MOSENERGO Group
Consolidated financial statements
(prepared in accordance with IFRS)
for the year ended 31 December 2009
(with an independent auditor's report thereon)

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of OJSC Mosenergo (AO MOSENERGO) and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

ZAO PricewaterhouseCoopers Audit

1 April 2010
Moscow, Russian Federation

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

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	187,051	195,307
Investment property	8	1,020	4,552
Advances for acquisition of property, plant and equipment		13,215	10,692
Trade and other receivables	12	3,662	123
Other non-current assets	13	849	585
Total non-current assets		**205,797**	**211,259**
Current assets			
Inventories	10	4,541	4,446
Investments	11	12,171	13,485
Income tax receivable		320	78
Trade and other receivables	12	23,056	14,955
Cash and cash equivalents	14	2,267	3,315
Other current assets	13	1,672	1,301
Assets classified as held for sale	9	608	-
Total current assets		**44,635**	**37,580**
Total assets		**250,432**	**248,839**
EQUITY AND LIABILITIES			
Equity	15		
Share capital		166,124	166,124
Treasury stock		(871)	(899)
Share premium		49,213	49,213
Reserves		86,746	88,600
Accumulated loss		(115,504)	(117,168)
Total equity		**185,708**	**185,870**
Non-current liabilities			
Non-current borrowings	16	16,675	10,199
Deferred tax liabilities	28	24,924	26,108
Employee benefits	17	367	485
Trade and other payables	18	201	140
Total non-current liabilities		**42,167**	**36,932**
Current liabilities			
Current borrowings and current portion of non-current borrowings	16	2,090	12,500
Trade and other payables	18	18,256	11,963
Income tax payable		192	323
Other taxes payable	19	1,649	998
Provisions	20	278	253
Liabilities classified as held for sale	9	92	-
Total current liabilities		**22,557**	**26,037**
Total liabilities		**64,724**	**62,969**
Total equity and liabilities		**250,432**	**248,839**

General Director — V.G. Yakovlev

Chief Accountant — S.A. Suraev

1 April 2010

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

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	21	112,636	94,819
Other operating income	26	1,062	427
Cost of materials	22	(58,596)	(52,752)
Heat transmission		(18,260)	(14,737)
Depreciation of property, plant and equipment	7	(11,705)	(6,621)
Personnel expenses	24	(9,169)	(9,443)
Maintenance and repairs expenses		(3,215)	(2,078)
Taxes other than income tax		(2,563)	(1,444)
Other external supplies	23	(2,234)	(2,156)
(Loss)/income from change in fair value of investment property	8	(1,623)	1,999
Impairment loss on property, plant and equipment	7	(630)	(3,443)
Other operating expenses	25	(3,804)	(2,852)
Results from operating activities		**1,899**	**1,719**
Financial income	27	1,474	1,686
Financial expenses	27	(1,254)	(1,590)
Gain/(loss) on withdrawal from equity investee		124	(397)
Share of profit of equity accounted investees		-	5
Profit before income tax		**2,243**	**1,423**
Income tax (expense)/benefit	28	(585)	632
Profit for the year		**1,658**	**2,055**
Other comprehensive income:			
Revaluation of available-for-sale financial assets	28	32	-
Impairment loss on property, plant and equipment	28	(2,355)	-
Revaluation of property, plant and equipment	28	-	70,447
Revaluation of investment property	28	-	461
Income tax relating to components of other comprehensive income	28	469	(12,588)
Other comprehensive (loss)/income for the year, net of tax		**(1,854)**	**58,320**
Total comprehensive (loss)/income for the year		**(196)**	**60,375**
Profit attributable to:			
Equity holders of the company		1,658	2,055
Total comprehensive (loss)/income attributable to:			
Equity holders of the company		(196)	60,375
Basic and diluted earnings per share (in Russian Roubles)	29	0.04	0.05

General Director — V.G. Yakovlev

Chief Accountant — S.A. Suraev

1 April 2010

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

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Cash flow from operating activities			
Profit before income tax		**2,243**	**1,423**
Adjustments for:			
Depreciation of property, plant and equipment	7	11,705	6,621
Loss on disposal of property, plant and equipment	25	122	41
Financial income	27	(1,474)	(1,686)
Financial expenses	27	1,254	1,590
Share of profit of equity accounted investee		-	(5)
Trade and other receivables impairment (gain)/loss	25	(169)	60
Litigations provision charge	20	185	207
(Gain)/loss on withdrawal from equity investee		(124)	397
Change in fair value of investment property	8	1,623	(1,999)
Impairment loss on property, plant and equipment	7	630	3,443
Gain from disposal of assets held for sale	9	(352)	-
Other non-cash items		4	11
Operating profit before changes in working capital and provisions		**15,647**	**10,103**
Change in inventories		(99)	(14)
Change in trade and other receivables		(11,257)	(3,007)
Change in restricted cash and cash equivalents		53	29
Change in trade and other payables		8,960	83
Change in taxes payables, other than income tax		1,199	408
Change in provisions		(160)	-
Change in employee benefits		(161)	(939)
Cash flows from operations before income tax and interest paid		**14,182**	**6,663**
Income tax paid		(2,128)	(559)
Interest paid		-	(1,082)
Cash flows from operating activities		**12,054**	**5,022**
Cash flows from investing activities			
Proceeds from sale of assets classified as held for sale		3,345	9
Proceeds from withdrawal of equity investee		973	-
Proceeds from disposal of investments		675	38,737
Interest received		100	991
Dividends received		-	8
Acquisition of property, plant and equipment		(11,579)	(27,271)
Interest paid and capitalized		(2,415)	(449)
Debt fee		(1,101)	-
Acquisition of investments		(191)	(13,411)
Placement of bank deposits		-	(15,520)
Cash flows used in investing activities		**(10,193)**	**(16,906)**
Cash flows from financing activities			
Proceeds from borrowings		13,018	7,806
Proceeds from sale of shares	15	34	-
Repayment of borrowings		(15,961)	(2,869)
Buy-out of own shares	15	-	(899)
Cash flows (used in)/from financing activities		**(2,909)**	**4,038**
Net decrease in cash and cash equivalents		(1,048)	(7,846)
Cash and cash equivalents at the beginning of the year	14	3,315	11,161
Cash and cash equivalents at the end of the year	14	**2,267**	**3,315**

General Director V.G. Yakovlev

Chief Accountant S.A. Suraev

1 April 2010

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

Attributable to equity holders of OJSC Mosenergo

	Note	Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total
Balance at 1 January 2008		**166,124**	**-**	**49,213**	**30,280**	**(120,200)**	**125,417**
Profit for the year		-	-	-	-	2,055	2,055
Other comprehensive income for the year:							
Change in tax rate through other comprehensive income	28	-	-	-	1,593	-	1,593
Revaluation of property, plant and equipment	28	-	-	-	56,358	-	56,358
Revaluation of investment property	28	-	-	-	369	-	369
Total comprehensive income for the year		**-**	**-**	**-**	**58,320**	**2,055**	**60,375**
Contribution from shareholders		-	-	-	-	8	8
Buy out of own shares	15	-	(899)	-	-	969	70
Balance at 31 December 2008		**166,124**	**(899)**	**49,213**	**88,600**	**(117,168)**	**185,870**

	Note	Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total
Balance at 1 January 2009		**166,124**	**(899)**	**49,213**	**88,600**	**(117,168)**	**185,870**
Profit for the year		-	-	-	-	1,658	1,658
Other comprehensive income for the year:							
Revaluation of available-for-sale financial assets	28	-	-	-	30	-	30
Impairment loss on property, plant and equipment	28	-	-	-	(1,884)	-	(1,884)
Total comprehensive income for the year		**-**	**-**	**-**	**(1,854)**	**1,658**	**(196)**
Sale of treasury stock	15	-	28	-	-	6	34
Balance at 31 December 2009		**166,124**	**(871)**	**49,213**	**86,746**	**(115,504)**	**185,708**

General Director V.G. Yakovlev

Chief Accountant S.A. Suraev

1 April 2010

Note 1. The Group and its operations

(a) Organization and operations

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

The Group's power and heat generation base includes 15 power stations with operational capacity equalled approximately 11,924 megawatts ("MW") and 34,865 gigacalories/hour ("Gkal/h") of electricity and heat capacity, respectively.

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

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

(b) Group formation

On 1 April 2005, the Company was reorganized through a spin-off following the reorganization process within the Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of electricity sector to maintain and further expand production capacity. The Company's restructuring was approved by general shareholder's meeting on 28 June 2004. Before the restructuring took place the Company operated as an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company's shares held by them prior to spin-off.

A general shareholders' meeting held on 20 December 2006 approved a closed subscription for the additional shares issued in favour of OJSC Gazprom and its affiliates (together referred as the "Gazprom Group"). As a result, the majority shareholder of OJSC Mosenergo changed from RAO UES of Russia to Gazprom Group holding 53.47% of ordinary shares. Following the reorganization process, an extraordinary general shareholder's meeting of RAO UES of Russia on 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including OJSC Mosenergo, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganization. Accordingly, upon spin-off from RAO UES of Russia OJSC Mosenergo Holding (the "Mosenergo Holding") received stake in OJSC Mosenergo held by RAO UES of Russia. Simultaneously with the spin-off Mosenergo Holding was merged with the Company and its shares were converted into the Company's shares.

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

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

(c) Business environment

The country has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets (global financial crisis) has further increased the level of economic uncertainty in the environment. Presently, the primary impact of the global financial crisis on the Group has been the lack of liquidity in the markets which has lead the Group to curtail its investment plans in the short term. Additionally, a long drawn out impact of the global financial crisis has influenced recoverability of the Group's current assets such as receivables and has been severely affected by the volatile global financial markets which resulted on the valuation of the carrying value of land and buildings. The financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC Gazprom (the previous "Parent"), which held 53.47% of the Company through its 100% subsidiary LLC Gazprom Energoholding (immediate parent company). Thus the OJSC Gazprom is the ultimate parent company of the Group and Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Service on Tariffs (the "FST") and the Regional Energy Commissions of Moscow and Moscow region (the "RECs"), respectively. OJSC "System Operator - Central Dispatch Unit of Unified Energy System" (the "SO - CDU UES"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

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

As described in Note 6 and Note 32, the government's economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

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

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

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

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

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

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgment

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

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

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

- Note 7 – Property, plant and equipment;
- Note 8 – Investment property;
- Note 17 – Employee benefits;
- Note 20 – Provisions;
- Note 33 – Operating segments.

Note 3. Significant accounting policies

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

(a) Reclassification of comparatives

The consolidated statement of comprehensive income and the consolidated statement of cash flow have been revised to present more detailed classification of items based on their nature to provide the users of the financial statements with more relevant information about the financial performance of the Group. In addition, certain comparative amounts in consolidated statement of cash flow have been reclassified to conform to the current period's presentation. The above mentioned reclassification did not have any impact on the consolidated statement of financial position and the financial results in the consolidated statement of comprehensive income.

The following are main explanations of the reclassifications made:

- in consolidated statement of cash flow change in balance of account payables for capital construction were reclassified from "Change in trade and other payables to "Acquisition of property, plant and equipment" in total amount of RR 831 million.

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

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

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

(c) Foreign currency transactions

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

(d) Financial instruments

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

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

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

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

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

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

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

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

(e) Property, plant and equipment

(i) Recognition and measurement
Until 31 December 2006, items of property, plant and equipment, except for land, were measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 31 December 1997, the date of transition

to IFRSs, was determined by reference to its fair value at that date and subsequently restated to take into account the impact of inflation until 31 December 2002.

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

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

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

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

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

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

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

(ii) Reclassification to investment property

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

(iii) Reclassification to assets held-for-sale

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

(iv) Subsequent costs

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

(v) Depreciation

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

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

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

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

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

(f) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

(g) Investment property

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

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

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

(h) Leased assets

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

(i) Inventories

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

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

(j) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

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

(k) Non-current assets held for sale

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

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

(iii) Other long-term employee benefits

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

(iiii) Termination benefits

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

(iv) Short-term benefits

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

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

(m) Provisions

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

(n) Segment reporting

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

(o) Revenues

(i) Goods sold

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

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

(ii) Services

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

(iii) Rental income

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

(p) Government subsidies

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

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

(q) Lease payments

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

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

(r) Financial income and expenses

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

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

Foreign currency gains and losses are reported on gross basis.

(s) Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(t) Earnings per share

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

(u) New Standards and Interpretations

(i) The following new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2009, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group concluded that the revised standard does not have any effect on its financial statements.

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- Amendment to IAS 32 *Classification of Rights Issues* - (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group concluded that the revised standard does not have any effect on its financial statements.

- Amendment to IAS 39 *Financial Instruments: Recognition and – Measurement Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 financial statements, with retrospective application required, is not expected to have a significant impact on the consolidated financial statements.

- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

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

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

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in other comprehensive income. The amendments are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions*, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 come into effect for annual periods beginning on or after 1 July 2009. It did not have significant impact on consolidated financial statements.

- IFRIC 18 *Transfers of Assets from Customers* applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009. It did not have significant impact on consolidated financial statements.

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from other comprehensive income to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect the amendments to have any material effect on its financial statements.

(ii) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- Revised IAS 1 *Presentation of Financial Statements (2007)* which became mandatory for the Group's 2009 consolidated financial statements did not have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity. Adopted by the Group.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The amendments to IAS 23 which became mandatory for the Group's 2009 consolidated financial statements with earlier application permitted did not have a significant impact on the consolidated financial statements as were already adopted by the Group.

- Amendments to IAS 32 *Financial instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which became mandatory for the Group's 2009 financial statements, with retrospective application required, did not have a significant impact on the consolidated financial statements.

- Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* published in May 2008 simplifies the first-time preparation of separate financial statements under IFRS. Amendments in particular are applied to the initial measurement of the cost of subsidiaries, jointly controlled entities and associates using either the fair value or the carrying amount under the previous accounting practice. The separation of the earnings "before" and "after" the acquisition is eliminated by removing the definition of the cost method from IAS 27. Revised IAS 27 requires that all dividends should be presented as income. The amendments, which became mandatory for the Group's 2009 financial statements, did not have a significant impact on the consolidated financial statements.

- Revised IFRS 1 *First-time adoption of International Financial Reporting Standards* published in November 2008 which simplifies its application shall be applied by the entity if its first IFRS financial statements are for a period beginning on or after 1 January 2009 with earlier application permitted. Revised standard is not applicable to the consolidated financial statements.

- Amendment to IFRS 2 *Share-based Payment – Vesting conditions and cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 became mandatory for the Group's 2009 financial statements, with retrospective application required, did not have a significant impact on the consolidated financial statements.

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

- Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are assessed and, if necessary, separately accounted for. The amendments did not have a significant impact on the consolidated financial statements.

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, did not have a significant impact on the consolidated financial statements.

- IFRIC 15 *Agreements for the Construction of Real Estate* addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which became mandatory for the Group's 2009 financial statements, did not have a significant impact on the consolidated financial statements.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. became mandatory for the Group's 2009 financial statements). IFRIC 16 did not have a significant impact on the consolidated financial statements.

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have any material effect on its financial statements.

- Improving Disclosures about Financial Instruments - Amendment to IFRS 7 *Financial Instruments: Disclosures* (issued in March 2009) which became effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The amendments did not have any material effect on the consolidated financial statements.

Note 4. Determination of fair values

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

(a) Property, plant and equipment and investment property

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

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

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

(b) Investments in equity and debt securities

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

(c) Trade and other receivables

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

(d) Non-derivative financial liabilities

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

Note 5. Financial risk management

(a) Overview

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

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

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

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

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups, which are current, overdue, long-term, doubtful and irrecoverable

accounts receivable. As early as an account receivable is classified as current measures are taking on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

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

(ii) Guarantees

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

(iii) Investments

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

(c) Liquidity risk

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

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

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

(d) Market risk

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

(i) Currency risk

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

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

The Group's policy in respect of mitigating currency risk includes minimizing share of borrowings in foreign currencies comparing to total credit portfolio, which is 12% at 31 December 2009 (31 December 2008: 0.4%). To minimize currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks by means of corresponding derivatives in the future.

(ii) Interest rate risk

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

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

(e) Capital management

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

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

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

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

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

The gearing ratios at 31 December 2009 and at 31 December 2008 were as follows:

	31 December 2009	31 December 2008
Borrowings (Note 16)	(18,765)	(22,699)
Cash and cash equivalents (Note 14)	2,267	3,315
Net debt	(16,498)	(19,384)
Equity (Note 15)	(185,708)	(185,870)
Total capital	**(202,206)**	**(205,254)**
Gearing ratio	**8.2%**	**9.4%**

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

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

At 31 December 2009, the Group was in compliance with the above share capital requirements.

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

Note 6. Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2009 and the year ended 31 December 2008 or had significant balances outstanding at 31 December 2009 and at 31 December 2008 are detailed below. Gazprom group is an ultimate Parent Company of OJSC Mosenergo during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group

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

Revenue

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity	16	13
Heat	31	25
Other revenue	215	167
Total	**262**	**205**

Expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Fuel expenses	(49,978)	(43,827)
Insurance expenses	(312)	(110)
Voluntary medical insurance expenses	(136)	(2)
Other operating expenses	(422)	(117)
Total	**(50,848)**	**(44,056)**

Financial income and expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Financial income	1,313	1,167
Financial expenses	-	(3)
Net financial income	**1,313**	**1,164**

Outstanding balance

	Outstanding balance at 31 December 2009	Outstanding balance at 31 December 2008
Investments	11,221	13,444
Trade and other receivables	6,517	4,581
Cash and cash equivalents	1,805	2,205
Total assets	**19,543**	**20,230**
Trade and other payables	(571)	(134)
Total liabilities	**(571)**	**(134)**

Cash and cash equivalents include an outstanding balance with OJSC Gazprombank, an associate of OJSC Gazprom, in the amount of RR 1,542 million at 31 December 2009 (31 December 2008: RR 1,847 million).

Borrowings

	Amount loaned for the year ended 31 December 2009	Amount loaned for the year ended 31 December 2008	Outstanding balance at 31 December 2009	Outstanding balance at 31 December 2008
Current borrowings and current portion of non-current borrowings	-	(3,086)	-	-
Total borrowings	**-**	**(3,086)**	**-**	**-**

(b) Transactions with key management

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

Expenses and outstanding balance

	Year ended 31 December 2009	Year ended 31 December 2008	Outstanding balance at 31 December 2009	Outstanding balance at 31 December 2008
Wages and salaries	(77)	(108)	-	(1)
Long-service benefit	(1)	-	-	-
Pension benefits expenses	-	(22)	-	-
Termination benefits	-	(147)	-	-
Total	**(78)**	**(277)**	-	**(1)**

(c) Transactions with other state-controlled entities

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

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

Revenue

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity	58,731	49,239
Heat	39,031	28,307
Other revenue	3,228	2,033
Total	**100,990**	**79,579**

Expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Heat transmission	(18,260)	(14,737)
Purchased heat and electricity	(5,091)	(5,179)
Fuel expenses	(108)	(673)
Water usage expenses	(702)	(650)
Other operating expenses	(3,197)	(1,744)
Total	**(27,358)**	**(22,983)**

Financial income and expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Financial income	30	344
Financial expenses	(451)	(9)
Net financial expense	**(421)**	**335**

Outstanding balance

	Outstanding balance at 31 December 2009	Outstanding balance at 31 December 2008
Trade and other receivables	14,694	5,324
Other current assets	523	523
Cash and cash equivalents	429	1,008
Total assets	**15,646**	**6,855**
Trade and other payables	(6,632)	(2,965)
Total liabilities	**(6,632)**	**(2,965)**

Borrowings

	Amount loaned for the year ended 31 December 2009	Amount loaned for year ended 31 December 2008	Outstanding balance at 31 December 2009	Outstanding balance at 31 December 2008
Non-current borrowings	-	-	-	-
Current borrowings and current portion of non-current borrowings	(5,500)	(3,550)	-	(3,550)
Total borrowings	**(5,500)**	**(3,550)**	-	**(3,550)**

Note 7. Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2008	40,427	33,394	12,147	3,149	24,666	113,783
Reclassification	(738)	(122)	(34)	894	-	-
Additions	-	-	-	-	26,669	26,669
Revaluation	44,659	12,263	4,776	2,986	2,320	67,004
Disposals	(27)	(65)	-	(8)	(26)	(126)
Transfers	11,502	13,745	64	4,365	(29,676)	-
Transfer to investment property	(1)	-	-	-	-	(1)
Elimination of accumulated depreciation	(3,360)	(3,976)	(3,524)	(1,162)	-	(12,022)
Balance at 31 December 2008	**92,462**	**55,239**	**13,429**	**10,224**	**23,953**	**195,307**
Balance at 1 January 2009	92,462	55,239	13,429	10,224	23,953	195,307
Additions	311	454	-	79	7,711	8,555
Disposals	(4)	(13)	-	(121)	(309)	(447)
Transfers	7,718	1,016	422	1,163	(10,319)	-
Elimination of accumulated depreciation on property transferred to assets classified as held for sale	(1,332)	-	-	(5)	-	(1,337)
Transfer to assets held for sale	(1,641)	-	-	(51)	-	(1,692)
Balance at 31 December 2009	**97,514**	**56,696**	**13,851**	**11,289**	**21,036**	**200,386**

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2008	(1,594)	(1,781)	(1,775)	(258)	-	(5,408)
Reclassification	13	7	5	(25)	-	-
Depreciation charge	(1,780)	(2,207)	(1,754)	(880)	-	(6,621)
Disposals	1	5	-	1	-	7
Elimination of accumulated depreciation	3,360	3,976	3,524	1,162	-	12,022
Balance at 31 December 2008	-	-	-	-	-	-
Balance at 1 January 2009	-	-	-	-	-	-
Depreciation charge	(5,912)	(3,117)	(1,552)	(1,124)	-	(11,705)
Disposals	2	4	-	12	-	18
Impairment loss	(2,535)	(197)	-	-	(253)	(2,985)
Elimination of accumulated depreciation on property transferred to assets classified as held for sale	1,332	-	-	5	-	1,337
Balance at 31 December 2009	**(7,113)**	**(3,310)**	**(1,552)**	**(1,107)**	**(253)**	**(13,335)**

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

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2008	38,833	31,613	10,372	2,891	24,666	**108,375**
At 1 January 2009	92,462	55,239	13,429	10,224	23,953	**195,307**
At 31 December 2009	90,401	53,386	12,299	10,182	20,783	**187,051**

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2008	21,569	20,089	5,520	1,757	24,331	**73,266**
At 1 January 2009	30,938	32,041	3,611	6,399	20,792	**93,781**
At 31 December 2009	33,940	32,735	2,594	6,920	19,098	**95,287**

Borrowing costs of RR 2,516 million and RR 449 million for the year ended 31 December 2009 and 31 December 2008, respectively, are capitalised in additions above. Capitalisation rates of 13.00% and 7.64% for the year ended 31 December 2009 and 31 December 2008, respectively, were used to determine the amount of borrowing costs eligible for capitalization representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

(a) Revaluation

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

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

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

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

The depreciated replacement cost was estimated based on internal sources, statistical data, catalogues and market data in respect of prices of construction companies and suppliers of equipment. The economic obsolescence was determined based on cash flow test results for each of 19 cash-generating units.

In addition to determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of these values.

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

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

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

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

In 2009 the Group determined that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of reporting period and, therefore, revaluation was not performed in 2009.

(b) Impairment test

The Group is in the process of disposing non-core assets included in property, plant and equipment, which were reclassified to the assets held for sale during the reporting period. Before transferring assets to the disposed group a valuation was obtained for such items and, resultantly, a decrease in fair value of RR 2,012 million was recognised in other comprehensive income for the year ended 31 December 2009.

At the end of each year the Group performs the impairment test and determines assets which should be impaired. At 31 December 2009 result of impairment test amounted RR 973 million was recognised in the other comprehensive income in amount of RR 343 million and in the profit or loss in amount of RR 630 million.

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

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

(c) Leased assets

The Group leases production plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (see Note 31). At 31 December 2009 the net carrying amount of leased plant was RR 374 million.

(d) Security

Properties with a carrying amount of RR 0 million and RR 9,961 million at 31 December 2009 and 31 December 2008, respectively, are pledged as security for Company's bank loans (see Note 16).

Note 8. Investment property

	2009	2008
Balance at 1 January	**4,552**	**2,091**
Transfer from property, plant and equipment	-	1
Transfer to assets classified as held for sale	(1,909)	-
Change in fair value	(1,623)	2,460
Balance at 31 December	**1,020**	**4,552**

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

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

Changes in fair value of investment property amounted to RR 2,460 million for the year ended 31 December 2008 were recognised in the profit or loss in amount RR 1,999 million for the year ended 31 December 2008 and increase the revaluation surplus within other comprehensive income in amount RR 461 million for the year ended 31 December 2008. As a result of revaluation, the Group's net other comprehensive income for the year 2008 increased by RR 369 million, comprising increase in the carrying value of investment property of RR 461 million and the related deferred tax of RR 92 million.

In 2009 the Group is in the process of disposing non-core assets included in investment property, which were reclassified to the assets held for sale during the reporting period. Before transferring assets to the disposed group a valuation was obtained for such items and, resultantly, a decrease in fair value of RR 1,483 million was recognised in profit or loss for the year ended 31 December 2009.

The fair value of the Group's investment property at 31 December 2009 was determined to be RR 1,020 million and based on the market trends for the year 2009.

Rental income for the year ended 31 December 2009 and for the year ended 31 December 2008 amounted to RR 329 million and RR 269 million, respectively, was recognised in the consolidated statement of comprehensive income in other revenue.

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

	31 December 2009	31 December 2008
Less than one year	81	247
Between one and five years	-	789
More than five years	-	109
Total	**81**	**1,145**

Note 9. Disposal groups classified as held for sale

During 2009 the Group is in the process of disposing non-core assets which led to transfers to assets classified as held for sale from property, plant and equipment assets in amount RR 1,692 million and from investment property assets in amount RR 1,909 million. At 31 December 2009 the Company keep on possessing assets for disposals in amount RR 608 million. The Company envisages selling its real estate portfolio during the first half of 2010.

(a) Assets classified as held for sale

	31 December 2009	31 December 2008
Property , plant and equipment	237	-
Investment property	371	-
Total	**608**	**-**

(b) Liabilities classified as held for sale

	31 December 2009	31 December 2008
Deferred tax liabilities	92	-
Total	**92**	**-**

Note 10. Inventories

	31 December 2009	31 December 2008
Fuel	2,768	2,854
Raw materials and consumables	1,707	1,450
Other inventories	66	142
Total	**4,541**	**4,446**

Raw materials and consumables are stated net of a provision for obsolete inventory amounted to RR 23 million and RR 19 million at 31 December 2009 and 31 December 2008, respectively. The write-downs and reversals are included in other operating expenses.

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

Note 11. Investments

	31 December 2009	31 December 2008
Loans given to CJSC Gazenergoprom-Invest	12,130	13,375
Promissory notes of CJSC Gazenergoprombank	-	69
Other investments	41	41
Total	**12,171**	**13,485**

Investments have nominal interest rate of 8.3% (31 December 2008: 8.3%).

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

During the year 2009 CJSC Gazenergoprom-Invest returned to the Company part of loan given in amount RR 606 million. As the original maturity of loan was 31 December 2008 and management of the Company now in the process of pre-judicial settlements of loan given, the outstanding balance of loan was discounted on amount RR 639 million at the reporting date.

Management believes that loan given to CJSC Gazenergoprom-Invest would be recovered before the end of 2010.

The Group expects to collect this receivable, albeit later than expected, as it has no concerns with the credit quality of its majority shareholder from whom this receivable is due.

Note 12. Trade and other receivables

	31 December 2009	31 December 2008
Trade receivables	14,419	7,197
Other receivables	2,526	2,021
Financial assets	**16,945**	**9,218**
Advances to suppliers and prepaid expenses	8,174	4,724
VAT recoverable	1,198	861
Taxes other than income tax prepaid	55	61
Other receivables	346	214
Total	**26,718**	**15,078**
Non-current assets	3,662	123
Current assets	23,056	14,955
Total	**26,718**	**15,078**

Trade receivables balances are recorded net of provision for impairment of RR 1,314 million and RR 1,572 million at 31 December 2009 and 31 December 2008, respectively.

Other receivables balances are recorded net of provision for impairment of RR 276 million and RR 193 million at 31 December 2009 and 31 December 2008, respectively.

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

Note 13. Other assets

	31 December 2009	31 December 2008
Other non-current assets		
Biological assets	-	271
Intangible assets	523	275
Available-for-sale investments	256	35
Investments in equity accounted investees	5	4
Other non-current assets	65	-
Total	**849**	**585**
Other current assets		
Constructed assets financed by the government of Moscow city	523	523
Other current assets	1,149	778
Total	**1,672**	**1,301**

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

Note 14. Cash and cash equivalents

	31 December 2009	31 December 2008
Bank balances	2,267	3,315
Total	**2,267**	**3,315**

Note 15. Equity

(a) Share capital and share premium

At 31 December 2009 the authorised share capital comprised 39,749,359,700 ordinary shares (31 December 2008: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

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

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

(b) Treasury stock

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

Thus the treasury stock at 31 December 2009 amounted to RR 871 million, at 31 December 2008 treasury stock amounted to RR 899 million.

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

(c) Reserves

Reserves composed of the revaluation of available for sale financial assets in amount of RR 30 million and the revaluation reserve relates to the revaluation of property, plant and equipment in amount RR 86 716 million at 31 December 2009.

At 31 December 2008 reserves composed of the revaluation of investment property in amount of RR 369 million and the revaluation reserve related to the revaluation of property, plant and equipment in amount RR 88 231 million.

(d) Dividends

In June 2009 the general shareholders' meeting approved the decision not to distribute profit for fiscal 2008.

The discussions related to dividends distribution for fiscal 2009 are scheduled at the general shareholders' meeting in June 2010.

Note 16. Borrowings

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

	31 December 2009	31 December 2008
Non-current borrowings		
Unsecured bond issues	14,412	4,783
Unsecured bank loans	2,263	-
Secured bank loans	-	5,332
Notes	-	84
Total	**16,675**	**10,199**
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bond issues	2,000	4,629
Notes	90	-
Current portion of unsecured bank loans	-	5,276
Current portion of secured bank loans	-	2,595
Total	**2,090**	**12,500**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2009 Face value	31 December 2009 Carrying amount	31 December 2008 Face value	31 December 2008 Carrying amount
Secured bank loans				-	-	**7,927**	**7,927**
EBRD	Russian Roubles	MosPrime+ from 2.5% to 3.5%	2009	-	-	6,578	6,578
EBRD	USD dollars	LIBOR+3.5%	2009	-	-	99	99
OJSC SB RF	Russian Roubles	16%	2009	-	-	1,250	1,250
Unsecured bank loans				**3,281**	**2,263**	**5,276**	**5,276**
OJSC ACB Bank of Moscow	Russian Roubles	17%	2009	-	-	700	700
OJSC ACB Bank of Moscow	Russian Roubles	18%	2009	-	-	1,600	1,600
CJSC Mezhdunarodny prommyshlenny bank	Russian Roubles	13.7%	2009	-	-	2 ,976	2, 976
CALYON Deutschland	EURO	EURIBOR6M+ 4.25%	2014	1,084	1,017	-	-
CALYON Deutschland	EURO	EURIBOR6M+ 1.95%	2025	133	-	-	-
BNP Paribas	EURO	EURIBOR6M+ 2%	2023	2,064	1,246	-	-
Unsecured bond issues				**16,412**	**16,412**	**9,412**	**9,412**
Unsecured bond issue #1	Russian Roubles	12.50%	2011	4,629	4,629	4,629	4,629
Unsecured bond issue #2	Russian Roubles	7.65%	2016	4,783	4,783	4,783	4,783
Unsecured bond issue #3	Russian Roubles	10.25%	2014	5,000	5,000	-	-
Unsecured bonds BO-02	Russian Roubles	11.45%	2010	2,000	2,000	-	-
Notes				**95**	**90**	**95**	**84**
OJSC Mezhtopenergobank	Russian Roubles	free of interest	2010	95	90	95	84
Total				**19,788**	**18,765**	**22,710**	**22,699**

(b) Secured bank loans

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

Other borrowings from the EBRD provided in April 1998 are primarily repayable in US dollars maturing through 2009.

In December 2008, the Company received a new secured bank loan from SB RF. This fact was not communicated to the EBRD on a timely basis, as required by the loan agreements. This resulted in a breach of the non-financial covenants related to the creation of liens at 31 December 2008.

Notwithstanding the event of default, management did not expect the immediate repayment of the respective loans and continues classifying the liability in amount of RR 5 332 million as non-current at 31 December 2008. In the third quarter 2009 the Company settled its debt before SB RF.

The Company repaid all the loans provided by EBRD at 9 December 2009 in full amount.

(c) Unsecured bond issues

At 30 June 2009 bonds of the first issue amounted to RR 4,629 million were reclassified as non-current liabilities due to the fact that appropriate bonds were not called for early redemption caused by the increase of interest rate from 7.54% to 12.5%. Thus the extinguishment of bonds was postponed to September 2011 in accordance with the bondholders decision.

At 21 August 2009 OJSC Mosenergo issued 2,000,000 non-convertible bonds with a face value of RR 1,000 each maturing

in 1 year and a coupon yield at 11.45% per annum. All bonds were placed at nominal value with the right of early redemption in the case of default.

At 4 December 2009 OJSC Mosenergo issued 5,000,000 non-convertible bonds with face value of RR 1,000 each maturing in 5 years. All bonds were placed at nominal value with the right of early redemption in the case of default.

(d) Unsecured bank loans

At 15 June 2009 OJSC Mosenergo and European banks Calyon (France) and NordLB (Germany) signed the agreement over the opening credit line with the limit amounted to EUR 415 million for the 16.5 years' period. The purpose of this credit line is to finance the construction contracts under the investment program of the Company.

(e) Credit agreements

At 23 September 2009 OJSC Mosenergo and international bank BNP Paribas made an agreement over the opening credit line with the limit amounted to EUR 186 million for the 13.5 years' period. The purpose of this credit line is to refinance and finance the construction contracts under the investment program of the Company.

Note 17. Employee benefits

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

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

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

A new collective employment agreement came into force since 1 January 2009. Amount of lump sum upon retirement benefit was increased whereas provision of lump sum in case of death of a pensioner was terminated. In addition, basis for valuation of jubilee benefits was changed. This resulted in increase of obligations treated as past service cost which was immediately recognised in accordance with IAS 19 requirements for other long-term benefits.

During the course of 2009 the Company continues implementing restructuring programme which resulted in redundancies recognised as a curtailment. Compensations for redundancies paid by the Company amounted to RR 253 million were recognised as an expense for the year ended 31 December 2009.

	31 December 2009	31 December 2008
Present value of unfunded obligations	489	482
Recognised liability for defined benefit obligations	489	482
Unrecognised actuarial gains/(losses)	7	3
Unrecognised past service cost	(129)	-
Net liability recognised in balance sheet	**367**	**485**

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

	2009	2008
Defined benefit obligations at 1 January	482	3,008
Benefits paid	(39)	(498)
Current service cost	20	81
Interest on obligation	43	145
Actuarial losses/(gains)	61	(114)
Past service cost	241	-
Effect of curtailment and settlement	(319)	(2,140)
Defined benefit obligations at 31 December	**489**	**482**

(b) Expenses recognised in profit or loss

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	20	81
Interest cost	43	145
Amortization of past service cost	18	-
Past service cost (immediate recognition)	73	-
Termination benefits	253	275
Effect of curtailment and settlement	(279)	(72)
Net actuarial loss recognised in period	68	-
Total	**196**	**429**

(c) Actuarial assumptions

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

(i) Financial assumptions

	31 December 2009	31 December 2008
Discount rate	9.00%	9.00%
Inflation rate	6.50%	6.50%
Future salary increases	8.00%	8.00%
Future pension increase	6.50%	6.50%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 17% pa for employees with 1 year of past service to around 6% pa for those who have 5 or more years of service. Similar withdrawal rates were used at 31 December 2008.

Retirement ages assumption is as follows: average retirement ages are 62 years for men and 59 years for women comparing with 61.5 and 59 years for men and women respectively used at 31 December 2008.

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

(d) Historical information

	31 December 2009	31 December 2008
Present value of the defined benefit obligation	489	482
Deficit in the plan	**489**	**482**
Experience adjustments arising on plan liabilities	62	42

Note 18. Trade and other payables

	31 December 2009	31 December 2008
Trade payables	7,638	3,734
Other payables	4,095	5,393
Financial liabilities	**11,733**	**9,127**
Advances received	5,867	1,495
Other payable	857	1,481
Total	**18,457**	**12,103**
Non-current liabilities	201	140
Current liabilities	18,256	11,963
Total	**18,457**	**12,103**

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

Note 19. Other taxes payable

	31 December 2009	31 December 2008
Property tax payable	689	445
VAT payable	603	270
Social taxes and contributions payable	306	151
Other taxes payable	51	132
Total	**1,649**	**998**

Note 20. Provisions

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

	Provision for buy-out of own shares	Litigations provision	Total
Balance at 1 January 2009	-	**253**	**253**
Provisions made during the period	-	199	**199**
Provisions used during the year		(160)	**(160)**
Provisions recovered during the period	-	(14)	**(14)**
Balance at 31 December 2009	**-**	**278**	**278**
Non-current provision	-	-	-
Current provision	-	278	**278**
Total	**-**	**278**	**278**

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

In year 2008-2009 there was a claim against the company from JSC MTK regarding levy of interest for "use of other entity's funds" due to late payment as per contract on supply of heat energy and heat transfer in total amount up RR 260 million. At 31 December 2008 the corresponding provision was made in amount of RR 112 million. In 2009 the respective provision was increased up to RR 160 million. In the second quarter 2009 an amicable agreement with JSC MTK was concluded on amount RR 160 million and in the third quarter 2009 the claim was paid and fully settled.

At the end of the year 2009 the similar nature of issue as mentioned above claimed from JSC MTK against the Company but in respect of another period of settlements. The new claim amounted up to RR 181 million. The Company's management estimated probability of this claim not in favor of the Company in amount of RR 59 million. Accordingly, the provision in amount of RR 59 million was created at the reporting date.

As of the date of these financial statements authorization there are four unsettled claims against the Company regarding levy of interests for "use of other entity's funds" due to late payments that occurred when changes to the LLC CB Transinvestbank Charter were found void. Total amount of the claims is RR 239 million. The Company's management estimated probability of these claims settlement not in favour of the Company as highly probable. The outflow of economic benefits amounting to RR 120 million using the probability weights cash flow approach was determined by the Company's management, at 31 December 2008 and continued to be the same at the reporting date.

The reserve in amount of RR 92 million was accrued in relation to 26 claims in respect of the account receivables redress in according to Agreement of Joint and several liability with OJSC Mosenergosbyt. The remaining amount of RR 7 million relates to the reserve accrued within the framework of Group's routine business activity.

Note 21. Revenue

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity	61,559	52,953
Heat	47,508	37,540
Other revenue	3,569	4,326
Total	**112,636**	**94,819**

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

Approximately 8% of sales of electricity for year ended 31 December 2009 relates to resale of purchased electricity on wholesale market NOREM (year ended 31 December 2008: 9%).

Note 22. Cost of materials

	Year ended 31 December 2009	Year ended 31 December 2008
Fuel expenses	51,417	45,326
Purchased heat and electricity	5,179	5,335
Water usage expenses	1,261	961
Other materials expenses	739	1,130
Total	**58,596**	**52,752**

Electricity is purchased mainly on wholesale electricity market.

Note 23. Other external supplies

	Year ended 31 December 2009	Year ended 31 December 2008
Electricity market administration fees	1,035	795
Connection services	359	313
Security services	321	307
Transport services	229	271
Fire prevention services	95	87
Other services	195	383
Total	**2,234**	**2,156**

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

Note 24. Personnel expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Wages and salaries	7,165	7,219
Payroll tax	1,377	1,548
Termination benefits	253	422
Voluntary medical insurance expenses	151	105
Past service cost (immediate recognition)	73	-
Net actuarial losses recognised in the period	68	-
Personnel training expenses	44	68
Current service costs	20	81
Amortization of past service costs	18	-
Total	**9,169**	**9,443**

Mosenergo Group average headcount totalled 12,599 and 16,725 at 31 December 2009 and 31 December 2008, respectively.

Note 25. Other operating expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Legal, consulting and data processing services	1,058	419
Impairment of bioassets	496	-
Rent expenses	458	383
Maintenance of non-core and social assets	431	382
Insurance expenses	319	104
Bank services	281	216
Fines and penalties related to contracts violations	215	831
Software expenses	207	6
Loss on disposal of property, plant and equipment	122	41
Safety arrangement and precautions	80	96
Impairment of inventories	80	(4)
Environmental payments	77	112
Legal rights registration expenses	25	8
Property, plant and equipment dismantlement costs	-	29
Impairment of other investments	-	62
Trade and other receivables impairment (gain)/ loss	(169)	60
Other miscellaneous	124	107
Total	**3,804**	**2,852**

Note 26. Other operating income

	Year ended 31 December 2009	Year ended 31 December 2008
Subsidies on the difference in tariffs for sales to the urban population	374	324
Gain/(loss) from disposal of assets held for sale	352	-
Effect of curtailment and settlement	279	72
Other miscellaneous	57	31
Total	**1,062**	**427**

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

Note 27. Financial income and expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Financial income		
Interest income	256	835
Foreign exchange gain	109	156
Other interest income	1,109	695
Total	**1,474**	**1,686**
Financial expenses		
Interest expenses on borrowings	(2,516)	(1,572)
Lease expenses	(171)	-
Foreign exchange (loss)	(158)	(300)
Interest on obligations	(43)	(145)
Other interest expenses	(882)	(22)
Total	**(3,770)**	**(2,039)**
Less capitalized interest expenses on borrowings related to qualifying assets (Note 7)	2,516	449
Net financial expenses recognised in profit or loss	**(1,254)**	**(1,590)**

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

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	1,365	1,530
Interest expenses	(1,053)	(1,145)
Net interest	**312**	**385**

Net interest result by categories of assets and liabilities

	Year ended 31 December 2009	Year ended 31 December 2008
Investments	1,129	1,180
Cash and cash equivalents	236	316
Liabilities carried at amortised cost	(1,053)	(1,111)
Total	**312**	**385**

Note 28. Income tax

On 26 November 2008 legislation was enacted that reduced the Russian corporate income tax rate from 24% to 20% with effect from 1 January 2009.

(a) Income tax

The Group's applicable tax rate is the income tax rate of 20% (for the year ended 31 December 2008: 24%).

	Year ended 31 December 2009	Year ended 31 December 2008
Current tax (expense)/benefit		
Current year	(1,534)	(1,282)
Over provided in prior periods	326	936
Deferred tax (expense)/benefit		
Origination and reversal of temporary differences	623	(164)
Effect from decrease in value of property, plant and equipment	-	689
Effect from increase in value of investment property	-	(400)
Change in tax rate	-	853
Income tax (expense)/benefit	**(585)**	**632**

Reconciliation of effective tax rate is as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit before income tax	2,243	1,423
Income tax at applicable tax rate	(449)	(341)
Non-deductible / non-taxable items	(462)	(816)
Change in tax rate	-	853
Over provided in prior periods	326	936
Income tax (expense)/ benefit	**(585)**	**632**

(b) Tax effects of components of other comprehensive income

	Year ended 31 December 2009			Year ended 31 December 2008		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Impairment loss on property, plant and equipment	(2,355)	471	(1,884)	-	-	-
Revaluation of available-for-sale financial assets	32	(2)	30	-	-	-
Change in tax rate through other comprehensive income	-	-	-	-	1,593	1,593
Revaluation of property, plant and equipment	-	-	-	70,447	(14,089)	56,358
Revaluation of investment property	-	-	-	461	(92)	369
Total	**(2,323)**	**469**	**(1,854)**	**70,908**	**(12,588)**	**58,320**

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	31 December 2009	**31 December 2008**	**31 December 2009**	**31 December 2008**	**31 December 2009**	**31 December 2008**
Property, plant and equipment	-	-	(25,343)	(25,705)	(25,343)	(25,705)
Investment property	-	-	(49)	(656)	(49)	(656)
Investments in equity accounted investees	-	-	(1)	(1)	(1)	(1)
Trade and other receivables	202	-	-	(33)	202	(33)
Assets classified as held for sale			(92)	-	(92)	-
Employee benefits	73	97	-	-	73	97
Provisions	56	51	-	-	56	51
Trade and other payables	158	114	-	-	158	114
Investments	128	-	-	-	128	-
Borrowings	-	-	(205)	(3)	(205)	(3)
Other	89	28	(32)	-	57	28
Total	**706**	**290**	**(25,722)**	**(26,398)**	**(25,016)**	**(26,108)**

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

	31 December 2007	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 December 2008**
Property, plant and equipment	(14,543)	1,334	(12,496)	-	(25,705)
Investment property	(313)	(251)	(92)	-	(656)
Investments in equity accounted investees	(293)	292	-	-	(1)
Trade and other receivables	167	(200)	-	-	(33)
Employee benefits	307	(210)	-	-	97
Provisions	11	40	-	-	51
Trade and other payables	164	(50)	-	-	114
Borrowings	(6)	3	-	-	(3)
Other	8	20	-	-	28
Total	**(14,498)**	**978**	**(12,588)**	-	**(26,108)**

	31 December 2008	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 December 2009**
Property, plant and equipment	(25,705)	(336)	471	227	(25,343)
Investment property	(656)	325	-	282	(49)
Investments in equity accounted investees	(1)	-	-	-	(1)
Trade and other receivables	(33)	235	-	-	202
Assets classified as held for sale		417	-	(509)	(92)
Employee benefits	97	(24)	-	-	73
Provisions	51	5	-	-	56
Trade and other payables	114	44	-	-	158
Investments	-	128	-	-	128
Borrowings	(3)	(202)	-	-	(205)
Other	28	31	(2)		57
Total	**(26,108)**	**623**	**469**	-	**(25,016)**

Note 29. Earnings per share

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

	Year ended 31 December 2009	Year ended 31 December 2008
Issued shares	39,749,360	39,749,360
Effect of own shares held	(147,376)	(125,704)
Weighted average number of ordinary shares (thousands)	**39,601,984**	**39,623,656**

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

	Year ended 31 December 2009	Year ended 31 December 2008
Weighted average number of ordinary shares issued (thousands)	39,601,984	39,623,656
Profit for the period	1,658	2,055
Profit per ordinary share (basic and diluted) (in Russian Roubles)	**0.04**	**0.05**

Note 30. Financial instruments

(a) Credit risk

(i) Exposure to credit risk

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

	Carrying amount	
	31 December 2009	31 December 2008
Held-to-maturity investments	**12,130**	**13,444**
Investments (Note 11)	12,130	13,444
Loans and receivables	**16,986**	**9,259**
Trade and other receivables (Note 12)	16,945	9,218
Investments (Note 11)	41	41
Available- for –sale financial assets	**256**	**35**
Other non-current assets (Note 13)	256	35
Cash and cash equivalents (Note 14)	2,267	3,315
Total financial assets	**31,639**	**26,053**

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

	Carrying amount	
	31 December 2009	31 December 2008
Electricity	3,988	1,567
Heat	9,644	5,027
Other	3,313	2,624
Total	**16,945**	**9,218**

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

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

The Group's most significant customer, OJSC MOEK, accounts for RR 5,273 million for the trade receivables carrying amount at 31 December 2009 (31 December 2008: RR 2,783 million).

(ii) Impairment losses

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

	31 December 2009		31 December 2008	
	Gross	Impairment	Gross	Impairment
Not past due	11,092	-	6,954	-
Past due 0-30 days	2,917	-	529	-
Past due 31-120 days	349	-	470	-
Past due 121-365 days	1,400	-	615	-
More than one year	2,777	1,590	2,415	1,765
Total	**18,535**	**1,590**	**10,983**	**1,765**

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

	2009	2008
Balance at 1 January	1,765	1,767
Impairment loss (reversed)/recognised during the period	(169)	60
Allowance used during the period	(6)	(62)
Balance at 31December	**1,590**	**1,765**

The impairment allowance at 31December 2009 of RR 1,590 million (31 December 2008: RR 1,765 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 365 days; 85.02 percent of the balance (at 31 December 2008: 78.02 percent), which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group.

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

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

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

Name of the bank	Rating agency	Rating	31 December 2009	Rating	31 December 2008
OJSC Gazprombank	Standart & Poor's	ruAA	1,543	BB+	1,847
Bank of Moscow	Fitch Ratings	AA+(rus)	382	BBB-	717
CJSC Gazenergoprombank	Moody's Interfax	Aa3.ru	262	Aa3.ru	358
Sberbank RF	Moody's Interfax	Aaa.ru	47	BBB	280
Alfa-Bank	Fitch Ratings	A+(rus)	29	BB	2
LLC CB Transinvestbank	-	-	1	-	66
OJSC ACB Eurofinance-Mosnarbank	Fitch Ratings	BBB(rus)	-	-	15
OJSC VTB	Fitch Ratings	AAA(rus)	-	BBB	13
CJSC Raiffeisenbank	Fitch Ratings	AAA(rus)	-	BBB+	9
BNP Paribas	Standart & Poor's	ruAAA	-	-	-
Others	-	-	3	-	8
Total			**2,267**		**3,315**

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

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2009:

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	2,263	4,049	71	72	499	656	773	410	1,568
Unsecured bond issues	16,412	20,240	841	2,841	6,082	10,476	-	-	-
Notes	90	95	-	95	-	-	-	-	-
Trade and other payables	11,733	11,733	11,733	-	-	-	-	-	-
Total	**30,498**	**36,117**	**12,645**	**3,008**	**6,581**	**11,132**	**773**	**410**	**1,568**

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

	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Secured bank loans	7,927	13,228	1,558	2,710	2,410	2,045	1,814	646	2,045
Unsecured bank loans	5,276	5,648	3,910	1,738	-	-	-	-	-
Unsecured bond issues	9,412	11,225	357	4,987	366	366	5,149	-	-
Notes	84	95	-	-	95	-	-	-	-
Trade and other payables	9,127	9,127	9,127	-	-	-	-	-	-
Total	**31,826**	**39,323**	**14,952**	**9,435**	**2,871**	**2,411**	**6,963**	**646**	**2,045**

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

(c) Currency risk

(i) Exposure to currency risk

	31 December 2009 EURO-denominated	31 December 2008 EURO-denominated	31 December 2009 USD-denominated	31 December 2008 USD-denominated
Unsecured bank loans	(2,263)	-	-	(99)
Gross balance sheet exposure	**(2,263)**	-	-	**(99)**
Estimated forecasted interest	(11)	-	-	(3)
Gross exposure	**(11)**	-	-	**(3)**
Net exposure	**(2,274)**	-	-	**(102)**

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
USD 1	31.7231	24.8553	30.2442	29.3804
EURO 1	44.1299	36.4291	43.3883	41.4411

(ii) Sensitivity analysis

A 28% strengthening of the RR against the USD at 31 December 2009 and a 21% strengthening of the RR against the EUR at 31 December 2009 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2008.

	31 December 2009	31 December 2008
USD	-	(34)
EURO	(481)	-

A 28% weakening of the RR against the USD at 31 December 2009 and a 21% weakening of the RR against the EUR at 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The actual decrease in the average exchange rates for the year ended 31 December 2009 was approximately 28% for the USD and 21% for the EURO, although the difference between the two actual extremes in the reported period was approximately 27% for the USD (31 December 2008: 25.3%), the difference between the two actual extremes in the reported period was approximately 14% for the EURO (31 December 2008: 22%).

(d) Interest rate risk

(i) Profile

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

	Carrying amount	
	31 December 2009	**31 December 2008**
Fixed rate instruments		
Financial assets (Note 11, 12, 13 and 14)	31,639	26,053
Financial liabilities (Note 16,18)	(28,235)	(25,149)
Total	**3,405**	**904**
Variable rate instruments		
Financial liabilities (Note 16)	(2,263)	(6,677)
Total	**(2,263)**	**(6,677)**

(ii) Fair value sensitivity analysis for fixed rate instruments

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

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2008.

	31 December 2009		31 December 2008	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Variable rate instruments	(80.2)	80.2	(86.4)	86.4
Cash flow sensitivity (net)	**(80.2)**	**80.2**	**(86.4)**	**86.4**

(e) Fair values

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

	31 December 2009		31 December 2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Investments (Note 11)	12,171	12,171	13,485	13,485
Trade and other receivables (Note 12)	16,945	16,945	9,218	9,218
Cash and cash equivalents (Note 14)	2,267	2,267	3,315	3,315
Available-for-sale financial assets (Note 13)	256	256	35	35
Secured bank loans (Note 16)	-	-	(7,927)	(7,927)
Unsecured bank loans (Note 16)	(2,263)	(2,263)	(5,276)	(5,276)
Unsecured bond issues (Note 16)	(16,412)	(16,612)	(9,412)	(8,361)
Notes (Note 16)	(90)	(90)	(84)	(84)
Trade and other payables (Note 18)	(11,733)	(11,733)	(9,127)	(9,127)

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

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

	31 December 2009	31 December 2008
Borrowings	13.1	16.9

Note 31. Leases

(a) Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where Group's generation facilities are located. The leases typically run for a periods from 5 to 45 years with an option to renew the lease. During the year ended 31 December 2009 and 31 December 2008 RR 458 million and RR 383 million respectively were recognised as expenses in profit or loss in respect of operating lease.

Non-cancellable operating lease rentals are payable as follows:

	31 December 2009	31 December 2008
Less than one year	366	345
Between one and five years	1,363	1,354
More than five years	8,619	8,732
Total	**10,348**	**10,431**

(b) Finance leases

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

	31 December 2009			31 December 2008		
	Future minimum lease payments	**Interest**	**Minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	297	77	220	-	-	-
Between one and five years	122	19	103	-	-	-
More than five years	-	-	-	-	-	-
Total	**419**	**96**	**323**	**-**	**-**	**-**

The imputed finance expense on the liability was determined based on Group's incremental borrowing rate (3%).

Note 32. Commitments and contingencies

(a) Capital commitments

During year ended 31 December 2009 the Group entered into a number of contracts for construction and purchase of property, plant and equipment for RR 13,643 million (at 31 December 2008: RR 16,701 million).

(b) Taxation environment

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

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

(c) Legal proceedings

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

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

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

(d) Other Claims

According to the Act of Inspection of Moscow Regional energy commission, the Company was found in administrative violation in respect of application overpriced tariff on heat energy to private customers. Resultantly, exists the possibility of fine impose, which is limited by RR 461 million. In respect of the same issue Moscow Federal Antimonopoly Bureau brought an action against the Company related to the excessive use of dominating position within the framework of heat realization market. Thus there is a possibility of fine impose, which is limited by RR 1,800 million. The Company evaluate the probability of above mentioned penalties impose as low.

(e) Environmental liabilities

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

(f) Insurance

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

(g) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounted to RR 296 million as of 31 December 2009 (31 December 2008: RR 381 million).

Note 33. Operating segments

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

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

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

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

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

(a) Segment information

The segment information for the year ended 31 December 2009 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	**21**	**61,559**	**47,508**	**3,569**	**112,636**
Expenses:					
Fuel and water usage expenses	22	(52,678)	-	-	(52,678)
Purchase heat	22	-	(319)	-	(319)
Purchase electricity	22	(4,860)	-	-	(4,860)
Heat transmission		-	(18,260)	-	(18,260)
Gross margin		**4,021**	**28,929**	**3,569**	**36,519**
Segment assets		**196,005**	**19,953**	**33,843**	**249,801**

The segment information for the year ended 31 December 2008 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	**21**	**52,953**	**37,540**	**4,326**	**94,819**
Expenses:					
Fuel and water usage expenses	22	(46,287)	-	-	(46,287)
Purchase heat	22	-	(436)	-	(436)
Purchase electricity	22	(4,899)	-	-	(4,899)
Heat transmission		-	(14,737)	-	(14,737)
Gross margin		**1,767**	**22,367**	**4,326**	**28,460**
Segment assets		**200,371**	**12,337**	**35,957**	**248,665**

An impairment loss recognised for property, plant and equipment and investment property in the period ended 31 December 2009 in the total amount of RR 4,608 million was allocated to electricity segment in the amount of RR 4,468 million and to all other segments in the amount of RR 140 million.

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

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Gross margin for reportable segments		32,950	24,134
Other segments gross margin		3,569	4,326
Financial income	27	1,474	1,686
Other operating income	26	1,062	427
Gain/(loss) on withdrawal from equity investee		124	(397)
Share of profit of equity accounted investees		-	5
Depreciation of property, plant and equipment equipment	7	(11,705)	(6,621)
Personnel expenses	24	(9,169)	(9,443)
Other operating expenses	25	(3,804)	(2,852)
Maintenance and repairs expenses		(3,215)	(2,078)
Taxes other than income tax		(2,563)	(1,444)
Other external supplies	23	(2,234)	(2,156)
(Loss)/profit from change in fair value of investment property	8	(1,623)	1,999
Financial expenses	27	(1,254)	(1,590)
Cost of materials	22	(739)	(1,130)
Impairment loss of property, plant and equipment		(630)	(3,443)
Profit before income tax		**2,243**	**1,423**

(b) Reportable segments' assets

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

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

	Note	31 December 2009	31 December 2008
Segment assets		249,801	248,665
Unallocated:			
Available-for-sale investments	13	256	35
Income tax receivables		320	78
Trade and other receivables	12	55	61
Total assets per the balance sheet		**250,432**	**248,839**

(c) Information about major customers

During the year ended 31 December 2009 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from OJSC "MOEK" for the year ended 31 December 2009 amounted to RR 31,246 million. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from OJSC "Mosenergosbyt" for the year ended 31 December 2009 amounted to RR 30,271 million. The revenue was obtained from sales of electricity and power relating to electricity segment.
- Revenue from CJSC "ZFR" for the year ended 31 December 2009 amounted to RR 27,580 million. The revenue was obtained from sales of electricity and power relating to electricity segment.

During the year ended 31 December 2008 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from OJSC "MOEK" for the year ended 31 December 2008 amounted to RR 23,386 million. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from OJSC "Mosenergosbyt" for the year ended 31 December 2008 amounted to RR 33,147 million. The revenue was obtained from sales of electricity and power relating to electricity segment.
- Revenue from CJSC "ZFR" for the year ended 31 December 2008 amounted to RR 16,417 million. The revenue was obtained from sales of electricity and power relating to electricity segment.

Note 34. Events after the balance sheet date

In February 2010 the Board of Directors within the framework of implementation of the Company's structure optimization program decided to liquidate the following non-core branches: Energosvyaz, Centralniy remontno-mekhanicheskiy zavod, Informaciono-vychislitelniy centr, Mosenergonaladka, Moselektroremenergo, Energotorg and Teplovye seti.