MOESK Group

Consolidated Financial Statements for the year ended 31 December 2008

Contents

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Independent Auditors' Report

To the management of OJSC MOESK

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

ZAO KPMG, a company incorporated under the Laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Opinion

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

ZAO KPMG

ZAO KPMG

21 July 2009

	Note	2008 '000 RUR	2007 (restated) '000 RUR
Revenue	6	**65 331 929**	**48 372 579**
Operating expenses	7	(57 685 762)	(40 338 935)
Other operating income	9	2 182 706	1 619 098
Results from operating activities		**9 828 873**	**9 652 742**
Financial income	10	608 634	240 203
Financial expenses	10	(2 519 508)	(1 002 003)
Profit before income tax		**7 917 999**	**8 890 942**
Income tax expense	11	(1 180 100)	(2 512 628)
Profit for the year		**6 737 899**	**6 378 314**
Attributable to:			
Shareholders of OJSC MOESK		7 190 128	6 292 507
Minority interest		(452 229)	85 807
Earnings per share basic and diluted (in Russian Roubles)	21	RUR 0.1476	RUR 0.1292

These consolidated financial statements were approved by management on 21 July 2009 and were signed on its behalf by:

General Director — Chief Accountant

Y.I. Trofimov — L.A. Sklyarova

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	Note	2008 ’000 RUR	2007 (restated) ’000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	12	172 626 967	132 869 788
Intangible assets	13	152 576	77 548
Long-term investments	14	2 500 000	-
Other non-current assets	15	11 898 027	11 144 405
Deferred tax assets	16	-	46 850
Employee benefits	23	387 028	58 811
Total non-current assets		**187 564 598**	**144 197 402**
Current assets			
Inventories	17	2 849 907	2 273 358
Income tax receivable		10 076	170 223
Trade and other receivables	18	22 935 890	12 861 222
Bank deposits		-	2 557 216
Cash and cash equivalents	19	6 152 592	4 938 102
Total current assets		**31 948 465**	**22 800 121**
Total assets		**219 513 063**	**166 997 523**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	Note	2008 '000 RUR	2007 (restated) '000 RUR
EQUITY AND LIABILITIES			
Equity	20		
Share capital		24 353 546	24 353 546
Treasury shares		(8 365)	(8 365)
Additional paid in capital		18 580 888	17 883 947
Revaluation reserve		8 703 157	8 270 005
Retained earnings		34 519 180	27 329 052
Total equity attributable to shareholders of OJSC MOESK		**86 148 406**	**77 828 185**
Minority interest		644 405	1 096 634
Total equity		**86 792 811**	**78 924 819**
Non-current liabilities			
Loans and borrowings	22	36 463 571	22 258 310
Employee benefits	23	282 963	287 949
Deferred tax liabilities	16	9 449 358	11 044 685
Total non-current liabilities		**46 195 892**	**33 590 944**
Current liabilities			
Loans and borrowings	22	19 796 981	9 920 966
Income tax payable		67 402	1 344 403
Other taxes payable	26	97 642	152 962
Trade and other payables	25	65 867 457	42 630 683
Provisions	24	694 878	432 746
Total current liabilities		**86 524 360**	**54 481 760**
Total equity and liabilities		**219 513 063**	**166 997 523**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	2008 '000 RUR	2007 (restated) '000 RUR
Cash flows from operating activities		
Profit before income tax	**7 917 999**	**8 890 942**
Adjustments for:		
Depreciation and amortization	8 653 574	6 403 270
Gain on disposal of property, plant and equipment	(1 644 919)	(1 352 514)
Loss on disposal of intangible assets	226	-
Provisions	262 132	208 066
Interest income	(608 634)	-
Interest expense	2 519 508	1 002 003
Allowance for impairment of accounts receivable, non-current assets	588 593	18 733
Allowance for impairment of bank deposits	1 201 687	-
Other non-cash items	(32 260)	96 533
Operating profit before changes in working capital	**18 857 906**	**15 267 033**
Increase in inventories	(591 290)	(980 148)
Increase in trade and other receivables	(10 579 293)	(7 642 057)
Increase in trade and other payables, advances received	23 968 292	27 794 952
Decrease in taxes payable, other than income tax	(52 045)	(54 994)
Cash flows from operations before income taxes and interest paid	**31 603 570**	**34 384 786**
Income taxes paid	(3 586 236)	(2 027 791)
Cash flows from operating activities	**28 017 334**	**32 356 995**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	2008 '000 RUR	2007 (restated) '000 RUR
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	316 470	176 535
Acquisition of subsidiary, net of cash acquired	-	(471 893)
Acquisition of property, plant and equipment	(42 162 251)	(38 772 465)
Acquisition of intangible assets	(109 732)	(43 381)
Repayment of bank deposits	4 305 716	1 679 000
Placement of bank deposits	(2 607 000)	(3 756 216)
Acquisition of long-term investments	(2 500 000)	-
Interest received	357 760	240 203
Cash flows used in investing activities	**(42 399 037)**	**(40 948 217)**
FINANCING ACTIVITIES		
Proceeds from borrowings	42 770 201	21 191 951
Repayment of borrowings	(21 275 789)	(4 722 317)
Payment of finance lease liabilities	(5 591 372)	(5 501 697)
Purchase of treasury shares	(13 867)	-
Dividends paid	-	(282 059)
Interest paid	(301 862)	(3 807)
Proceeds from shares issued to minority interest	-	500 000
Cash flows from financing activities	**15 587 311**	**11 182 071**
Effect of exchange rate fluctuations on cash and cash equivalents	8 882	**-**
Net increase in cash and cash equivalents	**1 214 490**	**2 590 849**
Cash and cash equivalents at beginning of year	4 938 102	2 347 253
Cash and cash equivalents at end of year (Note 19)	**6 152 592**	**4 938 102**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

'000 RUR	Attributable to shareholders of the Group						Minority interest	Total equity
	Share capital	Treasury shares	Additional paid in capital	Revaluation reserve	Retained earnings	Total		
At 1 January 2007 as previously reported	**14 124 680**	**-**	**22 453 124**	**8 270 005**	**3 141 359**	**47 989 168**	**-**	**47 989 168**
Impact of change in accounting policy	10 228 866	(8 365)	(4 569 177)	-	18 180 186	23 831 510	510 827	24 342 337
At 1 January 2007 (restated)	**24 353 546**	**(8 365)**	**17 883 947**	**8 270 005**	**21 321 545**	**71 820 678**	**510 827**	**72 331 505**
Profit for the year	-	-	-	-	6 292 507	6 292 507	85 807	6 378 314
Total recognised income and expenses	-	-	-	-	6 292 507	6 292 507	85 807	6 378 314
Contributions (Note 5)	-	-	-	-	-	-	500 000	500 000
Dividends to shareholders	-	-	-	-	(285 000)	(285 000)	-	(285 000)
At 31 December 2007 (restated)	**24 353 546**	**(8 365)**	**17 883 947**	**8 270 005**	**27 329 052**	**77 828 185**	**1 096 634**	**78 924 819**
Profit for the year	-	-	-	-	7 190 128	7 190 128	(452 229)	6 737 899
Change in tax rate related to revaluation reserve	-	-	-	433 152	-	433 152	-	433 152
Total recognised income and expenses	-	-	-	433 152	7 190 128	7 623 280	(452 229)	7 171 051
Discounting effect on loan given from the parent company	-	-	696 941	-	-	696 941	-	696 941
At 31 December 2008	**24 353 546**	**(8 365)**	**18 580 888**	**8 703 157**	**34 519 180**	**86 148 406**	**644 405**	**86 792 811**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

1 Background

(a) Organisation and operations

Open Joint-Stock Company “Moskovskaya Ob’edinennaya Electrosetevaya Kompaniya” (OJSC “MOESK” or the “Company”) was established on 1 April 2005 by transference of assets and activities related to the electricity transmission of OJSC “Mosenergo”, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1 adopted by shareholders of OJSC “Mosenergo” on 29 June 2004.

The Group’s consolidated financial statements include the following subsidiaries:

- OJSC Moskabel’set’montaj (MKSM);
- OJSC Moskabel’energoremont (MKER);
- OJSC Repair of Electrical and Technical Equipment Plant (RETEP);
- OJSC Energocentr.

As at 31 December 2007 the Russian Federation owned 52,7% of RAO UES of Russia, which in its turn owned 50,9% of OJSC “MOESK”. On 1 July 2008 RAO UES of Russia ceased to exist as a separate legal entity and transferred its 50,9% of OJSC “MOESK” shares to OJSC “MRSK Holding”, a state controlled entity. As at 31 December 2008 the party with ultimate control over the Group was the Russian Federation.

The Company’s registered office is at building 27, Ordgonikidze street, Podol’sk, Moscow Region, 142100, Russian Federation. The actual address is building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Group’s principal activity is electricity transmission by means of electrical networks located in Moscow Region and the parts of Moscow. The Group also provides connection services as part of its core operations.

(b) Formation of the Group

The Russian electric utilities industry is presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group can raise the capital required to maintain and expand current capacity.

As part of the reform process the Group was legally formed on 30 June 2008 as a merger of OJSC “MOESK” and OJSC “MGEsK” in accordance with the resolution of the Board of Directors of OJSC RAO UES of Russia dated 26 October 2007, resolution of the Board of Administration of OJSC RAO UES of Russia dated 13 February 2008 and resolution of the extraordinary shareholders meeting dated 18 April 2008.

The merger was effected through conversion of ordinary shares of OJSC “MGEsK” into the additionally issued shares of OJSC “MOESK” (Note 5).

The merger has been accounted for as a business combination under common control. Accordingly, these consolidated financial statements are presented as if the merger had been completed 1 January 2007 (Note 3 b (ii)).

(c) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment is stated at revalued amounts.

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those 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 12 – property, plant and equipment;
- Note 24 – provisions;

- Note 27 – financial risk management and
- Note 30 – contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in Note 3(b) to 3(r). These accounting policies have been consistently applied.

(a) Changes in accounting policy

The Group has changed its accounting policy regarding business combinations under common control in order to harmonize its IFRS accounting policies with the new parent company, OJSC "MRSK Holding". Under the new policy such transactions are recognised at the carrying amounts in the combined entities' financial statements. The comparative information is restated as if the combinations were completed as at beginning of the earliest comparative period presented or, if later, at the date that common control was established (Note 3b (ii)). Under the previous policy business combinations arising from transfers of interests in entities under common control were accounted for at the date of acquisition.

Consolidated income statement as previously reported and restated for the year ended 31 December 2007

	2007	Impact of change in accounting policy	2007 (restated)
	’000RUR	’000RUR	’000RUR
Revenue	38 669 612	9 702 967	48 372 579
Operating expenses	(28 953 395)	(11 385 540)	(40 338 935)
Other operating income	140 630	1 478 468	1 619 098
Financial income	201 259	38 944	240 203
Financial expenses	(975 820)	(26 183)	(1 002 003)
Income tax expense	(2 455 600)	(57 028)	(2 512 628)
Profit for the year	**6 626 686**	**(248 372)**	**6 378 314**

Consolidated balance sheet as previously reported and restated as at 31 December 2007

	31 December 2007	Impact of change in accounting policy	31 December 2007 (restated)
	’000 RUR	’000 RUR	’000 RUR
Property, plant and equipment	98 223 193	34 646 595	132 869 788
Intangible assets	-	77 548	77 548
Other non-current assets	8 155 468	2 988 937	11 144 405
Deferred tax assets	46 850	-	46 850
Employee benefits	58 811	-	58 811
Inventories	1 771 724	501 634	2 273 358
Income tax receivable	170 223	-	170 223
Trade and other receivables	5 275 258	7 585 964	12 861 222
Bank deposits	2 557 216	-	2 557 216
Cash and cash equivalents	4 790 726	147 376	4 938 102
Total assets	**121 049 469**	**45 948 054**	**166 997 523**
Share capital	14 124 680	10 228 866	24 353 546
Treasury shares	-	(8 365)	(8 365)
Additional paid in capital	22 463 951	(4 580 004)	17 883 947
Revaluation reserve	8 270 005	-	8 270 005
Retained earnings	9 622 238	17 706 814	27 329 052
Minority interest	1 096 634	-	1 096 634
Total equity	**55 577 508**	**23 347 311**	**78 924 819**
Loans and borrowings	30 716 426	1 462 850	32 179 276
Employee benefits	150 741	137 208	287 949
Deferred tax liabilities	9 085 316	1 959 369	11 044 685
Income tax payable	1 238 856	105 547	1 344 403
Other taxes payable	99 989	52 973	152 962
Trade and other payables	23 787 695	18 842 988	42 630 683
Provisions	392 938	39 808	432 746
Total equity and liabilities	**121 049 469**	**45 948 054**	**166 997 523**

Consolidated statement of changes in equity as previously reported and restated as at 1 January 2007

	'000 RUR As previously reported	'000 RUR Effect of changes in accounting policy	'000 RUR Restated
Ordinary share capital	14 124 680	10 228 866	24 353 546
Treasury stock	-	(8 365)	(8 365)
Additional paid in capital	22 453 124	(4 569 177)	17 883 947
Revaluation reserve	8 270 005	-	8 270 005
Retained earnings	3 141 359	18 180 186	21 321 545
Total	47 989 168	23 831 510	71 820 678
Minority interest	-	510 827	510 827
Total equity	**47 989 168**	**24 342 337**	**72 331 505**

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Acquisitions from entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium.

(iii) Transactions eliminated on consolidation

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

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. 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 the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments.

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other 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 at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and short term deposits. Cash equivalents include highly liquid short-term financial investments that are readily convertible into cash, have an original maturity of no more than three months, and are subject to insignificant changes in value.

Accounting for financial income and expenses is discussed in Note 3(m).

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.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at revalued amounts, based on periodic revaluations by external independent valuers. The frequency of revaluation depends upon the changes in fair values of the items of property, plant and equipment being revalued, but at least every 5 years.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, 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.

Borrowing costs on qualifying assets are capitalised as part of the cost of such assets.

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 income" or "other expense" in the income statement.

(ii) 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 costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Revaluation

A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

(iv) Depreciation

Depreciation is recognised in the income statement 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 the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 20 to 40 years
- transmission networks 18 years
- transformers and transformer substations 13 to 16 years
- other 4 to 8 years

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

(f) 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.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average 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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

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

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

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

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

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

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

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) 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, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(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, and 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 government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(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 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 the income statement in the period in which they arise.

(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.

(j) 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.

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in the income statement when the customer acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by Federal Tariff Agency and Regional Energy Commission of Moscow and the Energy Committee of Moscow Region.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when electricity is activated and the customer is connected to the grid network, or, for contracts where connection services are performed in stages, revenue is recognized in the proportion to the stage of completion when act of acceptance is signed by the customer.

(iii) Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(l) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(m) Financial income and expenses

Financial income comprises interest income on cash balances, bank deposits and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings, employee benefits and finance leases, foreign currency losses.

All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(n) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries 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 the 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 assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which 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.

(o) Earnings per share

The Group presents basic 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 average number of ordinary shares outstanding during the reporting period.

(p) Segment reporting

The Group operates predominantly in a single geographical area and industry, the transmission of electric power in Moscow and Moscow region.

(q) New Standards and Interpretations not yet adopted

The Group has adopted revised IAS 23 *Borrowing Costs* in advance of its effective date starting from 1 January 2007. Revised IAS 23 Borrowing *Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments,* which is effective for annual periods beginning on or after 1 January 2009. The Standard introduces the "management approach" to segment reporting. The new Standard will not have any impact on the Group's financial position or performance.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity. The new Standard will not have any impact on the Group's financial position or performance.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – *Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the

Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements. The new Standard will not have any impact on the Group's financial position or performance.

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity. The Group has not yet analysed the likely impact of the new Standards on its financial position or performance.
- 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. The Group has not yet analysed the likely impact of the new Standards on its financial position or performance.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(r) Comparative information

During the year the Group has changed its presentation of employee benefits from net to gross presentation. The prior period amount of RUR 229 138 thousand of "Employee benefits" has been grossed up by RUR 58 811 thousand to conform with the current period's presentation.

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 following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of non-current 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. Management believes that the fair value of current trade and other receivables approximates their carrying amount.

(b) Investments in debt securities

Fair value of quoted instruments is determined on the basis of the market price at the reporting date. Fair value on investments in unquoted debt securities is determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of investments is determined for disclosure purposes only.

(c) Non-derivative financial liabilities

Fair value of financial liabilities, which is calculated 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. In respect of issued bonds the fair value is determined by reference to their quoted closing price at the reporting date.

5 Transactions with entities under common control

(a) Acquisition of OJSC "Energocentr"

On 28 March 2007 the Company acquired 50 percent of the shares in OJSC "Energocentr" for RUR 500 000 thousand from the state controlled entity OJSC "Moskovskaya Oblastnaya Investicionnaya Trastovaya Kompaniya" (OJSC "MOITK") and obtained the power to appoint the majority of the members of the board of directors of the acquiree, thus obtaining control over the financial and operating policies of OJSC "Energocentr". OJSC "Energocentr"'s principal activity is the construction of transformer substations. The acquisition represents a transaction under common control.

The subsidiary contributed net profit of RUR 171 613 thousand to the total net profit for the year ended 31 December 2007. No revenue has been earned by the subsidiary during the year, as OJSC "Energocentr" was at an early stage of its operations.

Net assets acquired were assessed based on the carrying values. The net assets of the acquired subsidiary were as follows at 1 January 2007:

’000 RUR	**Carrying amounts**
Property, plant and equipment	565
Other non-current assets	8 390
Inventory	1 727
VAT	870
Trade and other receivables	3 948
Bank deposits	980 000
Cash and cash equivalents	28 107
Deferred tax liabilities	(13)
Loans	(1)
Trade and other payables	(1 939)
Net identifiable assets and liabilities	**1 021 654**
Minority interest	(510 827)
Contribution by entity under common control	(10 827)
Consideration paid, satisfied in cash	500 000
Cash acquired	(28 107)
Net cash outflow	**471 893**

(b) Merger with OJSC “MGEsK”

On 18 April 2008 the extraordinary shareholders meeting approved the reorganization of the Company in the form of merger with OJSC “MGEsK”, an entity under common control.

On 29 April 2008 OJSC “MOESK” issued 20 457 731 874 ordinary shares with par value of RUR 0.5 per share in amount of RUR 10 228 865 937 for the purpose of the merger.

The ordinary shares of OJSC “MGEsK” were converted to additional ordinary shares of OJSC “MOESK” using the following conversion coefficients: 1.38 shares of OJSC “MGEsK” with par value of RUR 0.2 per share were converted into 1 share of OJSC “MOESK” with par value of RUR 0.5 per share.

Additionally, the Group purchased 5 576 625 shares at RUR 1.50 per share and 5 047 450 shares at RUR 1.09 per share from the shareholders. As part of the merger 5 047 450 of OJSC “MGEsK”’s treasury shares were redeemed in the amount of RUR 5 502 thousand. The merger was completed on 30 June 2008.

The carrying amounts of assets and liabilities at 31 December 2007 were as follows:

'000 RUR	**Carrying amounts**
Intangible assets	77 548
Property, plant and equipment	34 646 595
Other non-current assets	2 988 937
Inventories	5 102 848
Trade and other receivables	8 863 018
Cash and cash equivalents	147 376
Total assets	**51 826 322**
Share capital	(5 649 872)
Retained earnings	(21 208 229)
Total equity	**(26 858 101)**
Employee benefits	(137 208)
Deferred tax liabilities	(3 063 660)
Loans and borrowings	(1 462 850)
Income tax payable	(105 547)
Other taxes payable	(52 973)
Trade and other payables	(20 106 175)
Provisions	(39 808)
Total liabilities	**(24 968 221)**

The impact of merger with OJSC "MGEsK" after inter-company eliminations is stated in Note 3 (a).

6 Revenue

	2008	**2007**
	'000 RUR	**'000 RUR**
Electricity transmission	51 603 971	37 940 327
Revenue from connection services	10 648 311	6 446 926
Other revenue	3 079 647	3 985 326
	65 331 929	**48 372 579**

Revenue from connection services represents services related to connection of customers' power receivers to the electricity network of the Group.

Other revenue is comprised of installation services and technical maintenance of electrical equipment and rental income.

7 Operating expenses

	2008	2007
	’000 RUR	**’000 RUR**
Electricity transmission	(20 166 166)	(11 074 618)
Depreciation and amortization	(8 653 574)	(6 403 270)
Employee benefits	(8 054 527)	(6 823 302)
Repairs, maintenance and installation services	(4 866 612)	(7 863 608)
Rent	(2 649 336)	(647 296)
Electricity count services	(2 486 654)	(969 176)
Technological connection services	(2 048 225)	(1 009 689)
Raw materials and supplies	(1 757 205)	(817 033)
Consulting, legal, audit services including professional training	(1 262 670)	(291 967)
Allowance for impairment of bank deposits	(1 201 687)	-
Allowance for impairment of trade and other receivables, non-current assets	(588 593)	(18 733)
Insurance	(533 521)	(658 900)
Taxes other than income tax	(354 221)	(246 604)
Telecommunication services	(322 037)	(265 362)
Security services	(296 174)	(256 352)
Provision for legal claims and unused vacation	(262 132)	(208 066)
Other expenses	(2 182 428)	(2 784 959)
	(57 685 762)	**(40 338 935)**

During the year the management accrued an allowance for impairment of bank deposits in the amount of RUR 1 201 687 thousand in relation to the deposits held in CB “Moskovskiy Zalogoviy Bank” due to insolvency procedures initiated against the bank during the year.

8 Personnel costs

	2008 '000 RUR	2007 '000 RUR
Salaries and wages	(6 573 841)	(5 615 661)
Contributions to State pension fund	(1 061 482)	(923 454)
Financial aid to employees and pensioners	(349 698)	(215 565)
Benefit in respect of post employment benefits	(66 295)	(9 073)
Expense in respect of long-term service benefits provided	(3 211)	(59 549)
	(8 054 527)	**(6 823 302)**

The average number of employees during the year was 14 495 (in 2007: 14 607).

9 Other operating income

	2008 '000 RUR	2007 '000 RUR
Gain on disposal of property, plant and equipment	1 644 919	1 352 514
Other income	537 787	266 584
	2 182 706	**1 619 098**

10 Financial income and expenses

	2008 '000 RUR	2007 '000 RUR
Financial income		
Interest income	478 453	240 203
Net foreign exchange gain	130 181	-
	608 634	**240 203**
Financial expenses		
Interest on employee benefits obligation, net (Note 23(c))	(23 535)	(20 352)
Interest expense	(732 323)	(7 684)
Interest on finance lease	(1 763 650)	(973 967)
	(2 519 508)	**(1 002 003)**

11 Income tax expense

	2008 '000 RUR	2007 '000 RUR
Current tax expense	(2 469 660)	(4 030 014)
Deferred tax benefit	1 289 560	1 517 386
	(1 180 100)	**(2 512 628)**

The Group's applicable tax rate is the income tax rate of 24% (2007: 24%). With effect from 1 January 2009, the income tax rate has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation of effective tax rate:

	2008 '000 RUR	%	2007 '000 RUR	%
Profit before income tax	7 917 999	100	8 890 942	100
Income tax at applicable tax rate	(1 900 320)	(24)	(2 133 827)	(24)
Effect of tax rate changes	1 421 873	18	-	-
Other non-deductible and non-taxable items, net	(701 653)	(9)	(378 801)	(4)
	(1 180 100)	**(15)**	**(2 512 628)**	**(28)**

12 Property, plant and equipment

'000 RUR	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Construction in progress	Total
At 1 January 2007	17 859 886	55 682 039	9 285 639	8 370 957	7 432 341	98 630 862
Additions	84 354	8 407 650	5 972 291	791 473	32 416 795	47 672 563
Disposals	(15 240)	(203 795)	(85 654)	(89 567)	(95 465)	(489 721)
Transfers	774 887	4 020 061	1 977 659	4 995 627	(11 768 234)	-
At 31 December 2007	**18 703 887**	**67 905 955**	**17 149 935**	**14 068 490**	**27 985 437**	**145 813 704**
Depreciation						
At 1 January 2007	(908 618)	(3 767 195)	(854 530)	(1 047 035)	-	(6 577 378)
Depreciation charge	(703 584)	(2 949 702)	(1 158 086)	(1 588 393)	-	(6 399 765)
Disposals	1 076	16 310	6 272	9 569	-	33 227
At 31 December 2007	**(1 611 126)**	**(6 700 587)**	**(2 006 344)**	**(2 625 859)**	**-**	**(12 943 916)**
Net book value						
At 1 January 2007	16 951 268	51 914 844	8 431 109	7 323 922	7 432 341	92 053 484
At 31 December 2007	**17 092 761**	**61 205 368**	**15 143 591**	**11 442 631**	**27 985 437**	**132 869 788**
Net book value had no revaluations taken place						
At 1 January 2007	14 552 682	44 802 040	8 050 130	7 392 707	7 432 341	82 229 900
At 31 December 2007	**14 793 836**	**54 499 505**	**14 793 292**	**11 501 554**	**27 985 437**	**123 573 624**

'000 RUR	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Construction in progress	Total
At 1 January 2008	18 703 887	67 905 955	17 149 935	14 068 490	27 985 437	145 813 704
Additions	135 519	5 058 172	2 661 464	389 802	40 271 708	48 516 665
Disposals	(14 856)	(66 782)	(27 234)	(60 747)	(107)	(169 726)
Transfers	1 580 566	4 990 594	3 685 049	7 867 107	(18 123 316)	-
At 31 December 2008	**20 405 116**	**77 887 939**	**23 469 214**	**22 264 652**	**50 133 722**	**194 160 643**
Depreciation						
At 1 January 2008	(1 611 126)	(6 700 587)	(2 006 344)	(2 625 859)	-	(12 943 916)
Depreciation charge	(762 151)	(3 493 191)	(1 747 157)	(2 618 672)	-	(8 621 171)
Disposals	1 272	8 029	5 285	16 825	-	31 411
At 31 December 2008	**(2 372 005)**	**(10 185 749)**	**(3 748 216)**	**(5 227 706)**	**-**	**(21 533 676)**
Net book value						
At 1 January 2008	17 092 761	61 205 368	15 143 591	11 442 631	27 985 437	132 869 788
At 31 December 2008	**18 033 111**	**67 702 190**	**19 720 998**	**17 036 946**	**50 133 722**	**172 626 967**
Net book value had no revaluations taken place						
At 1 January 2008	14 793 836	54 499 505	14 793 292	11 501 554	27 985 437	123 573 624
At 31 December 2008	**15 804 340**	**61 246 881**	**19 373 012**	**16 797 651**	**50 133 724**	**163 355 608**

(a) Impairment of property, plant and equipment

Given the current challenging market conditions, the management performed an impairment test in respect of property, plant and equipment. The following key assumptions were used in determining the recoverable amounts of property, plant and equipment:

- Cash flows were projected based on actual operating results and the most recent business plan approved by the management. The projections incorporate the Group's best estimates of growth tariff rates for the period 2009 – 2013, which assumes that the Group makes transition to RAB tariff in 2010.
- A discount rate of 18.4% in nominal US dollar equivalent was applied by the independent appraisal in determining the recoverable amount of the assets in 2009 then gradually declining to 10.9% in nominal US dollar equivalent in 2013 and onwards.

Adverse changes in those assumptions may lead to impairment of property, plant and equipment, which could be significant.

As a result of the analysis, no impairment loss has been recognised for the year ended 31 December 2008.

(b) Gain on disposal of property, plant and equipment

During the year the Company entered into a number of agreements with the state controlled entities and third parties under which the Company is compensated for any items of property, plant and equipment liquidated as a result of construction activities either in the form of construction of new items of property plant and equipment to replace the liquidated assets or in cash.

During the year the items of property, plant and equipment with the carrying amount of RUR 138 315 thousand were liquidated (2007: RUR 456 494 thousand) and were partly compensated by state controlled entities and third parties by transfer of new assets at the carrying amount of RUR 1 466 764 thousand (2007: RUR 1 632 473 thousand) and by cash in the amount of RUR 316 470 thousand (2007: RUR 176 535 thousand). As a result the net gain of RUR 1 644 919 thousand (2007: RUR 1 352 514 thousand) was recognized in other operating income.

(c) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2008 the net book value of leased plant and machinery was RUR 17 915 395 thousand (2007: RUR 12 660 442 thousand). The leased equipment secures lease obligations.

(d) Capitalised interest

The amount of capitalised interest for 2008 was RUR 2 826 161 thousand (2007: RUR 937 869 thousand).

13 Intangible assets

’000 RUR	**Software**
At 1 January 2007	25 000
Additions	56 052
At 31 December 2007	**81 052**
Amortisation	
At 1 January 2007	-
Amortisation	(3 504)
At 31 December 2007	**(3 504)**
Net book value	
At 1 January 2007	25 000
At 31 December 2007	**77 548**
At 1 January 2008	81 052
Additions	107 657
Disposals	(226)
At 31 December 2008	**188 483**
Amortisation	
At 1 January 2008	(3 504)
Amortisation	(32 403)
At 31 December 2008	**(35 907)**
Net book value	
At 1 January 2008	77 548
At 31 December 2008	**152 576**

14 Long-term investments

	31 December 2008 ’000 RUR	**31 December 2007 ’000 RUR**
Loans and receivables:		
Promissory notes	2 500 000	-
	2 500 000	-

On 30 May 2008 the Group acquired a promissory note for the amount of RUR 2 500 000 thousand from a third party. The interest rate on the promissory note is 8.3% per annum. The maturity date is 30 June 2010.

15 Other non-current assets

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Advances for capital expenditure	11 868 184	10 844 405
Other non-current assets	124 372	300 000
Allowance for impairment of other non-current assets	(94 529)	-
	11 898 027	**11 144 405**

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUR	**Assets**		**Liabilities**		**Net**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Property, plant and equipment	-	46 674	(13 993 305)	(15 548 047)	(13 993 305)	(15 501 373)
Intangible assets	-	-	(30 515)	(12 617)	(30 515)	(12 617)
Inventories	5 968	15 526	-	-	5 968	15 526
Trade and other receivables	718 587	462 875	-	-	718 587	462 875
Finance lease liability	3 210 026	2 873 142	-	-	3 210 026	2 873 142
Loans and borrowings	-		(139 949)	-	(139 949)	-
Employee benefits	46 119	15 041	(2 946)	-	43 173	15 041
Trade and other payables	-	44 660	(1 113)	-	(1 113)	44 660
Provisions	50 186	114 413	-	-	50 186	114 413
Deferred expenses	687 584	990 498	-	-	687 584	990 498
Tax assets/(liabilities)	**4 718 470**	**4 562 829**	**(14 167 828)**	**(15 560 664)**	**(9 449 358)**	**(10 997 835)**

(b) Movement in temporary differences during the year

'000 RUR	1 January 2008	Recognised in income	Recognised in equity	31 December 2008
Property, plant and equipment	(15 501 373)	1 074 916	433 152	(13 993 305)
Intangible assets	(12 617)	(17 898)	-	(30 515)
Inventories	15 526	(9 558)	-	5 968
Trade and other receivables	462 875	255 712	-	718 587
Finance lease liability	2 873 142	336 884	-	3 210 026
Loans and borrowings	-	34 286	(174 235)	(139 949)
Employee benefits	15 041	28 132	-	43 173
Trade and other payables	44 660	(45 773)	-	(1 113)
Provisions	114 413	(64 227)	-	50 186
Deferred expenses	990 498	(302 914)	-	687 584
	(10 997 835)	**1 289 560**	**258 917**	**(9 449 358)**

'000 RUR	1 January 2007	Recognized in the income statement	Recognized in the equity	31 December 2007
Property, plant and equipment	(13 033 385)	(2 467 988)	-	(15 501 373)
Intangible assets	(6 000)	(6 617)	-	(12 617)
Inventories	14 257	1 269	-	15 526
Trade and other receivables	57 065	405 810	-	462 875
Finance lease liability	269 302	2 603 840	-	2 873 142
Employee benefits	60 693	(45 652)	-	15 041
Trade and other payables	12 438	32 222	-	44 660
Provisions	110 409	4 004	-	114 413
Deferred expenses	-	990 498	-	990 498
	(12 515 221)	**1 517 386**	**-**	**(10 997 835)**

17 Inventories

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Raw materials and consumables	2 605 631	1 703 243
Other	264 009	377 803
Inventory for resale	8 309	210 425
Allowance for impairment of inventories	(28 042)	(18 113)
	2 849 907	**2 273 358**

The Group tested inventories for impairment and recognised an allowance in the amount of RUR 28 042 thousand (2007: RUR 18 113 thousand).

18 Trade and other receivables

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Advances given	15 975 797	6 758 714
Trade receivables	3 603 512	1 890 817
VAT receivable	3 083 666	2 166 731
Other receivables	541 943	767 384
VAT recoverable	294 562	1 347 102
Allowance for impairment of accounts receivable	(563 590)	(69 526)
	22 935 890	**12 861 222**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27.

19 Cash and cash equivalents

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Petty cash	386	1 031
Current accounts	6 152 206	4 937 071
Cash and cash equivalents in the balance sheet	**6 152 592**	**4 938 102**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

20 Equity

(a) Share capital

Share capital	**Ordinary shares 31 December 2008**	**Ordinary shares 31 December 2007**
Issued shares, fully paid	48 701 514 949	48 701 514 949
Par value (in RUR)	RUR 0.50	RUR 0.50

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 shareholders.

(b) Treasury shares

The Group held 5 576 625 treasury shares at RUR 1.50 per share for the total amount of RUR 8 365 thousand as at 31 December 2008.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of RUR 24 400 180 (2007: RUR 11 004 062 of OJSC "MOESK" and RUR 4 478 265 of OJSC "MGEsK").

During the year the Company neither declared nor paid dividends (2007: RUR 285 000 thousand).

21 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	31 December 2008	**31 December 2007**
Number of outstanding shares	48 701 514 949	48 701 514 949
Profit for the period attributable to the shareholders of OJSC "MOESK" ('000 RUR)	7 190 128	6 292 507
Earnings per share (RUR)	0.1476	0.1292

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 27.

	31 December 2008	31 December 2007
	'000 RUR	'000 RUR
Non-current		
Promissory notes	7 504 727	4 745 890
Unsecured bank facility	18 158 564	1 458 589
Unsecured bonds	2 356 507	9 000 000
Finance lease liabilities	8 443 773	7 053 831
	36 463 571	**22 258 310**
Current		
Promissory notes	9 685 972	541 091
Current portion of unsecured bond issues	3 190 969	278 345
Unsecured bank facility	3 846 964	7 022 624
Current portion of finance lease liabilities	3 073 076	2 078 906
	19 796 981	**9 920 966**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2008		2007	
’000 RUR	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured borrowings	USD	7.00%	2008	-	-	3 509 494	3 509 494
Unsecured bonds	RUR	8.05%	2011	2 415 236	2 415 236	2 597 520	2 597 520
Unsecured bonds	RUR	9.3% - 25%	2009	3 132 240	3 132 240	3 131 460	3 131 460
Unsecured bonds	RUR	8.05%	2011	-	-	3 549 365	3 549 365
Unsecured bank facility	RUR	10.25%	2008	-	-	3 509 253	3 509 253
Unsecured bank facility	RUR	8.79%	2009	1 989 485	1 989 485	422 110	422 110
Unsecured bank facility	RUR	8.90%	2009	1 682 798	1 682 798	1 040 356	1 040 356
Unsecured bank facility	RUR	9.58%	2010	3 612 833	3 612 833	-	-
Unsecured bank facility	RUR	12.75%	2011	9 620 066	9 620 066	-	-
Unsecured bank facility	RUR	9.04%	2010	5 100 346	5 100 346	-	-
Promissory notes	RUR	9%	2009-2012	10 554 160	10 089 849	5 521 110	5 056 946
Promissory notes	RUR	17%	2009	3 013 005	3 012 908	-	-
Promissory notes	RUR	0%	2010	4 750 047	4 087 942	258 153	230 035
Finance lease liabilities	RUR	0%	-	-	11 516 849	-	9 132 737
				45 870 216	**56 260 552**	**23 538 821**	**32 179 276**

Finance lease liabilities are payable as follows:

	2008			2007		
’000 RUR	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	5 426 753	2 353 677	3 073 076	4 235 737	2 156 831	2 078 906
Between one and five years	11 423 295	3 171 199	8 252 096	9 998 801	3 153 964	6 844 837
More than five years	316 670	124 993	191 677	348 784	139 790	208 994
	17 166 718	**5 649 869**	**11 516 849**	**14 583 322**	**5 450 585**	**9 132 737**

All bank loans are not secured. The finance lease liabilities are secured by the leased assets (see Note 12).

23 Employee benefits

(a) Post employment benefits

	2008 '000 RUR	2007 '000 RUR
Present value of unfunded obligations	92 776	5 754
Present value of funded obligations	1 053 724	906 614
Total present value of obligations	1 146 500	912 368
Fair value of plan assets	(964 343)	(633 238)
Deficit in plan	182 157	279 130
Unrecognised past service cost	(447 162)	(154 014)
Net actuarial losses not recognised in the balance sheet	(121 292)	(183 927)
Net assets in the balance sheet	**(386 297)**	**(58 811)**

The Group makes contributions to a defined benefit plan that provides pension benefits for employees upon retirement. As at 1 January 2007 the plan entitles a retired employee to receive a monthly payment equal to RUR 450. On 1 August 2007 the Group increased basic monthly payment up to RUR 650 and on 1 July 2008 the monthly payment became equal to 10% of final salary of retired employee as at the date of the retirement.

The fair value of plan assets in each category:

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Equity instruments	9.0%	48.5%
Debt instruments	81.6%	40.6%
Cash	1.6%	0.9%
Other	7.8%	10.0%
	100%	100%

(i) Movements in the present value of the defined benefit obligations

	2008	2007
	'000 RUR	'000 RUR
Defined benefit obligations at 1 January	912 368	530 972
Benefits paid by the plan	(66 919)	(35 735)
Current service cost	111 875	80 855
Interest cost	61 123	37 168
Actuarial (gains) / losses	(114 014)	215 024
Past service cost	335 728	230 407
Curtailments	(93 584)	(146 323)
Settlements	(77)	-
Defined benefit obligations at 31 December	**1 146 500**	**912 368**

(ii) Movement in the present value of plan assets

	2008	2007
	'000 RUR	'000 RUR
Fair value of plan assets at 1 January	633 238	324 386
Contributions by the employer	398 024	334 460
Benefits paid	(66 919)	(35 735)
Expected return on plan assets	56 881	33 550
Actuarial losses	(56 881)	(23 423)
Fair value of plan assets at 31 December	**964 343**	**633 238**

The Group expects to contribute RUR 519 435 thousand to the pension plan in 2009.

(iii) Expense recognised in the income statement

	2008 '000 RUR	2007 '000 RUR
Current service costs	111 875	80 855
Interest cost	61 123	37 168
Recognised actuarial (gains) / losses	5 501	(1 852)
Expected return on plan assets	(56 881)	(33 550)
Past service cost	42 580	76 393
Curtailments	(93 584)	(146 323)
Settlements	(77)	-
	70 537	**12 691**

(b) Other long-term employee benefits

	2008 '000 RUR	2007 '000 RUR
Present value of obligations	282 232	287 949

The Group provides long-service jubilee benefits and funeral benefits for its employees. The all sum of these obligations is unfunded.

(i) Movements in the present value of the other long-term employee benefit obligations

	2008 '000 RUR	2007 '000 RUR
Defined benefit obligations at 1 January	287 949	239 059
Contribution received	(28 221)	(27 393)
Current service costs	10 995	9 316
Interest costs	19 293	16 734
Actuarial (gains) / losses recognised in income statement	(7 784)	50 233
Defined benefit obligations at 31 December	**282 232**	**287 949**

(ii) Expense recognised in the income statement

	2008 '000 RUR	2007 '000 RUR
Current service costs	10 995	9 316
Interest on obligation	19 293	16 734
Recognised actuarial (gains) / losses	(7 784)	50 233
	22 504	**76 283**

(c) Actuarial assumptions

Principal actuarial assumptions for both post employment benefits and other long-term employee benefits:

	2008	2007
Discount rate at 31 December	7.85%	6.7%
Expected return on plan assets at 1 January	7%	7%
Future salary increases	5.97%	7%
Future pension increases	-	7%

The expenses of both post employment benefits and other long-term employee benefits are recognised in the following line items in the income statement:

	2008 '000 RUR	2007 '000 RUR
Operating expenses	69 506	68 622
Financial expenses, net (Note 10)	23 535	20 352
	93 041	88 974
Actual return on plan assets	-	(22 262)

The amount of post employment benefits and other long-term employee benefits recognised in the balance sheet is as follows:

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Employee benefits asset	387 028	58 811
Employee benefits liability	(282 963)	(287 949)
Net asset/(liability) in the balance sheet at 31 December	**104 065**	**(229 138)**

24 Provisions

'000 RUR	Legal claims	Unused vacation	Total
Balance at 1 January 2007	**134 208**	**90 472**	**224 680**
Provisions raised during the year	219 477	188 699	408 176
Provisions used during the year	(109 638)	(90 472)	(200 110)
Balance at 31 December 2007	**244 047**	**188 699**	**432 746**
Provisions raised during the year	304 323	250 933	555 256
Provisions used during the year	(104 425)	(188 699)	(293 124)
Balance at 31 December 2008	**443 945**	**250 933**	**694 878**

Provision for legal claims relates to the claims brought against the Group within the ordinary course of business. The balance of the provision at 31 December 2008 is expected to be utilised in 2009. The management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

25 Trade and other payables

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Accounts payable – trade	12 873 704	11 510 291
Advances received	52 903 954	30 555 956
Other payables and accrued expenses	89 799	564 436
	65 867 457	**42 630 683**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

26 Other taxes payable

	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Property tax	68 100	45 125
Other taxes	27 423	40 379
Employee taxes	2 119	63 986
Value added tax	-	3 472
	97 642	**152 962**

27 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and 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 Group, through its training and management standards and procedures, aims to develop a disciplined and constructive 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, investment securities and bank deposits.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Approximately 71% of the Group's revenue is attributable to sales transactions on prepayment basis with a single customer transacting with the Group for over three years, and, consequently, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. The Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relates to individually significant exposures.

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	
'000 RUR	**31 December 2008**	**31 December 2007**
Trade and other receivables	3 581 865	2 588 675
Long-term investments	2 500 000	-
Bank deposits and other investments	124 372	2 857 216
Cash and cash equivalents	6 152 592	4 938 102
	12 358 829	**10 383 993**

The Group's most significant customer accounts for RUR 2 084 622 thousand of the trade receivables carrying amount at 31 December 2008 (2007: RUR 1 370 432 thousand).

Impairment losses

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

	Gross	**Impairment**	**Gross**	**Impairment**
'000 RUR	**2008**	**2008**	**2007**	**2007**
Not past due	3 581 865	-	2 588 675	-
Past due more than 180 days	540 075	540 075	-	-
More than one year	23 515	23 515	69 526-	69 526-
	4 145 455	**563 590**	**2 658 201**	**69 526**

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

	2008	**2007**
	'000 RUR	**'000 RUR**
Balance at 1 January	69 526	50 793
Increase during the period	537 761	31 653
Decrease due to reversal	(43 697)	(12 920)
Balance at 31 December	**563 590**	**69 526**

The impairment loss at 31 December 2008 of RUR 563 590 thousand (2007: RUR 69 526 thosand) relates to contractors from which no payment was received during the year.

Based on past experience and analysis performed by the credit department, Group management believes that no impairment allowance is necessary in respect of accounts receivable not past due because the customers to which these balances relate have a good credit history.

(ii) Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents are deposited only with financial institutions that at the time of deposit the management considers to have minimal risk of default. Bank deposits, cash and cash equivalents are mainly held at OJSC "Bank Moscow", Sberbank, OJSC "Bank VTB".

During the year the management accrued an allowance for impairment of bank deposits and cash and cash equivalent in the amount of RUR 1 201 687 thousand in relation to the deposits held in CB "Moskovskiy Zalogoviy Bank" due to insolvency procedures initiated against the bank during the year (2007: no impaired bank deposits).

(b) 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 objective of liquidity management 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.

The Group monitors and manages liquidity risk by maintaining bank credit lines, obtaining loans (Note 33) and sufficient cash balances on its settlement accounts (see Note 19).

The following are the contractual maturities of financial liabilities, excluding estimated interest payments and the impact of netting agreements:

2008	**Average interest rate**						
'000 RUR	**Contract**	**Effective**	**0-6 months**	**6-12 months**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Liabilities							
Unsecured bonds	8.05%	8.05%	58 729	-	2 356 507	-	2 415 236
Unsecured bonds	9.3%-25%	9.3%-25%	3 132 240	-	-	-	3 132 240
Unsecured facility	8.79%	8.79%	1 989 485	-	-	-	1 989 485
Unsecured facility	8.90%	8.90%	1 682 798	-	-	-	1 682 798
Unsecured bank facility	9.58%	11.01%	154 615	-	3 458 218	-	3 612 833
Unsecured bank facility	12.75%	12.75%	20 066	-	9 600 000	-	9 620 066
Unsecured bank facility	9.04%	10.57%	-	-	5 100 346	-	5 100 346
Promissory notes	9.00%	9.00%	5 881 000	792 064	3 416 785	-	10 089 849
Promissory notes	17.00%	17.00%	3 012 908	-	-	-	3 012 908
Promissory notes	-	9.00%	-	-	4 087 942	-	4 087 942
Finance lease liabilities	-	15%	1 483 051	1 590 025	8 252 096	191 677	11 516 849
Trade and other payables	-	-	12 873 704	-	-	-	12 873 704
			30 288 596	**2 382 089**	**36 271 894**	**191 677**	**69 134 256**

2007	Average interest rate						
	Contract	Effective	0-6 months	6-12 months	Between 1 and 5 years	More than 5 years	Total
Liabilities							
Unsecured bonds	8.05%	8.05%	146 885	-	6 000 000	-	6 146 885
Promissory notes	-	11.7%	-	-	230 035	-	230 035
Promissory notes	9.00%	9.00%	276 733	264 358	4 515 855	-	5 056 946
Unsecured borrowings	9.00%	9.00%	-	3 509 494	-	-	3 509 494
Unsecured borrowings	10.25%	10.25%	-	3 509 253	-	-	3 509 253
Unsecured bonds	9.03%	9.03%	131 460	-	3 000 000	-	3 131 460
Finance lease liabilities	-	12.24%	-	2 078 812	6 844 547	208 994	9 132 353
Unsecured borrowings	8.79%	8.79%	1 094	-	421 016	-	422 110
Unsecured borrowings	8.9%	8.9%	2 783	-	1 037 573	-	1 040 356
Finance lease liabilities	13.00%	13.00%	94	-	290	-	384
Trade and other payables			11 510 291	-	-	-	11 510291
			12 069 340	**9 361 917**	**22 049 316**	**208 994**	**43 689 567**

The Russian Federation as the party with ultimate control over the Group developed plans for an aid package for state-controlled power companies. The Government will provide federal budget funds to assist the Group to manage its liquidity risks, if necessary.

Additionally, on 25 May 2009 the Company entered into a credit facility agreement with OJSC Alfa Bank. According to this agreement the Company received a loan in the amount of RUR 8.7 billion at the interest rate of 18.7%. The loan is repayable on 25 May 2011.

Based on the above and the Group's strong operating cash flows the management considers that the Group has sufficient liquidity to meet its obligations.

(c) 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) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates.

However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

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

	Carrying amount	
'000 RUR	**2008**	**2007**
Fixed rate instruments		
Financial assets	6 276 964	7 795 318
Financial liabilities	(44 957 688)	(25 160 529)
	(38 680 724)	**(17 365 211)**
Variable rate instruments		
Financial liabilities	**(11 302 864)**	**(7 018 747)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss		Equity	
'000 RUR	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2008				
Variable rate instruments	13.18%	11.18%	13.18%	11.18%
Cash flow sensitivity (net)	**(113 029)**	**113 029**	**(113 029)**	**(113 029)**
2007				
Variable rate instruments	10.6%	8.6%	10.6%	8.6%
Cash flow sensitivity (net)	**(70 187)**	**70 187**	**(70 187)**	**70 187**

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(d) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

'000 RUR	Note	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
Trade and other receivables	18	3 581 865	3 581 865	2 588 675	2 588 675
Long-term investments	14	2 500 000	2 359 646	-	-
Cash and cash equivalents	19	6 152 592	6 152 592	4 938 102	4 938 102
Loans and borrowings	22	(56 260 552)	(52 913 950)	(32 179 276)	(31 759 878)
Trade and other payables	25	(12 873 704)	(12 873 704)	(11 510 291)	(11 510 291)
		(55 899 799)	**(53 693 551)**	**(36 162 790)**	**(35 743 392)**

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 average weighted interest rates on loans extended to nonfinancial organizations, and were as follows:

	2008	2007
Loans and borrowings	17.4%	9.1% - 11.5%
Long-term investments	12%	-

(e) Capital management

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, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

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

The Company is subject to external capital requirements that require that its net assets as determined in accordance with Russian Accounting Principles must exceed its charter capital at all times.

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008 '000 RUR	2007 '000 RUR
Less than one year	2 104 104	934 811
Between one and five years	696 791	300 529
More than five years	4 187 885	1 601 585
	6 988 780	**2 836 925**

The Group leases a number of plots of land owned by local governments under operating lease. Land lease payments are determined by lease agreements.

The plots of land leased by the Group are the areas where the Group's electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

29 Commitments

Sales commitments. The Group has entered into contracts to carry out electricity transmission services to OJSC "Mosenergosbyt" for RUR 65 399 423 thousand (without VAT), to LLC "Rusenergosbyt" for RUR 1 979 398 thousand (without VAT) and to other companies for RUR 6 402 231 thousand (without VAT) in 2009 year.

The Group has entered into contracts to carry out connection to the electricity network for RUR 1 218 652 thousand in 2009.

Capital commitments. Future capital expenditures for which contracts have been signed as at 31 December 2008 amount to RUR 65 304 956 thousand, of which RUR 21 343 016 thousand is anticipated to be spent in 2009. In addition, the Group has entered into a finance lease agreement for the items of property, plant and equipment in amount of RUR 5 280 795 thousand.

30 Contingencies

(f) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(g) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group's operating results, except as described in Note 24.

(h) Taxation contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. 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.

31 Related party transactions

(i) Control relationships

Before 30 June 2008 the Parent of the Group was OJSC RAO UES of Russia. On 1 July 2008 OJSC RAO UES of Russia ceased to exist as a separate legal entity and transferred its 50,9% of OJSC MOESK shares to OJSC MRSK Holding, a state controlled entity.

The party with ultimate control over the Group was the Russian Federation, which held the majority of the voting rights of OJSC RAO UES of Russia before 30 June 2008 and OJSC MRSK Holding after 1 July 2008.

The Group's parent company produces publicly available financial statements.

(j) Transactions with management and close family members

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

(i) Management remuneration

Total remuneration in the form of bonuses paid to the members of the Board of Directors for the year ended 31 December 2008 was RUR 29 410 thousand (2007: RUR 77 270 thousand).

(k) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUR	Transaction value 2008	Outstanding balance 31 December 2008	Transaction value 2007	Outstanding balance 31 December 2007
Electricity transmission:				
Entities under common control of the parent and other state controlled entities	48 423 707	2 263 999	37 180 356	1 391 051
Other revenue:				
Entities under common control of the parent and other state controlled entities	2 331 667	426 561	599 727	103 411
	50 755 374	**2 690 560**	**37 780 083**	**1 494 462**

(ii) Expenses

'000 RUR	Transaction value 2008	Outstanding balance 31 December 2008	Transaction value 2007	Outstanding balance 31 December 2007
Electricity transmission:				
Entities under common control of the parent and other state controlled entities	(19 559 583)	(613 863)	(11 074 618)	(229 904)
Other expenses:				
Entities under common control of the parent and other state controlled entities	(4 373 699)	(2 648 233)	(3 746 838)	(677 021)
	(23 933 282)	**(3 262 096)**	**(14 821 456)**	**(906 925)**

(iii) Advances received

'000 RUR	Outstanding balance 31 December 2008	Outstanding balance 31 December 2007
Entities under common control of the parent and other state controlled entities	(11 729 878)	(5 262 300)
	(11 729 878)	**(5 262 300)**

(iv) Advances given

'000 RUR	**Outstanding balance 31 December 2008**	**Outstanding balance 31 December 2007**
Entities under common control of the parent and other state controlled entities	7 788 850	4 307 301
	7 788 850	**4 307 301**

(v) Loans

'000 RUR	**Transaction value 2008**	**Outstanding balance 2008**	**Transaction value 2007**	**Outstanding balance 2007**
Loans received:				
Entities under common control of the parent and other state controlled entities	32 553 304	30 483 048	9 966 273	10 028 666
	32 553 304	**30 483 048**	**9 966 273**	**10 028 666**

Loans are received under the market interest rate except for interest free loans received from parent company in the amount of 4 750 047 in May 2008 (see Note 27). Upon initial recognition this loan was discounted using a market rate of 9%. The resulting difference was recognized in additional paid-in capital.

(l) Pricing policies

Related party revenue for electricity transmission is based on the tariffs determined by the government. Other related party transactions are based on normal market prices.

32 Significant subsidiaries

	Country of incorporation	**2008 Ownership/voting**	**2007 Ownership/voting**
OJSC Moskabel'set'montaj (MKSM)*	Russian Federation	100%	-
OJSC Moskabel'energoremont (MKER)*	Russian Federation	100%	-
OJSC Repair of Electrical and Technical Equipment Plant (RETEP)*	Russian Federation	100%	-
OJSC Energocentr **	Russian Federation	50%	50%

* These subsidiaries were the branches of the Company before 1 January 2008.

** The Group obtained the power to appoint the majority of the members of the board of directors of the OJSC Energocentr, thus obtaining control over the financial and operating policies of OJSC "Energocentr".

33 Events subsequent to the balance sheet date

On 25 May 2009 the Company entered into a credit facility agreement with OJSC Alfa Bank. According to this agreement the Company received a loan at the amount of RUR 8.7 billion at the interest rate of 18.7%. The loan is to be repaid on 25 May 2011.