OJSC MOESK

Consolidated Financial Statements for the year ended 31 December 2009

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Independent Auditors' Report

The audit report is printed on letterhead paper

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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 statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the fact that during the year the Group changed its accounting policy for property, plant and equipment. The reason for and the effects of the change are described in Note 3a (iii) to these consolidated financial statements. We have audited the adjustments described in Note 3a (iii) that were applied to restate the prior year consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

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12 May 2010

	Note	31 December 2009 '000 RUR	31 December 2008 (restated) '000 RUR	31 December 2007 (restated) '000 RUR
ASSETS				
Non-current assets				
Property, plant and equipment	13	177 111 224	162 689 955	122 609 389
Intangible assets	14	95 514	152 576	77 548
Long-term investments	15	-	2 500 000	-
Other non-current assets	16	22 350 779	25 430 115	14 990 951
Deferred tax assets	17	-	-	46 850
Total non-current assets		**199 557 517**	**190 772 646**	**137 724 738**
Current assets				
Inventories	18	2 199 534	2 849 907	2 273 358
Income tax receivable		692 508	10 076	170 223
Trade and other receivables	19	8 771 186	10 448 584	9 672 997
Short-term investments	15	2 500 000	-	-
Bank deposits		-	-	2 557 216
Cash and cash equivalents	20	5 094 383	6 152 592	4 938 102
Total current assets		**19 257 611**	**19 461 159**	**19 611 896**
Total assets		**218 815 128**	**210 233 805**	**157 336 634**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 10.

	Note	31 December 2009 '000 RUR	31 December 2008 (restated) '000 RUR	31 December 2007 (restated) '000 RUR
EQUITY AND LIABILITIES				
Equity				
Share capital	21	24 353 546	24 353 546	24 353 546
Treasury shares		-	(8 365)	(8 365)
Additional paid in capital		18 580 888	18 580 888	17 883 947
Retained earnings		46 025 792	35 272 726	27 801 156
Total equity attributable to the shareholders of OJSC MOESK		**88 960 226**	**78 198 795**	**70 030 284**
Minority interest		396 988	644 405	1 096 634
Total equity		**89 357 214**	**78 843 200**	**71 126 918**
Non-current liabilities				
Loans and borrowings	23	20 304 497	36 463 571	22 258 310
Employee benefits	24	1 289 372	940 718	887 459
Deferred tax liabilities	17	7 588 366	7 461 957	8 582 187
Trade and other payables	26	30 234 082	43 359 107	24 357 196
Total non-current liabilities		**59 416 317**	**88 225 353**	**56 085 152**
Current liabilities				
Loans and borrowings	23	30 295 127	19 796 981	9 920 966
Income tax payable		4 032	67 402	1 344 403
Other taxes payable	27	287 356	97 642	152 962
Trade and other payables	26	39 020 711	22 508 349	18 273 487
Provisions	25	434 371	694 878	432 746
Total current liabilities		**70 041 597**	**43 165 252**	**30 124 564**
Total equity and liabilities		**218 815 128**	**210 233 805**	**157 336 634**

These consolidated financial statements were approved by management on 12 May 2010 and were signed on its behalf by:

General Director | Chief Accountant

A.P. Konovalov | L.A. Sklyarova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 10.

	Note	2009 '000 RUR	2008 (restated) '000 RUR
Revenue	7	85 830 810	65 331 929
Operating expenses	8	(66 438 994)	(57 306 419)
Other operating income	10	1 093 945	2 183 631
Results from operating activities		**20 485 761**	**10 209 141**
Finance income	11	348 400	608 634
Finance costs	11	(6 849 681)	(2 576 389)
Profit before income tax		**13 984 480**	**8 241 386**
Income tax expense	12	(3 476 221)	(1 222 045)
Profit for the year		**10 508 259**	**7 019 341**
Total comprehensive income for the year		**10 508 259**	**7 019 341**
Total profit and comprehensive income attributable to:			
Shareholders of OJSC MOESK		10 755 676	7 471 570
Minority interest		(247 417)	(452 229)
Basic and diluted earnings per ordinary share (in Russian Roubles)	22	**RUR 0.2208**	**RUR 0.1534**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 10.

’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**		
Balance at 1 January 2008, as previously reported	**24 353 546**	**(8 365)**	**17 883 947**	**8 270 005**	**27 329 052**	**77 828 185**	**1 096 634**	**78 924 819**
Impact of change in accounting policy	-	-	-	(8 270 005)	472 104	(7 797 901)	-	(7 797 901)
Balance at 1 January 2008 (restated)	**24 353 546**	**(8 365)**	**17 883 947**	**-**	**27 801 156**	**70 030 284**	**1 096 634**	**71 126 918**
Profit for the year (restated)	-	-	-	-	7 471 570	7 471 570	(452 229)	7 019 341
Total comprehensive income for the year (restated)	-	-	-	-	7 471 570	7 471 570	(452 229)	7 019 341
Discounting effect on loan given from the Parent company	-	-	696 941	-	-	696 941	-	696 941
Balance at 31 December 2008 (restated)	**24 353 546**	**(8 365)**	**18 580 888**	**-**	**35 272 726**	**78 198 795**	**644 405**	**78 843 200**
Balance at 1 January 2009	**24 353 546**	**(8 365)**	**18 580 888**	**-**	**35 272 726**	**78 198 795**	**644 405**	**78 843 200**
Profit for the year	-	-	-	-	10 755 676	10 755 676	(247 417)	10 508 259
Total comprehensive income for the year	-	-	-	-	10 755 676	10 755 676	(247 417)	10 508 259
Disposal of treasury shares (Note 21(b))	-	8 365	-	-	(2 610)	5 755	-	5 755
Balance at 31 December 2009	**24 353 546**	**-**	**18 580 888**	**-**	**46 025 792**	**88 960 226**	**396 988**	**89 357 214**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 10.

	2009 '000 RUR	2008 (restated) '000 RUR
Cash flows from operating activities		
Profit before income tax	**13 984 480**	**8 241 386**
Adjustments for:		
Depreciation and amortisation	10 236 437	8 331 828
Gain on disposal of property, plant and equipment	(549 244)	(1 645 844)
Impairment losses on property, plant and equipment	492 295	-
Loss on disposal of intangible assets	-	226
Provisions	(260 507)	262 132
Finance income	(348 400)	(608 634)
Finance costs	6 849 681	2 576 389
Allowance for impairment of accounts receivable	98 790	494 064
Allowance for impairment of non-current assets	81 826	94 529
Allowance for impairment of bank deposits	-	1 201 687
Other non-cash items	(22 158)	(32 976)
Cash from operating activities before changes in working capital and provisions	**30 563 200**	**18 914 787**
Change in inventories	671 874	(591 290)
Change in trade and other receivables, non-current advances given for connection services	(296 956)	(10 579 293)
Change in trade and other payables	5 284 849	23 911 411
Change in taxes payable, other than income tax	189 714	(52 045)
Cash flows from operations before income taxes and interest paid	**36 412 681**	**31 603 570**
Income taxes paid	(4 095 617)	(3 586 236)
Net cash from operating activities	**32 317 064**	**28 017 334**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	182 055	316 470
Acquisition of property plant and equipment	(17 451 373)	(40 097 299)
Acquisition of intangible assets	(17 837)	(109 732)
Proceeds from disposal of bank deposits	-	4 305 716
Acquisition of bank deposits	-	(2 607 000)
Acquisition of long-term investments	-	(2 500 000)
Interest received	120 365	357 760
Net cash used in investing activities	**(17 166 790)**	**(40 334 085)**

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 10.

	2009	2008 (restated)
	’000 RUR	**’000 RUR**
Cash flows from financing activities		
Proceeds from borrowings	8 700 000	42 770 201
Repayment of borrowings	(13 355 763)	(21 275 789)
Payment of finance lease liabilities	(7 068 366)	(5 591 372)
Purchase of treasury shares	-	(13 867)
Proceeds from treasury shares	5 755	-
Interest paid	(4 490 073)	(2 366 814)
Net cash (used in)/from financing activities	**(16 208 447)**	**13 522 359**
Net (decrease)/increase in cash and cash equivalents	**(1 058 173)**	**1 205 608**
Cash and cash equivalents at beginning of year	6 152 592	4 938 102
Effect of exchange rate fluctuations on cash and cash equivalents	(36)	8 882
Cash and cash equivalents at end of year (Note 20)	**5 094 383**	**6 152 592**

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 10.

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 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 2009 the Russian Federation owned 52.7% of OJSC "MRSK Holding", which in turn owned 50.9% of OJSC "MOESK".

The Company's registered office is at 27, Ordgonikidze street, Podol'sk, Moscow Region, 142100, Russian Federation. The actual address is 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 and the Moscow Region. 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 a resolution of the Board of Directors of OJSC RAO UES of Russia dated 26 October 2007, a resolution of the Board of Administration of OJSC RAO UES of Russia dated 13 February 2008 and a resolution at the extraordinary shareholders meeting dated 18 April 2008. The merger has been accounted for as a business combination under common control as at 1 January 2007.

The merger was effected through conversion of ordinary shares of OJSC "MGEsK" into the additionally issued shares of OJSC "MOESK" (Note 6).

(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 contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These 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 financial investments classified as available-for-sale are stated at fair value.

(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 19 – Alowance for trade and other receivables;
- Note 24 – Employee benefits;
- Note 25 – Provisions;
- Note 28 – Financial risk management;
- Note 31 – Contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as explained in Note 3(a), which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation (see Note 3 (a)(iv)).

(a) Changes in accounting policy

(i) Presentation of financial statements

The Group applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires a presentation of all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(ii) Determination and presentation of operating segments

As at 1 January 2009 the Group determined and presents operating segments based on the information that internally is provided to the Board of Directors which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously, the Group did not disclose information about operating segments.

Comparative segment information has been presented in these consolidated financial statements in accordance with the requirements of IFRS 8 *Operating Segments*. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include terms directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest income and expenses, other income and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

(iii) Property, plant and equipment

The Group has changed its accounting policy to measure its property, plant and equipment at cost less accumulated depreciation and impairment losses. Under the previous accounting policy, the Group recognised property, plant and equipment at revalued amounts, based on a periodic independent appraisal. This change in accounting policy was made in order to harmonise the Group's and the parent company's, OJSC "MRSK Holding", accounting policies.

The effect of changes of accounting policy is summarised below:

Consolidated statement of comprehensive income for the year ended 31 December 2008	**As previously reported ’000 RUR**	**As restated ’000 RUR**	**Effect of change in accounting policy ’000 RUR**
Operating expenses	(57 685 762)	(57 363 298)	322 464
Other operating income	2 182 706	2 183 631	925
Income tax expense	(1 180 100)	(1 222 045)	(41 945)
Profit for the year	**6 737 899**	**7 019 341**	**281 444**
Basic earnings per ordinary share (in Russian Roubles)	**RUR 0.1476**	**RUR 0.1534**	**RUR 0.0058**
Consolidated statement of financial position as at 31 December 2008			
Property, plant and equipment	172 626 967	162 689 955	(9 937 012)
Total assets	**219 513 063**	**209 576 051**	**(9 937 012)**
Revaluation reserve	8 703 157	-	(8 703 157)
Retained earnings	34 519 180	35 272 726	753 546
Deferred tax liabilities	9 449 358	7 461 957	(1 987 401)
Total equity and liabilities	**219 513 063**	**209 576 051**	**(9 937 012)**

Consolidated statement of financial position as at 1 January 2008	**As previously reported ’000 RUR**	**As restated ’000 RUR**	**Effect of change in accounting policy ’000 RUR**
Property, plant and equipment	132 869 788	122 609 389	(10 260 399)
Total assets	**166 997 523**	**156 737 124**	**(10 260 399)**
Revaluation reserve	8 270 005	-	(8 270 005)
Retained earnings	27 329 052	27 801 156	472 104
Deferred tax liabilities	11 044 685	8 582 187	(2 462 498)
Total equity and liabilities	**166 997 523**	**156 737 124**	**(10 260 399)**

(iv) Advances given and received

The Group has changed its accounting policy regarding advances given and received in order to harmonise its accounting policy with the parent company, OJSC “MRSK Holding”. Under the new policy advances given and received are classified within twelve months after the reporting period and disclosed as part of current assets and liabilities and\or more than twelve months after the reporting period and disclosed as part of non-current assets and liabilities. Under the previous policy advances given and received were disclosed as current based on the fact that advances given and received were realised as part of the normal operating cycle.

The prior period amounts of advances given have been reclassified from current assets to non-current assets in the amount of RUR 12 487 305 thousand as at 31 December 2008 (31 December 2007: RUR 3 188 226 thousand) to conform with the current period’s presentation.

The prior period amounts of advances received have been reclassified from current liabilities to non-current liabilities in the amount of RUR 43 359 107 thousand as at 31 December 2008 (31 December 2007: RUR 24 357 196 thousand) to conform with the current period’s presentation.

(v) Reclassification of comparative information

During the year the Group reclassified the amount of RUR 964 343 thousand recognised as plan assets as at 31 December 2008 (31 December 2007: RUR 633 238 thousand) into available-for-sale financial assets to conform with the current period’s presentation.

(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 statement of comprehensive income, 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 finance income and expenses is disclosed 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(e) Property, plant and equipment

(i) Recognition and measurement

The Group has changed its accounting policy to measuring its property, plant and equipment at cost less accumulated depreciation and impairment losses. This change was accounted for retrospectively in accordance with IAS 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*", therefore the comparative information presented in these consolidated financial statements has been restated (Note 3a (iii), Note 13).

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 statement of comprehensive income.

(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) Depreciation

Depreciation is recognised in the statement of comprehensive income 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 in the Group's statement of financial position.

(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 statement of comprehensive income.

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 statement of comprehensive income. 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 statement of comprehensive income 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 post-employment 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 services 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 and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

The Group recognises all actuarial gains and losses in the statement of comprehensive income for the reporting period under the 10% corridor of the post-employment benefit obligation.

(iii) Other non-current 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 statement of comprehensive income 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 statement of comprehensive income 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 proportion to the stage of completion when an 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 statement of comprehensive income 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 statement of comprehensive income as incurred.

(m) Finance income and expenses

Finance 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.

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

All borrowing costs are recognised in the statement of comprehensive income 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 statement of comprehensive income 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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see Note 5).

Inter-segment pricing is determined on an arm’s length basis.

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, 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.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. 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* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the 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 the effects of transactions with non-controlling interests to be recognised directly in equity. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- 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 purposes, will come into effect not earlier than 1 January 2010. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

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 equity and debt securities

The fair value of available-for-sale financial assets and held-to-maturity investments is determined by reference to their quoted closing bid price at the reporting date. The fair value of 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

The 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 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are quarterly reviewed by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following reportable segments:

- Electricity transmission in Moscow;
- Electricity transmission in Moscow region;
- Connection services in Moscow;
- Connection services in Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment "other". None of these items meets any of the quantitative thresholds for determining reportable segments in 2009 or 2008.

The segment revenue and profit/(loss) before income tax for the year ended 31 December 2009 are as follows:

'000 RUR	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	74 904 182	9 525 624	890 615	85 320 421
Moscow	39 229 541	6 854 282	797 669	46 881 492
Moscow Region	35 674 641	2 671 342	92 946	38 438 929
Inter-segment revenue	-	-	3 135 824	3 135 824
Moscow	-	-	3 003 969	3 003 969
Moscow Region	-	-	131 855	131 855
Reportable depreciation and amortisation	11 052 988	-	59 217	11 112 205
Moscow	6 301 275	-	47 418	6 348 693
Moscow Region	4 751 713	-	11 799	4 763 512
Reportable segment profit before income tax	11 725 759	3 931 860	217 070	15 874 689
Moscow	8 620 568	2 250 469	220 557	11 091 594
Moscow Region	3 105 191	1 681 391	(3 487)	4 783 095

Other material items are as follows:

'000 RUR	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	11 112 205	(875 768)	10 236 437
Capital expenditure	23 302 066	2 421 635	25 723 701
Impairment losses on property, plant and equipment	-	492 295	492 295

Comparative segment revenue and profit/(loss) before income tax for the year ended 31 December 2008 are as follows:

'000 RUR	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	51 603 971	10 648 311	3 079 647	65 331 929
Moscow	26 792 331	6 895 510	2 990 009	36 677 850
Moscow Region	24 811 640	3 752 801	89 638	28 654 079
Inter-segment revenue	-	-	3 632 615	3 632 615
Moscow	-	-	3 283 219	3 283 219
Moscow Region	-	-	349 396	349 396
Reportable depreciation and amortisation	7 156 356	-	79 092	7 235 448
Moscow	4 045 290	-	68 083	4 113 373
Moscow Region	3 111 066	-	11 009	3 122 075
Reportable segment profit/(loss) before income tax	2 423 843	6 399 435	221 048	9 044 326
Moscow	4 452 082	3 700 437	162 448	8 314 967
Moscow Region	(2 028 239)	2 698 998	58 600	729 359

Other material items are as follows:

'000 RUR	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	7 235 448	1 096 380	8 331 828
Capital expenditure	46 961 385	1 555 280	48 516 665

Major customer

During the year ended 31 December 2009 approximately 78% (RUR 66 686 208 thousand) of the Group's revenue is attributable to sales transactions with a single customer. (During the year ended 31 December 2008 - 71% (RUR 46 065 282 thousand)).

Reconciliation of reportable segment profit:

’000 RUR	**2009**	**2008**
Reportable segments profit	15 657 619	8 823 278
Other profit or loss	217 070	221 048
Unallocated	(6 855 503)	(1 660 645)
Total profit before income tax per Russian Accounting Standards	**9 019 186**	**7 383 681**
Borrowing costs	1 224 000	2 576 663
Expenses associated with leased property, plant and equipment	1 703 233	1 774 986
Allowance for impairment of bank deposits	1 169 852	(1 201 687)
Gain on disposal of property, plant and equipment	675 169	776 868
Depreciation and amortisation	875 768	(1 096 380)
Provision for legal claims	336 299	(199 898)
Allowance for impairment of accounts receivable	(180 615)	(588 593)
Effect of loan discounting	(384 929)	(237 188)
Impairment loss on property, plant and equipment	(492 295)	-
Other items	38 812	(947 066)
Consolidated profit before income tax per IFRS	**13 984 480**	**8 241 386**

Segment operating results that are reported to the Board of Directors are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses and other income and expenses which are included in “unallocated” component.

Segment assets are presented in the table below:

’000 RUR	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2009					
Total assets	**180 957 533**	**36 411 588**	**3 757 683**	**41 449 988**	**262 576 792**
Moscow	123 562 088	26 421 485	3 272 625	-	153 256 198
Moscow Region	57 395 445	9 990 103	485 058	-	67 870 606
Unallocated	-	-	-	41 449 988	41 449 988
Capital expenditure	**21 696 175**	**1 483 787**	**122 104**	**-**	**23 302 066**
Moscow	7 735 739	-	122 102	-	7 857 841
Moscow Region	13 960 436	1 483 787	2	-	15 444 225
31 December 2008					
Total assets	**151 564 392**	**27 090 778**	**4 869 193**	**44 290 541**	**227 814 904**
Moscow	103 466 100	17 952 092	4 324 208	-	125 742 400
Moscow Region	48 098 292	9 138 686	544 985	-	57 781 963
Unallocated	-	-	-	44 290 541	44 290 541
Capital expenditure	**44 373 639**	**2 199 147**	**388 599**	**-**	**46 961 385**
Moscow	32 068 269	-	388 518	-	32 456 787
Moscow Region	12 305 370	2 199 147	81	-	14 504 598

Reconciliation of reportable segments assets:

’000 RUR	2009	2008
Reportable segments assets	217 369 121	178 655 170
Other assets	3 757 683	4 869 193
Unallocated	41 449 988	44 290 541
Total assets per Russian Accounting Standards	**262 576 792**	**227 814 904**
Net-off trade and other receivables and payables	(21 631 320)	(22 874 856)
Accrrued expenses for connection services	(6 769 546)	(1 627 063)
Advances given	(6 459 284)	(4 535 464)
Net-off property, plant and equipment	(1 131 041)	22 509 528
Allowance for impairment of accounts receivable	(662 380)	(563 590)
Impairment losses on property, plant and equipment	(492 295)	-
Allowance for impairment of bank deposits	-	(1 201 687)
Other items	227 375	(129 664)
Eliminations	(6 843 173)	(9 158 303)
Consolidated assets per IFRS	**218 815 128**	**210 233 805**

Segment assets that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment assets represent the assets of each segment without allocation of VAT, cash and cash equivalents, inventory and investments held-to-maturity, which are included in “unallocated” component.

Segment liabilities are presented in the table below:

’000 RUR	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2009					
Total liabilities	40 759 733	65 760 888	1 532 160	30 387 206	138 439 987
Moscow	40 759 733	42 752 725	1 452 173	-	84 964 631
Moscow Region	-	23 008 163	79 987	-	23 088 150
Unallocated	-	-	-	30 387 206	30 387 206
31 December 2008					
Total liabilities	44 977 194	58 997 145	3 520 289	29 084 018	136 578 646
Moscow	44 977 194	37 458 627	3 411 603	-	85 847 424
Moscow Region	-	21 538 518	108 686	-	21 647 204
Unallocated	-	-	-	29 084 018	29 084 018

Reconciliation of reportable segments liabilities:

’000 RUR	**2009**	**2008**
Reportable segments liabilities	106 520 621	103 974 339
Other liabilities	1 532 160	3 520 289
Unallocated	30 387 206	29 084 018
Total liabilities per Russian Accounting Standards	**138 439 987**	**136 578 646**
Finance lease liabilities	9 874 020	11 516 849
Deferred tax liabilities	5 735 063	6 194 894
Employee benefits	1 289 372	940 718
Advances received for connection services	-	4 994 601
Prepaid income	(2 450 668)	(1 287 704)
Net-off trade and other receivables and payables	(21 631 320)	(22 874 856)
Other items	(119 720)	(658 974)
Eliminations	(1 678 820)	(4 013 569)
Consolidated liabilities per IFRS	**129 457 914**	**131 390 605**

Segment liabilities that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment liabilities represent the liabilities of each segment without allocation of VAT, deferred tax liabilities and deferred income, which are included in “unallocated” component.

6 Transactions with entities under common control

(a) 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 merger has been accounted for as a business combination under common control as at 1 January 2007.

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)**

7 Revenue

	2009 ’000 RUR	2008 ’000 RUR
Electricity transmission	74 904 182	51 603 971
Revenue from connection services	10 036 013	10 648 311
Other revenue	890 615	3 079 647
	85 830 810	**65 331 929**

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.

8 Operating expenses

	2009	2008
	'000 RUR	**'000 RUR**
Electricity transmission	(29 016 545)	(20 166 166)
Depreciation and amortisation	(10 236 437)	(8 331 828)
Employee benefits	(10 148 786)	(8 170 215)
Rent	(3 054 343)	(2 649 336)
Repairs, maintenance and installation services	(2 695 321)	(4 866 612)
Connection services	(2 004 804)	(2 048 225)
Raw materials and supplies	(1 801 661)	(1 757 205)
Consulting, legal, audit services including professional training	(1 717 031)	(1 262 670)
Electricity count services	(1 202 909)	(2 486 654)
Insurance	(645 445)	(533 521)
Impairment losses on property, plant and equipment	(492 295)	-
Telecommunication services	(489 864)	(322 037)
Taxes other than income tax	(395 267)	(354 221)
Security services	(326 365)	(296 174)
Allowance for impairment of trade and other receivables, non-current assets	(180 616)	(588 593)
Provision for legal claims and unused vacation	260 507	(262 132)
Allowance for impairment of bank deposits	-	(1 201 687)
Other expenses	(2 291 812)	(2 009 143)
	(66 438 994)	**(57 306 419)**

During the year ended 31 December 2008 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.

9 Personnel costs

	2009 '000 RUR	2008 '000 RUR
Salaries and wages	(8 405 396)	(6 573 841)
Contributions to State pension fund	(854 246)	(1 061 482)
Financial aid to employees and pensioners	(390 234)	(349 698)
Expenses in respect of post employment benefits – defined benefit plan	(136 413)	(64 771)
Expenses in respect of post employment benefits – defined contribution plan	(122 740)	(117 212)
Expense in respect of long-term service benefits provided	(239 757)	(3 211)
	(10 148 786)	**(8 170 215)**

The average number of employees during the year was 15 559 (in 2008: 14 495).

10 Other operating income

	2009 '000 RUR	2008 '000 RUR
Gain on disposal of property, plant and equipment	549 244	1 645 844
Other income	544 701	537 787
	1 093 945	**2 183 631**

11 Finance income and costs

	2009 '000 RUR	2008 '000 RUR
Finance income		
Interest income	348 400	478 453
Net foreign exchange gain	-	130 181
	348 400	**608 634**

	2009	2008
	’000 RUR	**’000 RUR**
Finance costs		
Interest on employee benefits obligation	(112 156)	(80 416)
Interest expense	(3 288 661)	(732 323)
Interest on finance lease	(3 448 828)	(1 763 650)
Other	(36)	-
	(6 849 681)	**(2 576 389)**

12 Income tax expense

	2009	2008
	’000 RUR	**’000 RUR**
Current tax expense	(3 349 812)	(2 469 660)
Deferred tax (expense)/benefit	(126 409)	1 247 615
	(3 476 221)	**(1 222 045)**

The Group’s applicable tax rate is the income tax rate of 20% (2008: 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:

	2009		2008	
	’000 RUR	**%**	**’000 RUR**	**%**
Profit before income tax	13 984 480	100	8 241 386	100
Income tax at applicable tax rate	(2 796 896)	(20)	(1 977 933)	(24)
Effect of tax rate changes	-	-	1 457 541	18
Other non-deductible and non-taxable items, net	(679 325)	(5)	(701 653)	(9)
	(3 476 221)	**(25)**	**(1 222 045)**	**(15)**

13 Property, plant and equipment

'000 RUR	**Land and buildings**	**Transmission networks**	**Transformers and transformer substations**	**Other**	**Construction in progress**	**Total**
At 1 January 2008 (as previously reported)	18 703 887	67 905 955	17 149 935	14 068 490	27 985 437	145 813 704
Impact of change in accounting policy	(2 530 455)	(7 568 155)	(392 890)	(58 730)	(173 147)	(10 723 377)
At 1 January 2008 (restated)	16 173 432	60 337 800	16 757 045	14 009 760	27 812 290	135 090 327
Additions	135 519	5 058 172	2 661 464	389 802	40 271 708	48 516 665
Disposals	(13 876)	(66 343)	(27 024)	(61 576)	(106)	(168 925)
Transfers	1 574 410	4 976 747	3 675 143	7 837 309	(18 063 609)	-
At 31 December 2008 (restated)	**17 869 485**	**70 306 376**	**23 066 628**	**22 175 295**	**50 020 283**	**183 438 067**
Depreciation						
At 1 January 2008 (as previously reported)	(1 611 126)	(6 700 587)	(2 006 344)	(2 625 859)	-	(12 943 916)
Impact of change in accounting policy	232 546	103 374	99 923	27 135	-	462 978
At 1 January 2008 (restated)	(1 378 580)	(6 597 213)	(1 906 421)	(2 598 724)	-	(12 480 938)
Depreciation charge	(643 722)	(3 544 592)	(1 673 708)	(2 437 403)	-	(8 299 425)
Disposals	1 275	8 098	5 324	17 554	-	32 251
At 31 December 2008 (restated)	**(2 021 027)**	**(10 133 707)**	**(3 574 805)**	**(5 018 573)**	**-**	**(20 748 112)**
Net book value						
At 1 January 2008 (as previously reported)	17 092 761	61 205 368	15 143 591	11 442 631	27 985 437	132 869 788
Impact of change in accounting policy	(2 297 909)	(7 464 781)	(292 967)	(31 595)	(173 147)	(10 260 399)
At 1 January 2008 (restated)	14 794 852	53 740 587	14 850 624	11 411 036	27 812 290	122 609 389
At 31 December 2008 (restated)	**15 848 458**	**60 172 669**	**19 491 823**	**17 156 722**	**50 020 283**	**162 689 955**
At 1 January 2009	17 869 485	70 306 376	23 066 628	22 175 295	50 020 283	183 438 067
Additions	82 454	2 703 497	205 761	344 215	22 387 774	25 723 701
Disposals	(15 072)	(495 155)	(159 567)	(22 556)	(68 720)	(761 070)
Transfers	1 480 882	13 053 116	3 695 463	6 166 449	(24 395 910)	-
At 31 December 2009	**19 417 749**	**85 567 834**	**26 808 285**	**28 663 403**	**47 943 427**	**208 400 698**

’000 RUR	Land and buildings	Transmission networks	Transformers and transformer substations	Other	Construction in progress	Total
Depreciation						
At 1 January 2009	(2 021 027)	(10 133 707)	(3 574 805)	(5 018 573)	-	(20 748 112)
Depreciation charge	(839 185)	(4 217 565)	(1 794 300)	(3 310 488)	-	(10 161 538)
Impairment losses	-	-	-	-	(492 295)	(492 295)
Disposals	1 489	79 173	26 758	5 051	-	112 471
At 31 December 2009	**(2 858 723)**	**(14 272 099)**	**(5 342 347)**	**(8 324 010)**	**(492 295)**	**(31 289 474)**
Net book value						
At 1 January 2009	15 848 458	60 172 669	19 491 823	17 156 722	50 020 283	162 689 955
At 31 December 2009	**16 559 026**	**71 295 735**	**21 465 938**	**20 339 393**	**47 451 132**	**177 111 224**

(a) Impairment of property, plant and equipment

Given the current challenging market conditions, 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 management. The projections incorporate the Group’s best estimates of growth tariff rates for the period 2010 – 2014, which assumes that the Group makes the transition to the RAB tariff in 2011.
- A discount rate of 15.36% was applied in determining the recoverable amount of the property, plant and equipment.

As a result of the analysis, no impairment loss has been recognised for the year ended 31 December 2009.

During the year the management identified and wrote-off items of construction in progress in the amount of RUR 492 295 thousand which will not be used in operating activities.

(b) 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 2009 the net book value of leased plant and machinery was RUR 18 680 541 thousand (31 December 2008: RUR 17 915 572 thousand; 31 December 2007: RUR 12 690 847 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

The amount of capitalised interest for 2009 was RUR 1 839 075 thousand (2008: RUR 2 826 161 thousand; 2007: RUR 937 869 thousand).

14 Intangible assets

’000 RUR	**Software**
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**
At 1 January 2009	188 483
Additions	17 837
At 31 December 2009	**206 320**
Amortisation	
At 1 January 2009	(35 907)
Amortisation	(74 899)
At 31 December 2009	**(110 806)**
Net book value	
At 1 January 2009	152 576
At 31 December 2009	**95 514**

15 Investments

	31 December 2009 **’000 RUR**	**31 December 2008** **’000 RUR**
Non-current		
Promissory notes	-	2 500 000
	-	**2 500 000**
Current		
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.

16 Other non-current assets

	31 December 2009 '000 RUR	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Advances for capital expenditure	6 766 417	11 868 184	10 844 405
Long-term advances for connection services	14 658 881	12 487 305	3 188 226
Financial assets available-for-sale	1 101 836	964 343	633 238
Other non-current assets	-	204 812	325 082
Allowance for impairment of other non-current assets	(176 355)	(94 529)	-
	22 350 779	**25 430 115**	**14 990 951**

Financial assets available-for-sale relate to the Group contributions accumulated in solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry. Subject to certain restrictions contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

17 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		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Property, plant and equipment	-	-	46 674	(12 424 178)	(12 005 904)	(13 085 549)	(12 424 178)	(12 005 904)	(13 038 875)
Intangible assets	3 002	-	-	-	(30 515)	(12 617)	3 002	(30 515)	(12 617)
Inventories	-	5 968	15 526	(7 787)	-	-	(7 787)	5 968	15 526
Trade and other receivables	864 730	718 587	462 875	-	-	-	864 730	718 587	462 875
Finance lease liability	3 273 732	3 210 026	2 873 142	-	-	-	3 273 732	3 210 026	2 873 142
Loans and borrowings	-	-		(63 644)	(139 949)	-	(63 644)	(139 949)	-
Employee benefits	37 507	46 119	15 041	-	(2 946)	-	37 507	43 173	15 041
Trade and other payables	-	-	44 660	(730)	(1 113)	-	(730)	(1 113)	44 660
Provisions	86 526	50 186	114 413	-	-	-	86 526	50 186	114 413
Deferred expenses	635 694	687 584	990 498	-	-	-	635 694	687 584	990 498
Other	6 782	-	-	-	-	-	6 782	-	-
Tax assets/(liabilities)	**4 907 973**	**4 718 470**	**4 562 829**	**(12 496 339)**	**(12 180 427)**	**(13 098 166)**	**(7 588 366)**	**(7 461 957)**	**(8 535 337)**

(b) Movement in temporary differences during the year

’000 RUR	1 January 2009	Recognised in income	Recognised in equity	31 December 2009
Property, plant and equipment	(12 005 904)	(418 274)	-	(12 424 178)
Intangible assets	(30 515)	33 517	-	3 002
Inventories	5 968	(13 755)	-	(7 787)
Trade and other receivables	718 587	146 143	-	864 730
Finance lease liability	3 210 026	63 706	-	3 273 732
Loans and borrowings	(139 949)	76 305	-	(63 644)
Employee benefits	43 173	(5 666)	-	37 507
Trade and other payables	(1 113)	383	-	(730)
Provisions	50 186	36 340	-	86 526
Deferred expenses	687 584	(51 890)	-	635 694
Other	-	6 782	-	6 782
	(7 461 957)	**(126 409)**	**-**	**(7 588 366)**

’000 RUR	1 January 2008	Recognised in income	Recognised in equity	31 December 2008
Property, plant and equipment	(13 038 875)	1 032 971	-	(12 005 904)
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
	(8 535 337)	**1 247 615**	**(174 235)**	**(7 461 957)**

18 Inventories

	31 December 2009 '000 RUR	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Raw materials and consumables	1 727 242	2 605 631	1 703 243
Other	478 833	272 318	588 228
Allowance for impairment of inventories	(6 541)	(28 042)	(18 113)
	2 199 534	**2 849 907**	**2 273 358**

The Group tested inventories for impairment and recognised an allowance in the amount of RUR 6 541 thousand (2008: RUR 28 042 thousand; 2007: RUR 18 113 thousand).

19 Trade and other receivables

	31 December 2009 '000 RUR	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Trade receivables	6 285 732	3 603 512	1 890 817
Advances given	1 603 536	3 488 491	3 570 489
VAT receivable	439 592	3 083 666	2 166 731
Other receivables	793 655	541 943	767 384
VAT recoverable	311 051	294 562	1 347 102
Allowance for impairment of accounts receivable	(662 380)	(563 590)	(69 526)
	8 771 186	**10 448 584**	**9 672 997**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 28.

20 Cash and cash equivalents

	31 December 2009 '000 RUR	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Petty cash	558	386	1 031
Current accounts	4 963 825	6 152 206	4 937 071
Cash equivalents	130 000	-	-
Cash and cash equivalents in the statement of financial position and statement of cash flows	**5 094 383**	**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 28.

21 Equity

(a) Share capital

Share capital	**Ordinary shares 31 December 2009**	**Ordinary shares 31 December 2008**	**Ordinary shares 31 December 2007**
Issued shares, fully paid	48 707 091 574	48 707 091 574	48 707 091 574
Par value (in RUR)	RUR 0.50	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

During the year the Group sold 5 576 625 treasury shares at RUR 5 755 thousand. The loss from sale of treasury shares in the amount of RUR 2 610 thousand was recognized in equity. As at 31 December 2009 the Group did not hold any own shares.

(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 2009 the Company had retained earnings, including the profit for the current year, of RUR 30 792 331 thousand (2008: RUR 24 400 180 thousand; 2007: RUR 11 004 062 thousand of OJSC "MOESK" and RUR 4 478 265 thousand of OJSC "MGEsK").

During the years 2009 and 2008 the Company neither declared nor paid dividends. In 2007 the Company declared and paid dividends in the amount of RUR 285 000 thousand.

22 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 2009	31 December 2008
Number of outstanding shares	48 707 091 574	48 701 514 949
Profit for the year attributable to the shareholders of OJSC "MOESK" ('000 RUR)	10 755 676	7 471 570
Earnings per share (RUR)	0.2208	0.1534

23 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 28.

	31 December 2009 '000 RUR	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Non-current			
Unsecured bank facility	9 150 000	18 158 564	1 458 589
Promissory notes	2 286 358	7 504 727	4 745 890
Unsecured bonds	2 356 507	2 356 507	9 000 000
Finance lease liabilities	6 511 632	8 443 773	7 053 831
	20 304 497	**36 463 571**	**22 258 310**
Promissory notes	5 994 163	9 685 972	541 091
Current portion of unsecured bond issues	2 971 320	3 190 969	278 345
Current portion of unsecured bank facility	17 967 256	3 846 964	7 022 624
Current portion of finance lease liabilities	3 362 388	3 073 076	2 078 906
	30 295 127	**19 796 981**	**9 920 966**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2009		**2008**		**2007**	
’000 RUR	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**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	2 415 758	2 415 758	2 415 236	2 415 236	2 597 520	2 597 520
Unsecured bonds	RUR	9.3%-25%	2010	2 912 069	2 912 069	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	3 676 982	3 676 982	3 612 833	3 612 833	-	-
Unsecured bank facility	RUR	12.75%	2010-2011	9 620 121	9 620 121	9 620 066	9 620 066	-	-
Unsecured bank facility	RUR	9.04%	2010	5 100 346	5 100 346	5 100 346	5 100 346	-	-
Unsecured bank facility	RUR	13.85%	2010-2011	8 719 807	8 719 807	-	-	-	-
Promissory notes	RUR	9%	2009-2012	4 021 402	3 807 650	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	4 472 871	4 750 047	4 087 942	258 153	230 035
Finance lease liabilities	RUR	-	-	-	9 874 020	-	11 516 849	-	9 132 737
				41 216 532	**50 599 624**	**45 870 216**	**56 260 552**	**23 538 821**	**32 179 276**

Finance lease liabilities are payable as follows:

	2009			**2008**			**2007**		
’000 RUR	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	5 688 798	2 326 410	3 362 388	5 426 753	2 353 677	3 073 076	4 235 737	2 156 831	2 078 906
Between one and five years	8 634 878	2 295 881	6 338 997	11 423 295	3 171 199	8 252 096	9 998 801	3 153 964	6 844 837
More than five years	287 590	114 955	172 635	316 670	124 993	191 677	348 784	139 790	208 994
	14 611 266	**4 737 246**	**9 874 020**	**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 13).

During the year OJSC Energocentr, a 50% subsidiary of the Group, failed to pay the semi-annual coupon income on its bonds in the amount of RUR 137 472 thousand and to redeem bonds in the amount of RUR 301 963 thousand, due to liquidity problems. The bondholders filed claims against the Group regarding bonds redemption in the amount of RUR 1 397 679 thousand as at 31 December 2009. The management of the Group is currently negotiating the terms of settlement with bondholders and intends to settle its obligation in full within twelve months after the reporting date.

24 Employee benefits

(a) Post employment benefits

	2009 '000 RUR	2008 '000 RUR	2007 '000 RUR
Total present value of obligations	1 127 554	1 146 500	912 368
Unrecognised past service cost	(417 347)	(447 159)	(154 014)
Net actuarial losses/(gains) not recognised in the statement of financial position	67 000	(40 855)	(158 844)
Net liabilities in the statement of financial position	777 207	658 486	599 510

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

	2009 '000 RUR	2008 '000 RUR
Defined benefit obligations at 1 January	1 146 500	912 368
Benefits paid by the plan	(107 692)	(66 919)
Current service cost	106 261	111 875
Interest cost	90 000	61 123
Actuarial gains	(107 515)	(114 014)
Past service cost	-	335 728
Curtailments	-	(93 584)
Settlements	-	(77)
Defined benefit obligations at 31 December	**1 127 554**	**1 146 500**

(ii) Expense recognised in the statement of comprehensive income

	2009 '000 RUR	2008 '000 RUR
Current service costs	106 261	111 875
Interest cost	90 000	61 123
Recognised actuarial gains	338	3 977
Past service cost	29 816	42 580
Curtailments	-	(93 584)
Settlements	-	(77)
	226 415	**125 894**

(b) Other long-term employee benefits

	2009 '000 RUR	2008 '000 RUR
Present value of obligations	512 165	282 232

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

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

	2009 '000 RUR	2008 '000 RUR
Defined benefit obligations at 1 January	282 232	287 949
Contribution received	(31 977)	(28 221)
Current service costs	20 000	10 995
Interest costs	22 156	19 293
Actuarial losses/(gains) recognised in the statement of comprehensive income	219 754	(7 784)
Defined benefit obligations at 31 December	**512 165**	**282 232**

(ii) Expense recognised in the statement of comprehensive income

	2009 '000 RUR	2008 '000 RUR
Current service costs	20 000	10 995
Interest on obligation	22 156	19 293
Recognised actuarial losses/(gains)	219 754	(7 784)
	261 910	**22 504**

(c) Actuarial assumptions

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

	2009	2008
Discount rate at 31 December	9%	7.85%
Future salary increases	8.6%	5.97%
Mortality table	Russian 2005	Russian 2005

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

	2009	2008
	’000 RUR	**’000 RUR**
Operating expenses	376 170	67 982
Finance costs	112 156	80 416
	488 326	**148 398**

25 Provisions

’000 RUR	**Legal claims**	**Unused vacation**	**Total**
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**
Provisions raised during the year	91 434	326 725	418 159
Provisions used during the year	(427 733)	(250 933)	(678 666)
Balance at 31 December 2009	**107 646**	**326 725**	**434 371**

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 2009 is expected to be utilised in 2010. 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.

26 Trade and other payables

	31 December 2009 '000 RUR	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Non-current			
Advances received	30 234 082	43 359 107	24 357 196
	30 234 082	**43 359 107**	**24 357 196**
Current			
Accounts payable – trade	11 203 568	12 873 704	11 510 291
Advances received	27 792 622	9 544 846	6 198 760
Other payables and accrued expenses	24 521	89 799	564 436
	39 020 711	**22 508 349**	**18 273 487**

As at 31 December 2009 overdue advances received for connection services were RUR 8 580 274 thousand. The Group's approach to managing liquidity is entering into additional agreements with revised terms of execution.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28.

27 Other taxes payable

	31 December 2009 '000 RUR	31 December 2008 '000 RUR	31 December 2007 '000 RUR
Property tax	74 951	68 100	45 125
Other taxes	11 220	27 423	40 379
Employee taxes	897	2 119	63 986
Value added tax	200 288	-	3 472
	287 356	**97 642**	**152 962**

28 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 78% (2008: 71%) of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over four 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 2009**	**31 December 2008**
Trade and other receivables	6 431 311	3 581 865
Cash and cash equivalents	5 094 383	6 152 592
Short-term/long-term investments	2 500 000	2 500 000
Available-for-sale financial assets	1 101 836	964 343
Other non-current assets	-	204 812
	15 127 530	**13 403 612**

The Group's most significant customer accounts for RUR 3 988 882 thousand of the trade receivables carrying amount at 31 December 2009 (2008: RUR 2 084 622 thousand).

Impairment losses

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

	Gross	Impairment	Gross	Impairment
'000 RUR	**2009**	**2009**	**2008**	**2008**
Not past due	6 431 311	-	3 581 865	-
Past due more than 180 days	133 890	133 890	540 075	540 075
More than one year	514 186	514 186	23 515	23 515
	7 079 387	**648 076**	**4 145 455**	**563 590**

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

	31 December 2009	31 December 2008
	'000 RUR	**'000 RUR**
Balance at 1 January	563 590	69 526
Increase during the period	132 028	537 761
Decrease due to reversal	(47 542)	(43 697)
Balance at 31 December	**648 076**	**563 590**

The impairment loss at 31 December 2009 of RUR 648 076 thousand (2008: RUR 563 590 thousand) relates to disputable accounts receivable with no payment.

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 now 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”, OJSC “Sberbank”, OJSC “Bank VTB”.

In 2008 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.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s 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, except circumstances described in Note 23.

The Group monitors and manages liquidity risk by maintaining bank credit lines, obtaining loans (Note 23) and sufficient cash balances on its settlement accounts (see Note 20).

During the year OJSC Energocentr, a 50% subsidiary of the Group, failed to pay the semi-annual coupon income on its bonds in the amount of RUR 137 472 thousand and to redeem bonds in the amount of RUR 301 963 thousand, due to liquidity problems. The bondholders filed claims against the Group regarding bonds redemption in the amount of RUR 1 397 679 thousand as at 31 December 2009. The management of the Group is currently negotiating the terms of settlement with bondholders and intends to settle its obligation in full within twelve months after the reporting date.

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

2009	**Average interest rate**						
'000 RUR	**Contract**	**Effective**	**0-6 months**	**6-12 months**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Non-derivative financial liabilities							
Unsecured bonds	8.05%	8.05%	153 321	95 629	2 406 920	-	2 655 870
Unsecured bonds	9.3%-25%	9.3%-25%	446 689	2 791 606	-	-	3 238 295
Unsecured bank facility	9.58%	11.01%	3 789 816	-	-		3 789 816
Unsecured bank facility	13.85%	13.85%	552 498	4 753 906	4 491 932	-	9 798 336
Unsecured bank facility	12.75%	12.75%	567 136	5 235 603	4 977 113	-	10 779 852
Unsecured bank facility	9.04%	10.57%	5 260 356	-	-		5 260 356
Promissory notes	9.00%	9.00%	830 259	790 224	2 823 859	-	4 444 342
Promissory notes	-	9.00%	-	4 750 047	-	-	4 750 047
Finance lease liabilities	-	12.24-25.02%	2 967 646	2 721 152	8 634 878	287 590	14 611 266
Trade and other payables	-	-	11 203 568	-	-	-	11 203 568
			25 771 289	**21 138 167**	**23 334 702**	**287 590**	**70 531 748**

2008	**Average interest rate**						
	Contract	**Effective**	**0-6 months**	**6-12 months**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Non-derivative financial liabilities							
Unsecured bonds	8.05%	8.05%	94 590	94 590	2 655 870	-	2 845 050
Unsecured bonds	9.3%-25%	9.3%-25%	3 139 110	302 155	376 027	-	3 817 292
Unsecured facility	8.79%	8.79%	2 042 074	-	-	-	2 042 074
Unsecured facility	8.90%	8.90%	1 714 220	-	-	-	1 714 220
Unsecured bank facility	9.58%	11.01%	415 795	411 324	3 665 684	-	4 492 803
Unsecured bank facility	12.75%	12.75%	610 268	613 677	10 779 853	-	12 003 798
Unsecured bank facility	9.04%	10.57%	-	-	5 395 666	-	5 395 666
Promissory notes	9.00%	9.00%	6 211 198	869 752	4 444 342	-	11 525 292
Promissory notes	17.00%	17.00%	3 101 037	-	-	-	3 101 037
Promissory notes	-	9.00%	-	-	4 750 047	-	4 750 047
Finance lease liabilities	-	15%	2 965 647	2 461 106	11 423 295	316 670	17 166 718
Trade and other payables	-	-	12 873 704	-	-	-	12 873 704
			33 167 643	**4 752 604**	**43 490 784**	**316 670**	**81 727 701**

(d) Market risk

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

(i) 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:

'000 RUR	Carrying amount 2009	2008
Fixed rate instruments		
Financial assets	7 594 383	8 652 592
Financial liabilities	(40 979 503)	(44 957 688)
	(33 385 120)	**(36 605 096)**
Variable rate instruments		
Financial liabilities	**(9 620 121)**	**(11 302 864)**

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 2008.

	Profit or loss		Equity	
'000 RUR	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2009				
Variable rate instruments	13.75%	11.75%	13.75%	11.75%
Cash flow sensitivity (net)	**(96 201)**	**96 201**	**(96 201)**	**96 201**
2008 (restated)				
Variable rate instruments	13.18%	11.18%	13.18%	11.18%
Cash flow sensitivity (net)	**(113 029)**	**113 029**	**(113 029)**	**113 029**

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(e) Fair values versus carrying amounts

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

'000 RUR	**Note**	**Carrying amount 2009**	**Fair value 2009**	**Carrying amount 2008**	**Fair value 2008**
Assets carried at fair value					
Available-for-sale financial assets	16	1 101 836	938 386	964 343	893 173
		1 101 836	**938 386**	**964 343**	**893 173**
Assets carried at amortised cost					
Trade and other receivables	19	6 431 310	6 431 310	3 581 865	3 581 865
Investments	15	2 500 000	2 423 420	2 500 000	2 359 646
Cash and cash equivalents	20	5 094 383	5 094 383	6 152 592	6 152 592
		14 025 693	**13 949 113**	**12 234 457**	**12 094 103**
Liabilities carried at amortised cost					
Unsecured bank loan	23	(27 117 256)	(26 864 636)	(22 005 528)	(20 157 576)
Unsecured bond issues	23	(5 327 827)	(3 482 551)	(5 547 476)	(4 652 915)
Promissory notes	23	(8 280 521)	(7 849 394)	(17 190 699)	(16 586 610)
Finance lease liability	23	(9 874 020)	(9 874 020)	(11 516 849)	(11 516 849)
Trade and other payables	26	(11 203 568)	(11 203 568)	(12 873 704)	(12 873 704)
		(61 803 192)	**(59 274 169)**	**(69 134 256)**	**(65 787 654)**

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

In relation to issued bonds the fair value is determined by reference to their quoted closing price at the reporting date.

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:

'000 RUR	**2009**	**2008**
Financial assets	13.8%	12%
Financial liabilities	12.26%	17.4%

(f) Fair value hierarchy

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Available-for-sale financial assets are recognised in the statement of financial position at their fair value. Fair values were determined based on quoted market prices.

(g) 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.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	Carrying amount	
'000 RUR	**2009**	**2008**
Total borrowings (Note 23)	50 599 624	56 260 552
Less: Cash and cash equivalents (Note 20)	(5 094 383)	(6 152 592)
Net debt	45 505 241	50 107 960
Equity	89 357 214	78 843 200
Debt to equity ratio	**50.9%**	**63.6%**

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.

29 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2009 '000 RUR	31 December 2008 '000 RUR
Less than one year	2 210 650	2 104 104
Between one and five years	500 490	696 791
More than five years	3 662 142	4 187 885
	6 373 282	**6 988 780**

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.

30 Commitments

Sales commitments. The Group has entered into contracts to carry out electricity transmission services to OJSC "Mosenergosbyt" for RUR 78 230 382 thousand, to LLC "Rusenergosbyt" for RUR 2 274 929 thousand and to other companies for RUR 6 905 800 thousand in 2010.

Capital commitments. Future capital expenditures for which contracts have been signed as at 31 December 2009 amount to RUR 34 360 466 thousand, of which RUR 5 084 691 thousand is anticipated to be spent in 2010. In addition, the Group has entered into a finance lease agreements for the items of property, plant and equipment in amount of RUR 2 735 795 thousand.

31 Contingencies

(a) 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.

(b) 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 23. In addition, the bondholders filed the claims against the Group regarding bonds redemption in the amount of RUR 1 397 679 thousand. The management of the Group assesses a negative outcome of the legal claims as probable. The management of the Group is currently negotiating the terms of settlement with bondholders and intends to settle its obligation in full within twelve months after the reporting date

(c) 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.

32 Related party transactions

(a) 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 government of 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.

(b) 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 key management and to the members of the Board of Directors for the year ended 31 December 2009 was RUR 228 246 thousand (2008: RUR 272 061 thousand).

(c) Transactions with other related parties

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

(i) Revenue

	Transaction value 2009	Outstanding balance 31 December 2009	Transaction value 2008	Outstanding balance 31 December 2008
Electricity transmission:				
Entities under common control of the parent and other state controlled entities	71 890 441	5 285 825	48 423 707	2 263 999
Other revenue:				
Entities under common control of the parent and other state controlled entities	2 715 265	380 448	2 331 667	426 561
	74 605 706	**5 666 273**	**50 755 374**	**2 690 560**

(ii) Expenses

	Transaction value 2009	Outstanding balance 31 December 2009	Transaction value 2008	Outstanding balance 31 December 2008
Electricity transmission:				
Entities under common control of the parent and other state controlled entities	(27 341 715)	(1 983 399)	(19 559 583)	(613 863)
Other expenses:				
Entities under common control of the parent and other state controlled entities	(4 230 831)	(696 026)	(4 373 699)	(2 648 233)
	(31 572 546)	**(2 679 425)**	**(23 933 282)**	**(3 262 096)**

(iii) Advances received

	Outstanding balance 31 December 2009	**Outstanding balance 31 December 2008**
Entities under common control of the parent and other state controlled entities	(13 465 329)	(11 729 878)
	(13 465 329)	**(11 729 878)**

(iv) Advances given

	Outstanding balance 31 December 2009	**Outstanding balance 31 December 2008**
Entities under common control of the parent and other state controlled entities	7 903 128	7 788 850
	7 903 128	**7 788 850**

(v) Loans

	Transaction value 2009	**Outstanding balance 31 December 2009**	**Transaction value 2008**	**Outstanding balance 31 December 2008**
Loans received:				
Entities under common control of the parent and other state controlled entities	-	17 900 641	32 553 304	30 483 048
	-	**17 900 641**	**32 553 304**	**30 483 048**

Loans are received under the market interest rate except for interest free loans received from parent company in the amount of RUR 4 750 047 thousand in May 2008 (see Note 23). Upon initial recognition this loan was discounted using a market rate of 9%. The resulting difference was recognized in additional paid-in capital.

(d) 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 except loans received as described in Note 32 c(v).

33 Events subsequent to the balance sheet date

On 9 January 2010 OJSC Energocentr, a 50% subsidiary of OJSC MOESK, failed to pay the fifth semi-annual coupon in the amount of RUR 309 241 thousand and to repurchase bonds in the amount of RUR 388 094 thousand according to the restructuring agreement. Consequently, legal claims from bondholders in the total amount of RUR 250 717 thousand were raised after the reporting date. Management of the Group is currently negotiating the terms of settlement with bondholders and intends to settle its obligation in full within twelve months after the reporting date.

On 15 April 2010 the Company entered into a credit facility agreement with OJSC "Sberbank". According to this agreement the Company received a loan in the amount of RUR 6 000 000 thousand at the interest rate of 7.8%. The loan is to be repaid on 15 June 2013.

On 16 April 2010 the Group repaid the unsecured loan amounting to RUR 8 692 500 thousand to Barclays Bank PLC.