Income tax

(a) Income tax

The applicable tax rate of the Group is the income tax rate of 20% (for the nine months ended 30 September 2010: 20%).

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Current tax benefit /(expense)				
Current period	734	240	(771)	(849)
Over provided in prior periods	1,834	(5)	1,835	(5)
Deferred tax (expense)/benefit				
Origination and reversal of temporary differences	(273)	(31)	(699)	17
Income tax benefit/(expense)	2,295	204	365	(837)

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Reconciliation of effective tax rate is as follows:

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Profit/(loss) before income tax	(2,397)	(1,043)	7,400	4,235
Income tax at applicable tax rate	480	208	(1,480)	(847)
Over provided in prior periods	1,834	(5)	1,835	(5)
Non-deductible / non-taxable items	(19)	1	10	15
Income tax benefit/(expense)	2,295	204	365	(837)

(b) Tax effects of components of other comprehensive income

	Three months ended 30 September 2011			Nine months ended 30 September 2011		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Revaluation of available-for-sale financial assets	-	-	-	4	(2)	2
Impairment loss on property, plant and equipment	-	-	-	(2)	-	(2)
Total	-	-	-	2	(2)	-

	Three months ended 30 September 2010			Nine months ended 30 September 2010		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Impairment loss on property, plant and equipment	(128)	26	(102)	(128)	26	(102)
Derecognition of revaluation of available-for-sale financial assets	-	-	-	(24)	-	(24)
Total	(128)	26	(102)	(152)	26	(126)

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	30 September 2011	30 September 2010	30 September 2011	30 September 2010	30 September 2011	30 September 2010
Property, plant and equipment	-	-	(24,569)	(24,905)	(24,569)	(24,905)
Assets classified as held for sale	-	-	(101)	(139)	(101)	(139)
Investments	-	36	-	-	-	36
Investment property	-	-	(44)	(39)	(44)	(39)
Trade and other receivables	-	18	(779)	-	(779)	18
Trade and other payables	49	146	-	-	49	146
Employee benefits	47	61	-	-	47	61
Provisions	17	51	-	-	17	51
Borrowings	-	-	(207)	(190)	(207)	(190)
Other	40	38	(29)	(50)	11	(12)
Total	153	350	(25,729)	(25,323)	(25,576)	(24,973)

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Movements in deferred income tax during the nine months ended 30 September 2010 and the nine months ended 30 September 2011 are as follows:

	31 December 2009	Recognised in income	Recognised in equity	Reclassification	30 September 2010
Property, plant and equipment	(25,343)	412	26	-	(24,905)
Assets classified as held for sale	(92)	(47)	-	-	(139)
Investment property	(49)	10	-	-	(39)
Trade and other receivables	202	(184)	-	-	18
Investments	128	(92)	-	-	36
Trade and other payables	158	(12)	-	-	146
Employee benefits	73	(12)	-	-	61
Provisions	56	(5)	-	-	51
Borrowings	(205)	15	-	-	(190)
Other	56	(68)	-	-	(12)
Total	(25,016)	17	26	-	(24,973)

	31 December 2010	Recognised in income	Recognised in equity	Reclassification	30 September 2011
Property, plant and equipment	(24,765)	93	-	103	(24,569)
Assets classified as held for sale	(117)	121	-	(105)	(101)
Investment property	(54)	8	-	2	(44)
Trade and other receivables	32	(811)	-	-	(779)
Trade and other payables	128	(79)	-	-	49
Employee benefits	82	(35)	-	-	47
Provisions	14	3	-	-	17
Borrowings	(190)	(17)	-	-	(207)
Other	(5)	18	(2)	-	11
Total	(24,875)	(699)	(2)	-	(25,576)

Note 28. Earnings per share

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

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Issued shares	39,749,360	39,749,360	39,749,360	39,749,360
Effect of own shares held	(140,229)	(140,229)	(140,229)	(140,229)
Weighted average number of ordinary shares (thousands)	39,609,131	39,609,131	39,609,131	39,609,131

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

	Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Weighted average number of ordinary shares issued (thousands)	39,609,131	36,609,131	36,609,131	39,609,131
Profit/(loss) for the period	(102)	(839)	7,765	3,398
Profit/(loss) per ordinary share (basic and diluted) (in Russian Roubles)	0.00	(0.02)	0.20	0.09

Note 29. Financial instruments

(a) *Credit risk*

(i) *Exposure to credit risk*

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

	Carrying amount	
	30 September 2011	31 December 2010
Loans and receivables	17,025	18,886
Trade and other receivables (Note 11)	17,025	18,886
Available-for-sale financial assets	18	13
Other non-current assets (Note 12)	18	13
Cash and cash equivalents (Note 13)	23,414	28,334
Total financial assets	40,457	47,233

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

	Carrying amount	
	30 September 2011	31 December 2010
Heat	7,327	11,408
Electricity	5,203	3,777
Other	4,495	3,701
Total	17,025	18,886

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

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

The most important customers of the Group, OJSC “MOEK” and CJSC “CFR” accounts for RR 4,683 million and RR 2,320 million, respectively, for the trade receivables carrying amount at 30 September 2011 (31 December 2010: RR 7,707 million and RR 3,556 million, respectively).

(ii) *Impairment losses*

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

	30 September 2011		31 December 2010	
	Gross	Impairment	Gross	Impairment
Not past due	8,716	-	14,469	-
Past due 0-30 days	3,435	-	2,333	-
Past due 31-120 days	1,380	-	402	-
Past due 121-365 days	3,318	-	1,600	-
More than one year	2,061	1,885	1,516	1,434
Total	18,910	1,885	20,320	1,434

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

	2011	2010
Balance at 1 January	1,434	1,590
Impairment loss recognised during the period	453	306
Allowance used during the period	(2)	(92)
Balance at 30 September	1,885	1,804

The impairment allowance at 30 September 2011 of RR 1,885 million (31 December 2010: RR 1,434 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 365 days; 89.1 percent of the balance (31 December 2010: 92.54 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

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

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

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

Name of the bank	Rating agency	Rating	30 September		31 December	
			2011	Rating	2010	Rating
OJSC "AB "Russia"	Moody's Interfax	Baa1.ru	10,194	Aa3.ru	3,084	
OJSC Bank "VTB"	Fitch Ratings	AAA (rus)	7,273	AAA (rus)	13,260	
OJSC "Gazprombank"	Standard & Poor's	ruAA+	3,550	ruAA	8,478	
OJSC "Alfa-Bank"	Fitch Ratings	AA(rus)	2,393	A-(rus)	3,507	
OJSC "Sberbank Russia"	Moody's Interfax	Aaa.ru	-	Aaa.ru	1	
Other	-	-	4	-	4	
Total	-	-	23,414	-	28,334	

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

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 30 September 2011:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	5,147	7,686	548	630	1,039	805	596	576	3,492
Unsecured bond issues	9,783	10,733	5,221	256	5,256	-	-	-	-
Trade and other payables	10,007	10,007	10,007	-	-	-	-	-	-
Total	24,937	28,426	15,776	886	6,295	805	596	576	3,492

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2010:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	2,334	4,234	174	351	678	663	451	259	1,658
Unsecured bond issues	14,412	16,559	727	5,356	10,476	-	-	-	-
Trade and other payables	12,786	12,786	12,786	-	-	-	-	-	-
Total	29,532	33,579	13,687	5,707	11,154	663	451	259	1,658

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

(c) *Currency risk*

(i) *Exposure to currency risk*

	30 September 2011	31 December 2010
	EURO-denominated	EURO-denominated
Unsecured bank loans	(5,147)	(2,334)
Gross balance sheet exposure	(5,147)	(2,334)
Estimated forecasted interest expenses	(143)	(73)
Gross exposure	(143)	(73)
Net exposure	(5,290)	(2,407)

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	30 September 2011	31 December 2010	30 September 2011	31 December 2010
EURO 1	40.4739	40.2980	43.3979	40.3331

(ii) *Sensitivity analysis*

A 1% strengthening of the RR against EUR at 30 September 2011 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 2010.

	30 September 2011	31 December 2010
EURO	23	11

A 1% weakening of the RR against the EUR at 30 September 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The actual increase in the average exchange rates for the period ended 30 September 2011 was approximately 1% for the EURO (31 December 2010: 9%), although the difference between the two actual extremes in the reported period was approximately 11% (31 December 2010: 16%).

(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	
	30 September 2011	31 December 2010
Fixed rate instruments		
Financial assets (Note 11, 12, 13)	40,457	47,233
Financial liabilities (Note 15,17)	(20,668)	(28,068)
Total	19,789	19,165
Variable rate instruments		
Financial liabilities (Note 15)	(4,269)	(1,464)
Total	(4,269)	(1,464)

(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

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Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 30 September 2010.

	30 September 2011		30 September 2010	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decreas
Variable rate instruments	(22.3)	22.3	(14.2)	14.2
Cash flow sensitivity (net)	(22.3)	22.3	(14.2)	14.2

(e) Fair values

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

	30 September 2011		31 December 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Note 13)	23,414	23,414	28,334	28,334
Trade and other receivables (Note 11)	17,025	17,025	18,886	18,886
Available-for-sale financial assets (Note 12)	18	18	13	13
Trade and other payables (Note 17)	(10,007)	(10,007)	(12,786)	(12,786)
Unsecured bond issues (Note 15)	(9,783)	(9,812)	(14,412)	(14,951)
Unsecured bank loans (Note 15)	(5,147)	(5,147)	(2,334)	(2,334)

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 credit spread, were as follows:

	30 September 2011	31 December 2010
Borrowings	10.6	12.1

Note 30. Leases

(a) Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for a periods from 5 to 45 years with an option to renew the lease. During the three and nine months ended 30 September 2011 and the three and nine months ended 30 September 2010 operating lease expenses in amount of RR 146 million, RR 493 million, RR 139 million, RR 518 million respectively were recognised in the consolidated interim statement of comprehensive income.

Non-cancellable operating lease rentals are payable as follows:

	30 September 2011	31 December 2010
Less than one year	399	383
Between one and five years	1,596	1,529
More than five years	9,118	9,819
Total	11,113	11,731

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(b) Finance leases

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

	30 September 2011			31 December 2010		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	23	5	18	127	25	102
Between one and five years	8	1	7	24	5	19
More than five years	-	-	-	-	-	-
Total	31	6	25	151	30	121

Note 31. Commitments and contingencies

(a) Capital commitments

At 30 September 2011 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 22,421 million (31 December 2010: RR 13,376 million.). The amount includes Capacity Supply Contracts capital commitments for the amount RR 16,307 million (31 December 2010: RR 6,483 million).

(b) Taxation environment

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

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

(c) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation there are no significant underscoring liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

(d) Insurance

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

(e) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounted to RR 159 million as of 30 September 2011 (31 December 2010: RR 208 million).

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Note 32. Operating segments

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

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

The operating segments are aggregated into two primary reporting segments; electricity and heat. Despite of the fact that there are modernised and unmodernised power generating units amongst operating segments which show significantly different gross margins, this aggregation is premised on the identical nature of their products, production process, the class of customers, the methods used to distribute their products and the nature of the regulatory environment. This aggregation results from the similar economic characteristics, over the long run, of these two distinct outputs.

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

Taxes balances and available-for-sale financial assets are not considered to be segment assets but rather are managed by the central function. These are part of the reconciliation to total consolidated balance sheet assets.

(a) Segment information

The segment information for the nine months ended 30 September 2011 and at 30 September 2011 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	20	64,334	47,016	1,988	113,338
Expenses:					
Fuel and water usage expenses	21	(57,770)	-	-	(57,770)
Heat transmission		-	(17,885)	-	(17,885)
Purchase electricity	21	(6,460)	-	-	(6,460)
Purchase heat	21	-	(474)	-	(474)
Gross margin		104	28,657	1,988	30,749
Segment assets		215,583	17,858	17,970	251,411

The segment information for the nine months ended 30 September 2010 and 31 December 2010 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	20	54,103	40,379	3,033	97,515
Expenses:					
Fuel and water usage expenses	21	(49,734)	-	-	(49,734)
Heat transmission		-	(15,830)	-	(15,830)
Purchase electricity	21	(3,279)	-	-	(3,279)
Purchase heat	21	-	(446)	-	(446)
Gross margin		1,090	24,103	3,033	28,226
Segment assets		214,503	21,999	19,130	255,632

The segment assets include impairment loss recognised for property, plant and equipment for the nine months 30 September 2011 in total amount RR 2 million which was allocated to electricity segment (31 December 2010: RR 83 million).

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

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		Three months ended 30 September 2011	Three months ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
	Note				
Gross margin for reportable segments		5,339	5,805	28,761	25,193
Other segments gross margin		683	1,120	1,988	3,033
Financial income	26	346	389	948	1,813
Other operating income	25	956	43	1,495	447
Depreciation of property, plant and equipment	7	(3,457)	(3,112)	(9,711)	(9,115)
Personnel expenses	23	(2,008)	(1,821)	(5,993)	(7,556)
Maintenance and repairs expenses		(1,552)	(1,570)	(3,078)	(2,812)
Other external supplies	22	(725)	(646)	(1,957)	(1,852)
Taxes other than income tax		(342)	(619)	(1,573)	(1,957)
Other materials expenses	21	(279)	(305)	(670)	(718)
Financial expenses	26	(458)	(34)	(571)	(135)
Other operating expenses	24	(900)	(293)	(2,239)	(2,106)
Profit/(loss) before income tax		(2,397)	(1,043)	7,400	4,235

(b) Reportable segments' assets

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

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

	Note	30 September 2011	31 December 2010
Segment assets		251,411	255,632
Unallocated:			
Taxes other than income tax prepaid	11	2,833	39
Income tax receivables		1,968	17
Available-for-sale investments	12	18	13
Total assets per consolidated statement of financial position		256,230	255,701

(c) Information about major customers

During the three and nine months ended 30 September 2011 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the three and nine months ended 30 September 2011 amounted to RR 11,138 million and RR 41,985 million, respectively. The revenue was obtained from sales of electricity and capacity relating to electricity segment.
- Revenue from OJSC "MOEK" for the three and nine months ended 30 September 2011 amounted to RR 3,914 million and RR 31,415 million, respectively. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from OJSC "Mosenergosbyt" for the three and nine months ended 30 September 2011 amounted to RR 3,166 million and RR 10,933 million, respectively. The revenue was obtained from sales of electricity and capacity relating to electricity segment.

During the three and nine months ended 30 September 2010 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the three and nine months ended 30 September 2010 amounted to RR 13,262 million and RR 35,855 million, respectively. The revenue was obtained from sales of electricity and capacity relating to electricity segment.
- Revenue from OJSC "MOEK" for the three and nine months ended 30 September 2010 amounted to RR 3,365 million and RR 27,008 million, respectively. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from OJSC "Mosenergosbyt" for the three and nine months ended 30 September 2010 amounted to RR 3,704 million and RR 15,835 million, respectively. The revenue was obtained from sales of electricity and capacity relating to electricity segment.