**MOSENERGO Group**

**Consolidated financial statements**
**(prepared in accordance with IFRS)**
**for the year ended 31 December 2010**
**(with an independent auditor's report thereon)**

# *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 of 31 December 2010 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 Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**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 consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2010, 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

14 March 2011
Moscow, Russian Federation

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

| | Note | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 180,559 | 187,051 |
| Investment property | 8 | 898 | 1,020 |
| Advances for acquisition of property, plant and equipment | | 15,195 | 13,336 |
| Trade and other receivables | 12 | 15 | 3,540 |
| Other non-current assets | 13 | 480 | 850 |
| **Total non-current assets** | | **197,147** | **205,797** |
| **Current assets** | | | |
| Inventories | 10 | 6,438 | 4,541 |
| Investments | 11 | - | 12,130 |
| Income tax receivable | | 17 | 320 |
| Trade and other receivables | 12 | 21,115 | 23,097 |
| Cash and cash equivalents | 14 | 28,334 | 2,267 |
| Other current assets | 13 | 1,896 | 1,672 |
| Assets classified as held for sale | 9 | 754 | 608 |
| **Total current assets** | | **58,554** | **44,635** |
| **Total assets** | | **255,701** | **250,432** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 15 | | |
| Share capital | | 166,124 | 166,124 |
| Treasury stock | | (871) | (871) |
| Share premium | | 49,213 | 49,213 |
| Reserves | | 86,639 | 86,746 |
| Accumulated loss | | (107,336) | (115,504) |
| **Total equity** | | **193,769** | **185,708** |
| **Non-current liabilities** | | | |
| Non-current borrowings | 16 | 11,770 | 16,675 |
| Deferred tax liabilities | 28 | 24,758 | 24,924 |
| Employee benefits | 17 | 410 | 367 |
| Trade and other payables | 18 | 946 | 585 |
| **Total non-current liabilities** | | **37,884** | **42,551** |
| **Current liabilities** | | | |
| Current borrowings and current portion of non-current borrowings | 16 | 4,976 | 2,090 |
| Trade and other payables | 18 | 15,683 | 17,872 |
| Income tax payable | | 812 | 192 |
| Other taxes payable | 19 | 2,389 | 1,649 |
| Provisions | 20 | 71 | 278 |
| Liabilities classified as held for sale | 9 | 117 | 92 |
| **Total current liabilities** | | **24,048** | **22,173** |
| **Total liabilities** | | **61,932** | **64,724** |
| **Total equity and liabilities** | | **255,701** | **250,432** |

General Director — V.G. Yakovlev

Chief Accountant — S. A. Suraev

14 March 2011

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

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

| | Note | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|---|
| Revenue | 21 | 145,298 | 112,636 |
| Other operating income | 26 | 1,574 | 847 |
| Income/(loss) from change in fair value of investment property | 8 | 21 | (1,623) |
| Cost of materials | 22 | (79,652) | (58,596) |
| Heat transmission | | (24,469) | (18,260) |
| Depreciation of property, plant and equipment | 7 | (12,214) | (11,705) |
| Personnel expenses | 24 | (9,419) | (9,169) |
| Maintenance and repairs expenses | | (4,281) | (3,009) |
| Taxes other than income tax | | (2,571) | (2,563) |
| Other external supplies | 23 | (2,524) | (2,478) |
| Impairment loss on property, plant and equipment | | - | (630) |
| Other operating expenses | 25 | (3,885) | (3,551) |
| **Results from operating activities** | | **7,878** | **1,899** |
| Financial income | 27 | 2,428 | 1,474 |
| Financial expenses | 27 | (169) | (1,254) |
| Gain on withdrawal from subsidiary | 9 | 861 | - |
| Gain on withdrawal from equity accounted investee | | - | 124 |
| **Profit before income tax** | | **10,998** | **2,243** |
| Income tax (expense) | 28 | (2,330) | (585) |
| **Profit for the year** | | **8,668** | **1,658** |

| | | | |
|---|---|---|---|
| **Other comprehensive income:** | | | |
| Impairment loss on property, plant and equipment | 28 | (104) | (2,355) |
| Derecognition of revaluation of available-for-sale financial assets | 28 | (24) | - |
| Revaluation of available-for-sale financial assets | 28 | - | 32 |
| Income tax relating to components of other comprehensive income | 28 | 21 | 469 |
| **Other comprehensive loss on the year, net of tax** | | **(107)** | **(1,854)** |
| **Total comprehensive income/(loss) for the year** | | **8,561** | **(196)** |

| | | | |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Equity holders of the company | | 8,668 | 1,658 |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Equity holders of the company | | 8,561 | (196) |
| Basic and diluted earnings per share (in Russian Roubles) | 29 | 0.22 | 0.04 |

General Director — V.G. Yakovlev

Chief Accountant — S.A. Suraev

14 March 2011

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

| | Note | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Profit before income tax** | | **10,998** | **2,243** |
| *Adjustments for:* | | | |
| Depreciation of property, plant and equipment | 7 | 12,214 | 11,705 |
| Loss on disposal of property, plant and equipment | 25 | 137 | 122 |
| Impairment loss on property, plant and equipment | | - | 630 |
| Financial income | | (2,427) | (1,474) |
| Financial expenses | 27 | 169 | 1,254 |
| Trade and other receivables impairment loss/(gain) | 25 | 616 | (169) |
| Litigations provision charge | 20 | 100 | 185 |
| Impairment loss on available-for-sale financial assets | 25 | 72 | - |
| Derecognition of revaluation of available-for-sale financial assets | 26 | (24) | - |
| Gain from disposal of available-for-sale financial assets | 26 | (8) | - |
| Gain on withdrawal from equity accounted investee | | - | (124) |
| Gain on withdrawal from subsidiary | 9 | (861) | - |
| (Income)/loss from change in fair value of investment property | 8 | (21) | 1,623 |
| Impairment loss on remeasurement of assets held for sale | 25 | 123 | - |
| Gain from disposal of assets held for sale | 26 | (357) | (352) |
| Other non-cash items | | (12) | 4 |
| **Operating profit before changes in working capital and provisions** | | **20,719** | **15,647** |
| Change in provisions | | (307) | (160) |
| Change in inventories | | (1,886) | (99) |
| Change in trade and other receivables | | 6,327 | (11,257) |
| Change in other current and non-current assets | | 7 | 53 |
| Change in trade and other payables | | (1,622) | 8,960 |
| Change in taxes payables, other than income tax | | 1,497 | 1,199 |
| Change in employee benefits | | (8) | (161) |
| **Cash flows from operations before income tax and interest paid** | | **24,727** | **14,182** |
| Income tax paid | | (2,282) | (2,128) |
| **Cash flows from operating activities** | | **22,445** | **12,054** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of assets held for sale | | 320 | 3,345 |
| Proceeds from disposal of available-for-sale financial assets | | 60 | - |
| Proceeds from sale of property, plant and equipment | | 29 | - |
| Proceeds from disposal of investments | | 12,768 | 675 |
| Proceeds from withdrawal from subsidiary | 9 | 1,191 | - |
| Proceeds from withdrawal from equity accounted investee | | - | 973 |
| Interest received | | 136 | 100 |
| Acquisition of property, plant and equipment | | (6,663) | (11,579) |
| Interest paid and capitalized | | (1,754) | (2,415) |
| Acquisition of investments | | - | (191) |
| Debt fee | | (110) | (1,101) |
| **Cash flows from /(used in) investing activities** | | **5,977** | **(10,193)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 232 | 13,018 |
| Proceeds from sale of treasury stock | 15 | - | 34 |
| Repayment of borrowings | | (2,095) | (15,961) |
| Dividends paid | | (491) | - |
| **Cash flows used in financing activities** | | **(2,354)** | **(2,909)** |
| **Net increase/(decrease) in cash and cash equivalents** | | 26,068 | (1,048) |
| Cash and cash equivalents at the beginning of the year | 14 | 2,267 | 3,315 |
| Exchange gain on cash and cash equivalents | | (1) | - |
| **Cash and cash equivalents at the end of the year** | 14 | **28,334** | **2,267** |

General Director V.G. Yakovlev

Chief Accountant S. A. Suraev

14 March 2011

(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 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/(loss) 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** |
| | | | | | | | |
| **Balance at 1 January 2010** | | **166,124** | **(871)** | **49,213** | **86,746** | **(115,504)** | **185,708** |
| Profit for the year | | - | - | - | - | 8,668 | 8,668 |
| **Other comprehensive income for the year:** | | | | | | | |
| Impairment loss on property, plant and equipment | 28 | - | - | - | (83) | - | (83) |
| Derecognition of revaluation of available-for-sale financial assets | 28 | - | - | - | (24) | - | (24) |
| **Total comprehensive income/(loss) for the year** | | - | - | - | (107) | 8,668 | 8,561 |
| Dividends to shareholders | 15 | | | | | (500) | (500) |
| **Balance at 31 December 2010** | | **166,124** | **(871)** | **49,213** | **86,639** | **(107,336)** | **193,769** |

General Director — V.G. Yakovlev

Chief Accountant — S. A. Suraev

14 March 2011

## 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 equaled approximately 11,900 megawatts ("MW") and 34,855 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 101/3, Prospekt Vernadskogo, Moscow, 119526, 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 labor capacity and supply chain. Organisational structure optimisation included the merge of several production branches situated geographically close to each other, reallocation and outsourcing of non-core functions.

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

### *(c) Business environment*

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

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

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business. The financial 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 № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and capacity produced and consumed.

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

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

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

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

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

According to Russian Federation Government Resolution № 89 dated 24 February 2010 starting 1 January 2011 the capacity will be supplied using the following schemes at the wholesale market: capacity trading at Commercial Capacity Selection for the following year; capacity trading with the free buying and selling contracts; capacity trading using Capacity Supply Contracts; capacity trading of necessitate generators (power generating objects which were not selected during commercial capacity selection but their functioning is necessary due to technological or other reasons). Capacity Supply Contracts on the one part - support obligations of the capacity suppliers for the completion of their investment program, on the other part – grant the settlement for the capacity generated by the new (modernized) generating objects.

## 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, and
- 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 financial position and the consolidated statement of comprehensive income 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 the consolidated statement of financial position 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 revised IAS 1, Presentation of Financial Statements, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), including situations when the entity retrospectively reclassifies items in its financial statements. The changes in presentation due to reclassifications in the statement of financial position of the Group adopted in 2010 have the effect on the financial position of the Group as at 1 January 2009 amounted to RR 163 million. In management's opinion, mentioned above reclassifications do not have material effect on statement of financial position as at 1 January 2009. Management considers that these omissions of the presentations are permitted as has no influence on ability of users of the consolidated financial statements to take economic decisions.

(in millions of Russian Roubles)

***(i) Consolidated statement of financial position***

The following are the consolidated statement of financial position captions as at 31 December 2009 as reported previously and adjusted:

| | As originally presented | Item | Changes due to reclassification | As adjusted |
|---|---|---|---|---|
| Advances for acquisition of property, plant and equipment | 13,215 | 1 | 121 | 13,336 |
| Trade and other receivables (non-current) | 3,662 | 1 | (122) | 3,540 |
| Other non-current assets | 849 | 1 | 1 | 850 |
| Trade and other receivables (current) | 23,056 | 2 | 41 | 23,097 |
| Investments | 12,171 | 2 | (41) | 12,130 |
| **Total assets** | **250,432** | | **-** | **250,432** |
| Trade and other payables (non-current) | 201 | 3 | 384 | 585 |
| Trade and other payables (current) | 18,256 | 3 | (384) | 17,872 |
| **Total equity and liabilities** | **250,432** | | **-** | **250,432** |

*Item 1.* Advances given to suppliers of equipment and capital construction contractors were reclassified from “Trade and other receivables (non-current)” to “Advances for acquisition of property, plant and equipment” in amount of RR 121 million with corresponding VAT in amount of RR 1 million were reclassified to “Other non-current assets”.

*Item 2*. Trade receivables under cession agreements were reclassified from “Iinvestments” to “Trade and other receivables (current)” in amount RR 41 million.

*Item 3.* Trade payables under technological connection agreements were reclassified from “Trade and other payables (current)” to “Trade and other payables (non-current)” in amount of RR 384 million.

***(ii) Consolidated statement of comprehensive income***

The following are the consolidated statement of comprehensive income captions for the twelve months ended 31 December 2009 as reported previously and adjusted:

| | As originally presented | Item | Changes due to reclassification | As adjusted |
|---|---|---|---|---|
| Other operating income | 1,062 | 1 | (215) | 847 |
| Other external suppliers | (2,234) | 2,3 | (244) | (2,478) |
| Other operating expenses | (3,804) | 1,3 | 253 | (3,551) |
| Maintenance and repairs expenses | (3,215) | 2 | 206 | (3,009) |
| **Profit for the year** | **1,658** | | **-** | **1,658** |

*Item 1.* Fines and penalties from business contract were reclassified from “Other operating income” to “Other operating expense” in amount of RR 215 million.

*Item 2*. Cleaning services expenditure was reclassified from “Maintenance and repairs expenses” to “Other external supplier expenses” in amount of RR 206 million.

*Item 3.* Recycling of wastes expenditure was reclassified from “Other operating expenses” to “Other external supplier expenses” in amount of RR 38 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 Company at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

### *(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 gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

***(ii) Share capital***

*Ordinary shares*

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

*Repurchase of share capital (treasury stock)*

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

***(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 labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

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

***(ii) Reclassification to investment property***

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is 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. The estimate useful lives for the year 2009 were not changed for the year 2010 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

***(f) Intangible assets***

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

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

***(iii) Amortisation***
Amortisation is 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.

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

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

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

***(iii) Other long-term employee benefits***

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

***(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. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of the Company are recognized as income and included in other operating income.

### *(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 2010, and have not been applied in preparing these consolidated statements. The Group plans to adopt these pronouncements when they become effective.

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

- Amendment to IAS 32 *Classification of Rights Issues* - (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group 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.

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

- Amendment to IFRIC 14, Prepayments of minimum funding requirement – (issued in November 2009; effective for annual periods beginning on or after 1 January 2011). The amendments clarifies recognition as an asset some voluntary prepayments for minimum funding contributions. The Group does not expect the amendments to have any material effect on its financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interests or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquire is share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose the fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

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

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

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

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard did not have a significant impact on the consolidated 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.

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

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

- IFRIC 18 *Transfers of Assets from Customers applie*s 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 the fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from other comprehensive income to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group concluded that the amendments to standards did not have a significant impact on the consolidated financial statements.

## Note 4. Determination of fair values

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

### *(a) Property, plant and equipment and investment property*

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

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

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

***(b) Investments in equity and debt securities***

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

***(c) Trade and other receivables***

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

***(d) Non-derivative financial liabilities***

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

## Note 5. Financial risk management

***(a) Overview***

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

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

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

The General Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and 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 Baa 1 from Moody's and Aaa from Moody's, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

***(c) Liquidity risk***

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

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

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

***(d) Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while 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 14% at 31 December 2010 (31 December 2009: 12% ). 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 favorable to the Group over the expected period until maturity.

(in millions of Russian Roubles)

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 the future.

### *(e) Capital management*

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

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

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 2010 and at 31 December 2009 were as follows:

| | **31 December 2010** | **31 December 2009** |
|---|---:|---:|
| Borrowings (Note 16) | (16,746) | (18,765) |
| Cash and cash equivalents (Note 14) | 28,334 | 2,267 |
| Net cash | 11,588 | (16,498) |
| Equity | (193,769) | (185,708) |
| **Total capital** | **(182,181)** | **(202,206)** |
| **Gearing ratio** | **-** | **8.2%** |

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

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

At 31 December 2010, the Group was in compliance with the above share capital requirements.

## Note 6. Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2010 and the year ended 31 December 2009 or had significant balances outstanding at 31 December 2010 and at 31 December 2009 are detailed below. OJSC "Gazprom" is an ultimate Parent Company of OJSC "Mosenergo" during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(in millions of Russian Roubles)

***(a) Transactions with Gazprom Group and its associates***

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

***Revenue***

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Electricity | - | 16 |
| Heat | 52 | 31 |
| Other revenue | 186 | 215 |
| **Total** | **238** | **262** |

***Expenses***

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Fuel expenses | (70,232) | (49,978) |
| Insurance expenses | (265) | (312) |
| Voluntary medical insurance expenses | (108) | (136) |
| Other operating expenses | (229) | (422) |
| **Total** | **(70,834)** | **(50,848)** |

Insurance expenses and voluntary medical insurance expenses for the year ended 31 December 2010 are from Strakhovaya group “Sogaz”, associate of OJSC “Gazprom”, in the amount of RR 265 million and RR 108 million, respectively (for the year ended 31 December 2009: RR 312 million and RR 136 million, respectively).

Other operating expenses for the year ended 31 December 2010 are from OJSC “Neftyanoi dom” and LLC “Gazprommedservis”, associates of OJSC “Gazprom”, in the amount of RR 118 million and RR 42 million, respectively (for the year ended 31 December 2009: RR 0 million and RR 0 million, respectively).

***Financial income and expenses***

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Financial income | 1,475 | 1,313 |
| Financial expenses | (57) | (148) |
| **Net financial income** | **1,418** | **1,165** |

Financial income for the year ended 31 December 2010 is from CJSC “Gazenergoprom Invest”, OJSC “Gazprombank” and OJSC “AB “Russia”, associates of OJSC ”Gazprom”, in the amount of RR 1,094 million, RR 254 million and RR 127 million (for the year ended 31 December 2009: RR 1,087 million, RR 208 million and RR 18 million, respectively).

Financial expense for the year ended 31 December 2010 is from OJSC “Gazprombank”, associate of OJSC “Gazprom”, in the amount of RR 57 million (for the year ended 31 December 2009: RR 148 million).

***Outstanding balance***

| | Outstanding balance at 31 December 2010 | Outstanding balance at 31 December 2009 |
|---|---|---|
| Investments | - | 12,130 |
| Trade and other receivables | 3,390 | 6,517 |
| Cash and cash equivalents | 11,627 | 1,805 |
| **Total assets** | **15,017** | **20,452** |
| Trade and other payables | (2,464) | (571) |
| **Total liabilities** | **(2,464)** | **(571)** |

(in millions of Russian Roubles)

Investments include an outstanding balance with CJSC “Gazenergoprom-Invest”, associate of OJSC “Gazprom”, in the amount of RR 0 million at 31 December 2010 (31 December 2009: RR 12,130 million).

Trade and other receivables include an outstanding balance with CJSC “Gazenergoprom-Invest”, OJSC “Gazprombank” and OJSC “Neftyanoi dom”, associate of OJSC “Gazprom”, in the amount of RR 2,618 million, RR 210 million and RR 1 million at 31 December 2010 (31 December 2009: RR 1,724 million, RR 62 million and RR 0 million, respectively).

Cash and cash equivalents include an outstanding balance with OJSC “Gazprombank” and OJSC “AB “Russia”, associate of OJSC “Gazprom”, in the amount of RR 8,479 million and RR 3,000 million, respectively, at 31 December 2010 (31 December 2009: RR 1,542 million and RR 263 million, respectively).

### *(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***

| | **Year ended 31 December 2010** | **Year ended 31 December 2009** |
|---|---|---|
| Wages and salaries | (98) | (77) |
| Social taxes and contributions | (2) | - |
| Long-service benefit | - | (1) |
| Termination benefits | (2) | - |
| **Total** | **(102)** | **(78)** |

***Outstanding balance***

| | **Outstanding balance at 31 December 2010** | **Outstanding balance at 31 December 2009** |
|---|---|---|
| Wages and salaries | - | - |
| **Total** | **-** | **-** |

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

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

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

***Revenue***

| | **Year ended 31 December 2010** | **Year ended 31 December 2009** |
|---|---|---|
| Electricity | 77,237 | 58,731 |
| Heat | 53,930 | 39,031 |
| Other revenue | 1,869 | 3,228 |
| **Total** | **133,036** | **100,990** |

(in millions of Russian Roubles)

***Expenses***

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Heat transmission | (24,469) | (18,260) |
| Purchased heat and electricity | (6,429) | (5,091) |
| Electricity market administration fees | (974) | (1,035) |
| Water usage expenses | (941) | (702) |
| Security services | (288) | (266) |
| Fuel expenses | (138) | (108) |
| Other operating expenses | (1,441) | (1,896) |
| **Total** | **(34,680)** | **(27,358)** |

***Financial income and expenses***

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Financial income | 65 | 30 |
| Financial expenses | - | (451) |
| **Net financial income** | **65** | **(421)** |

***Outstanding balance***

| | Outstanding balance at 31 December 2010 | Outstanding balance at 31 December 2009 |
|---|---|---|
| Trade and other receivables | 15,321 | 14,694 |
| Other current assets | 523 | 523 |
| Cash and cash equivalents | 13,261 | 429 |
| **Total assets** | **29,105** | **15,646** |
| Trade and other payables | (7,278) | (6,632) |
| **Total liabilities** | **(7,278)** | **(6,632)** |

***Borrowings***

| | Amount loaned for the year ended 31 December 2010 | Amount loaned for the year ended 31 December 2009 | Outstanding balance at 31 December 2010 | Outstanding balance at 31 December 2009 |
|---|---|---|---|---|
| Current borrowings and current portion of non-current borrowings | - | (5,500) | - | - |
| **Total borrowings** | **-** | **(5,500)** | **-** | **-** |

(in millions of Russian Roubles)

## 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 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** |
| **Balance at 1 January 2010** | **97,514** | **56,696** | **13,851** | **11,289** | **21,036** | **200,386** |
| Reclassification | 2,049 | 5,569 | (168) | (7,450) | - | - |
| Additions | - | - | - | 36 | 6,392 | 6,428 |
| Disposals | (39) | (7) | (34) | (73) | - | (153) |
| Transfers | 1,448 | 3,526 | 226 | 1,364 | (6,564) | - |
| Elimination of accumulated depreciation on property transferred to assets classified as held for sale | (128) | - | - | - | - | (128) |
| Transfer to assets held for sale | (391) | - | - | (59) | (32) | (482) |
| **Balance at 31 December 2010** | **100,453** | **65,784** | **13,875** | **5,107** | **20,832** | **206,051** |

### *Accumulated depreciation (including impairment)*

| | Buildings and constructions | Plant and equipment | Transmission networks | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2009** | - | - | - | - | - | - |
| Depreciation charge | (5,912) | (3,117) | (1,552) | (1,124) | - | (11,705) |
| Disposals | 2 | 4 | - | 12 | - | 18 |
| Elimination of accumulated depreciation on property transferred to assets classified as held for sale | 1,332 | - | - | 5 | - | 1,337 |
| Impairment loss | (2,535) | (197) | - | - | (253) | (2,985) |
| **Balance at 31 December 2009** | **(7,113)** | **(3,310)** | **(1,552)** | **(1,107)** | **(253)** | **(13,335)** |
| **Balance at 1 January 2010** | **(7,113)** | **(3,310)** | **(1,552)** | **(1,107)** | **(253)** | **(13,335)** |
| Reclassification | 684 | (401) | 29 | (312) | - | - |
| Depreciation charge | (6,022) | (3,901) | (1,558) | (733) | - | (12,214) |
| Disposals | 4 | 3 | 10 | 16 | - | 33 |
| Elimination of accumulation depreciation on property transferred to assets classified as held for sale | 128 | - | - | - | - | 128 |
| Impairment loss | (104) | - | - | - | - | (104) |
| **Balance at 31 December 2010** | **(12,423)** | **(7,609)** | **(3,071)** | **(2,136)** | **(253)** | **(25,492)** |

### *Net book value*

| | Buildings and constructions | Plant and equipment | Transmission networks | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 92,462 | 55,239 | 13,429 | 10,224 | 23,953 | **195,307** |
| At 1 January 2010 | 91,459 | 53,386 | 12,299 | 9,124 | 20,783 | **187,051** |
| At 31 December 2010 | 88,030 | 58,175 | 10,804 | 2,971 | 20,579 | **180,559** |

(in millions of Russian Roubles)

***Net book value had no revaluation taken place***

| | Buildings and constructions | Plant and equipment | Transmission networks | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 44,811 | 26,300 | 6,394 | 4,869 | 11,407 | **93,781** |
| At 1 January 2010 | 32,981 | 32,734 | 2,594 | 7,879 | 19,099 | **95,287** |
| At 31 December 2010 | 33,370 | 37,862 | 2,476 | 2,561 | 15,692 | **91,961** |

Borrowing costs of RR 1,743 million and RR 2,516 million for the year ended 31 December 2010 and 31 December 2009, respectively, are capitalised in additions above. Capitalisation rates of 10.07% and 13.00% for the year ended 31 December 2010 and 31 December 2009, 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.

There were no properties pledged as security for Company's bank loans at 31 December 2010 and 31 December 2009.

***(a) Revaluation***

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

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

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

***(b) Impairment test***

The Group assessed at 31 December 2009 and at 31 December 2010 whether there were any indicators that the Group assets may be impaired. During the procedure both external and internal indications were considered that could require the Group to estimate the recoverable amount of the assets.

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

At 31 December 2009 the Group identified the indicators and performed impairment test. The impairment amounted to 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%, and
- A discount rate of 13.11% was applied in determining the recoverable amount of the plants.

The Group continues to be 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 104 million (31 December 2009: RR 2,012 million) was recognised in other comprehensive income for the year ended 31 December 2010.

(in millions of Russian Roubles)

### *(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 2010 and at 31 December 2009 the net carrying amount of leased plant was RR 300 million and RR 374 million, respectively.

## Note 8. Investment property

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 January | **1,020** | **4,552** |
| Income/(loss) from change in fair value of investment property | 21 | (1,623) |
| Transfer to assets held for sale | (143) | (1,909) |
| **Balance at 31 December** | **898** | **1,020** |

The fair value of the Group's investment property at 31 December 2010 was determined to be RR 898 million (31 December 2009: RR 1,020 million) and based on the market trends for the year 2010.

Rental income for the year ended 31 December 2010 and for the year ended 31 December 2009 amounted to RR 101 million and RR 329 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 2010 | 31 December 2009 |
|---|---|---|
| Less than one year | 118 | 81 |
| Between one and five years | - | - |
| More than five years | - | - |
| **Total** | **118** | **81** |

## Note 9. Disposal group classified as held for sale

### *(a) Assets classified as held for sale*

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Property, plant and equipment | 463 | 237 |
| Investment property | 291 | 371 |
| **Total** | **754** | **608** |

### *(b) Liabilities classified as held for sale*

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Deferred tax liabilities | 117 | 92 |
| **Total** | **117** | **92** |

During 2010 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 482 million and from investment property assets in amount RR 143 million. At 31 December 2010 the Company keep on possessing assets for disposals in amount RR 754 million and corresponding to them liabilities in amount of RR 117 million (31 December 2009: RR 608 million and RR 92 million, respectively). The Company envisages selling its real estate portfolio listed above during the first half of 2011.

An impairment loss of RR 123 million on remeasurement of assets for disposal to the lower of its carrying amount and its fair value less costs to sell has been recognised in the consolidated statement of comprehensive income in the other operation expenses during twelve months ended 31 December 2010.

(in millions of Russian Roubles)

On 31 May 2010 the decision to dispose OJSC "TEK Mosenergo" was made by the Board of Directors of the Company. The subsidiary was sold as at 26 October 2010 to CJSC "SMP Energo". As a result of withdrawal the Group recognised a gain in amount of RR 861 million in the consolidated statement of comprehensive income.

The following assets and liabilities were disposed as result of transaction:

| | **Year ended 31 December 2010** |
|---|---|
| Property, plant and equipment | 78 |
| Inventories | 194 |
| Trade and other receivables | 5,704 |
| Cash and cash equivalents | 404 |
| Other current assets | 1,965 |
| Total liabilities | (8,024) |
| **Total net assets** | **321** |

| | **Year ended 31 December 2010** |
|---|---|
| Cash consideration | 1,191 |
| Less: selling costs | (9) |
| Less: carrying amount of net assets | (321) |
| **Gain on withdrawal from subsidiary** | **861** |

## Note 10. Inventories

| | **31 December 2010** | **31 December 2009** |
|---|---|---|
| Fuel | 4,528 | 2,768 |
| Raw materials and consumables | 1,847 | 1,707 |
| Other inventories | 63 | 66 |
| **Total** | **6,438** | **4,541** |

Raw materials and consumables are stated net of a provision for obsolete inventory amounted to RR 11 million and RR 23 million at 31 December 2010 and 31 December 2009, 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 2010** | **31 December 2009** |
|---|---|---|
| Loans given to CJSC "Gazenergoprom-Invest" | - | 12,130 |
| **Total** | **-** | **12,130** |

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

(in millions of Russian Roubles)

## Note 12. Trade and other receivables

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Trade receivables | 15,860 | 14,460 |
| Other receivables | 3,026 | 2,526 |
| **Financial assets** | **18,886** | **16,986** |
| Advances to suppliers and prepaid expenses | 565 | 8,052 |
| VAT recoverable | 1,194 | 1,198 |
| Taxes other than income tax prepaid | 39 | 55 |
| Other receivables | 446 | 346 |
| **Total** | **21,130** | **26,637** |
| | | |
| Non-current assets | 15 | 3,540 |
| Current assets | 21,115 | 23,097 |
| **Total** | **21,130** | **26,637** |

Trade receivables balances are recorded net of provision for impairment of RR 1,241 million and RR 1,314 million at 31 December 2010 and 31 December 2009, respectively.

Other receivables balances are recorded net of provision for impairment of RR 193 million and RR 276 million at 31 December 2010 and 31 December 2009, 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 2010 | 31 December 2009 |
|---|---|---|
| **Other non-current assets** | | |
| Intangible assets | 432 | 523 |
| Available-for-sale financial assets | 13 | 256 |
| Investments in equity accounted investees | 5 | 5 |
| Other non-current assets | 30 | 66 |
| **Total** | **480** | **850** |
| | | |
| **Other current assets** | | |
| Constructed assets financed by the government of Moscow city | 523 | 523 |
| Other current assets | 1,373 | 1,149 |
| **Total** | **1,896** | **1,672** |

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 2010 | 31 December 2009 |
|---|---|---|
| Bank balances | 3,805 | 2,267 |
| Call deposits | 24,529 | - |
| **Total** | **28,334** | **2,267** |

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

(in millions of Russian Roubles)

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

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| **Bank** | **%** | **Balances** | **%** | **Balances** |
| OJSC “Bank VTB” | 3.72 | 13,260 | - | - |
| OJSC “Gazprombank” | 4.25 | 8,269 | - | - |
| OJSC “AB “Russia” | 5.50 | 3,000 | - | - |
| **Total** | | **24,529** | | **-** |

## Note 15. Equity

### *(a) Share capital and share premium*

At 31 December 2010 the authorised share capital comprised 39,749,359,700 ordinary shares (31 December 2009: 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 and at 31 December 2010 amounted to RR 871 million.

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

### *(c) Reserves*

At 31 December 2010 reserves composed of the revaluation of available-for-sale financial assets in amount of RR 8 million (31 December 2009: RR 30 million) and the revaluation reserve relates to the revaluation of property, plant and equipment in amount of RR 86,631 million (31 December 2009: RR 86,716 million).

### *(d) Dividends*

In June 2010 the general shareholders meeting made the decision to pay dividends for the result of financial year 2009. The amount of declared dividends on the issuer’s shares was RR 0.01262335 per share, total amount of dividends is RR 500 million.

The decisions related to dividends distribution for fiscal year 2010 are scheduled at the general shareholders’ meeting in May-June 2011.

## 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 2010 | 31 December 2009 |
|---|---|---|
| **Non-current borrowings** | | |
| Unsecured bond issues | 9,783 | 14,412 |
| Unsecured bank loans | 1,987 | 2,263 |
| **Total** | **11,770** | **16,675** |
| **Current borrowings and current portion of non-current borrowings** | | |
| Current portion of unsecured bond issues | 4,629 | 2,000 |
| Current portion of unsecured bank loans | 347 | - |
| Notes | - | 90 |
| **Total** | **4,976** | **2,090** |

(in millions of Russian Roubles)

### *(a) Terms and debt repayment schedule*

Terms and conditions of outstanding liabilities are as follows:

| | Currency | Nominal interest rate | Year of maturity | 31 December 2010 Face value | 31 December 2010 Carrying amount | 31 December 2009 Face value | 31 December 2009 Carrying amount |
|---|---|---|---|---|---|---|---|
| **Unsecured bank loans** | | | | **3,282** | **2,334** | **3,281** | **2,263** |
| Credit Agricole CIB Deutschland | EURO | 7.2% | 2014 | 840 | 782 | 1,084 | 1,017 |
| Credit Agricole CIB Deutschland | EURO | 7.2% | 2011 | 88 | 88 | - | - |
| Credit Agricole CIB Deutschland | EURO | EURIBOR6M+ 1.95% | 2025 | 128 | - | 133 | - |
| Credit Agricole CIB Deutschland | EURO | EURIBOR6M+ 1.95% | 2011 | 80 | 80 | - | - |
| BNP Paribas | EURO | EURIBOR6M+ 2% | 2023 | 1,967 | 1,205 | 2,064 | 1,246 |
| BNP Paribas | EURO | EURIBOR6M+ 2% | 2011 | 179 | 179 | - | - |
| **Unsecured bond issues** | | | | **14,412** | **14,412** | **16,412** | **16,412** |
| 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 | 5,000 | 5,000 |
| Unsecured bonds BO-02 | Russian Roubles | 11.45% | 2010 | - | - | 2,000 | 2,000 |
| **Notes** | | | | **-** | **-** | **95** | **90** |
| OJSC “Mezhtopenergobank” | Russian Roubles | free of interest | 2010 | - | - | 95 | 90 |
| **Total** | | | | **17,694** | **16,746** | **19,788** | **18,765** |

## 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 was changed in July 2008 and since this date principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Company. The plan is administrated by non-state pension fund.

To be entitled for participation in this 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 2010. There were no significant changes benefits compared to the version effective in prior year.

During the course of 2010 the Company continues implementing a restructuring programme which resulted in redundancies recognised as a curtailment. Compensations for redundancies paid by the Company for the year ended 31 December 2010 and for the year ended 31 December 2009 amounted to RR 618 million and RR 253 million, respectively, were recognised in the consolidated statement of comprehensive income in personal expenses.

(in millions of Russian Roubles)

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Present value of unfunded obligations | 512 | 489 |
| Recognised liability for defined benefit obligations | 512 | 489 |
| Unrecognised actuarial (losses)/gains | (18) | 7 |
| Unrecognised past service cost | (84) | (129) |
| **Net liability recognised in balance sheet** | **410** | **367** |

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

| | 2010 | 2009 |
|---|---|---|
| Defined benefit obligations at 1 January | 489 | 482 |
| Actuarial losses | 36 | 61 |
| Interest on employee benefit obligations | 51 | 43 |
| Current service cost | 19 | 20 |
| Past service cost | 101 | 241 |
| Benefits paid | (58) | (39) |
| Effect of curtailment and settlement | (126) | (319) |
| **Defined benefit obligations at 31 December** | **512** | **489** |

### *(b) Expenses recognised in profit or loss*

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Termination benefits | 618 | 253 |
| Interest on employee benefit obligations | 51 | 43 |
| Net actuarial loss recognised in period | 6 | 68 |
| Current service cost | 19 | 20 |
| Amortization of past service cost | 18 | 18 |
| Past service cost (immediate recognition) | 101 | 73 |
| Effect of curtailment and settlement | (94) | (279) |
| **Total** | **719** | **196** |

### *(c) Actuarial assumptions*

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

### *(i) Financial assumptions*

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Discount rate | 7.50% | 9.00% |
| Inflation rate | 6.00% | 6.50% |
| Future salary increases | 7.50% | 8.00% |
| Future pension increase | 6.00% | 6.50% |

### *(ii) Demographic assumptions*

*Withdrawal rates assumption* is as follows*:* expected staff turnover rates vary depending on employee past service in range from 25% pa for employees with 1 year of past service to around 7% pa for those who have 20 or more years of service. Similar withdrawal rates were used at 31 December 2009.

*Retirement ages assumption* is as follows*:* average retirement ages are 62 years for men and 59 years for women. The same retirement ages were used as at 31 December 2009.

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

(in millions of Russian Roubles)

### *(d) Historical information*

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

## Note 18. Trade and other payables

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Trade payables | 10,324 | 7,638 |
| Other payables | 2,462 | 4,095 |
| **Financial liabilities** | **12,786** | **11,733** |
| Advances received | 2,864 | 5,867 |
| Other payable | 979 | 857 |
| **Total** | **16,629** | **18,457** |
| Non-current liabilities | 946 | 585 |
| Current liabilities | 15,683 | 17,872 |
| **Total** | **16,629** | **18,457** |

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 2010 | 31 December 2009 |
|---|---|---|
| VAT payable | 1,588 | 603 |
| Property tax payable | 579 | 689 |
| Social taxes and contributions payable | 189 | 306 |
| Other taxes payable | 33 | 51 |
| **Total** | **2,389** | **1,649** |

## Note 20. Provisions

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 January | 278 | 253 |
| Provisions made during the period | 226 | 199 |
| Provisions used during the period | (307) | (160) |
| Provisions recovered during the period | (126) | (14) |
| **Balance at 31 December** | **71** | **278** |

In the period 2008-2009 there was a claim against the Company from OJSC "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 initial amount of RR 260 million. At 31 December 2008 the corresponding provision was made in amount of RR 112 million. In the first half of the year 2009 an amicable agreement with OJSC "MTK" was concluded and the corresponding provision was increased up to RR 160 million. In the third quarter 2009 the provision was used and the claim was settled.

At the end of the year 2009 the similar nature of issue as mentioned above claimed from OJSC "MTK" against the Company but in respect of another period of settlements. The new claim was initially amounted to RR 181 million and the corresponding provision was made in fourth quarter 2009 in amount of RR 59 million. In the first quarter 2010 an amicable agreement with OJSC "MTK" was concluded on amount of RR 145 million and the corresponding provision was increased up to RR 145 million. At the reporting date this claim was fully paid.

(in millions of Russian Roubles)

In the third quarter 2010 there was a new claim against the Company from OJSC "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 initial amount of RR 134 million. The amicable agreement with OJSC "MTK" was concluded on amount of RR 107 million and the corresponding provision was created for the amount of RR 107 million. At the reporting date this claim was fully paid.

Starting from year 2008 and up to 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 favor 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. During the fourth quarter 2010 the claims were dismissed and the corresponding provision was recovered in amount of RR 120 million.

At the end of the year 2009 there were 26 claims against the Company from OJSC "Mosenergosbyt" in respect of the account receivables redress in according to Agreement of Joint and several liability in total amount of RR 92 million. At 31 December 2009 the corresponding provision was made in full amount of claims. During the year 2010 OJSC "Mosenergo" settled 18 claims in total amount of RR 48 million. At the reporting date the corresponding reserve in relation to 8 claims was made in total to RR 44 million.

The remaining balance at 31 December 2010 amounted to RR 27 million relates to the reserve accrued within the framework of Group's routine business activity.

## Note 21. Revenue

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Electricity | 78,862 | 61,559 |
| Heat | 62,307 | 47,508 |
| Other revenue | 4,129 | 3,569 |
| **Total** | **145,298** | **112,636** |

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

Approximately 8% and 8% of sales of electricity for the year ended 31 December 2010 and ended 31 December 2009, respectively, relates to resale of purchased electricity on wholesale market NOREM.

## Note 22. Cost of materials

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Fuel expenses | 70,372 | 51,417 |
| Purchased heat and electricity | 7,112 | 5,179 |
| Water usage expenses | 969 | 1,261 |
| Other materials expenses | 1,199 | 739 |
| **Total** | **79,652** | **58,596** |

Electricity is purchased mainly on wholesale electricity market.

(in millions of Russian Roubles)

## Note 23. Other external supplies

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Electricity market administration fees | 974 | 1,035 |
| Security services | 371 | 321 |
| Cleaning services | 287 | 206 |
| Transport services | 256 | 229 |
| Fire prevention services | 89 | 95 |
| Connection services | 88 | 359 |
| Recycling of wastes | 48 | 38 |
| Other services | 411 | 195 |
| **Total** | **2,524** | **2,478** |

Electricity market administration fees include payments to OJSC “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 2010 | Year ended 31 December 2009 |
|---|---|---|
| Wages and salaries | 7,031 | 7,085 |
| Payroll tax | 1,233 | 1,377 |
| Termination benefits | 618 | 253 |
| Personnel expenses from restructured operations | 253 | 80 |
| Voluntary medical insurance expenses | 108 | 151 |
| Past service cost (immediate recognition) | 101 | 73 |
| Personnel training expenses | 32 | 44 |
| Current service cost | 19 | 20 |
| Amortization of past service cost | 18 | 18 |
| Net actuarial loss recognised in period | 6 | 68 |
| **Total** | **9,419** | **9,169** |

The Group average headcount totaled 10,459 and 12,599 at 31 December 2010 and 31 December 2009 respectively.

(in millions of Russian Roubles)

## Note 25. Other operating expenses

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Legal, consulting and data processing services | 751 | 1,058 |
| Rent payments | 660 | 458 |
| Trade and other receivables impairment loss/(gain) | 616 | (169) |
| Software expenses | 401 | 207 |
| Maintenance of non-core and social assets | 295 | 431 |
| Insurance expenses | 270 | 319 |
| Cession agreement | 220 | 21 |
| Loss on disposal of property, plant and equipment | 137 | 122 |
| Impairment loss on remeasurement of assets held for sale | 123 | - |
| Impairment loss on available-for-sale financial assets | 72 | - |
| Environmental payments | 68 | 39 |
| Safety arrangement and precautions | 62 | 80 |
| Bank services | 60 | 281 |
| Legal rights registration expenses | 35 | 25 |
| Impairment loss on inventory | - | 80 |
| Impairment loss on biological assets | - | 496 |
| Other miscellaneous | 115 | 103 |
| **Total** | **3,885** | **3,551** |

## Note 26. Other operating income

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Fines and penalties from business contract | 515 | (215) |
| Subsidies on the difference in tariffs for sales to the urban population | 454 | 374 |
| Gain from disposal of assets held for sale | 357 | 352 |
| Effect of curtailment and settlement | 94 | 279 |
| Derecognition of revaluation of available-for-sale financial assets | 24 | - |
| Gain from disposal of available-for-sale financial assets | 8 | - |
| Other miscellaneous | 122 | 57 |
| **Total** | **1,574** | **847** |

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.

(in millions of Russian Roubles)

## Note 27. Financial income and expenses

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| **Financial income** | | |
| Interest income on loans given | 894 | 1,087 |
| Foreign exchange gain | 248 | 108 |
| Interest income on bank deposits | 237 | 34 |
| Other interest income | 1,049 | 245 |
| **Total** | **2,428** | **1,474** |
| **Financial expenses** | | |
| Interest expenses on borrowings | (1,743) | (2,516) |
| Lease expenses | (72) | (171) |
| Interest on employee benefit obligations | (51) | (43) |
| Foreign exchange (loss) | (27) | (158) |
| Other interest expenses | (19) | (882) |
| **Total** | **(1,912)** | **(3,770)** |
| Less capitalized interest expenses on borrowings related to qualifying assets (Note 3,7) | 1,743 | 2,516 |
| **Net financial expenses recognised in profit or loss** | **(169)** | **(1,254)** |

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Interest income | 2,180 | 1,366 |
| Interest expenses | (91) | (1,053) |
| **Net interest** | **2,089** | **313** |

*Net interest result by categories of assets and liabilities*

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Investments | 1,733 | 1,129 |
| Cash and cash equivalents | 447 | 237 |
| Liabilities carried at amortised cost | (91) | (1,053) |
| **Total** | **2,089** | **313** |

## Note 28. Income tax

### *(a) Income tax*

The applicable tax rate of the Group is the income tax rate of 20% (for the year ended 31 December 2009: 20%).

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| **Current tax (expense)** | | |
| Current year | (2,473) | (1,536) |
| Over provided in prior periods | 23 | 328 |
| **Deferred tax (expense)** | | |
| Origination and reversal of temporary differences | 120 | 623 |
| **Income tax (expense)** | **(2,330)** | **(585)** |

(in millions of Russian Roubles)

Reconciliation of effective tax rate is as follows:

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Profit before income tax | 10,998 | 2,243 |
| Income tax at applicable tax rate | (2,200) | (449) |
| Non-deductible / non-taxable items | (153) | (464) |
| Over provided in prior periods | 23 | 328 |
| **Income tax (expense)** | **(2,330)** | **(585)** |

### *(b) Tax effects of components of other comprehensive income*

| | Year ended 31 December 2010 | | | Year ended 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | **Before tax** | **Tax charge** | **After tax** | **Before tax** | **Tax charge** | **After tax** |
| Impairment loss on property, plant and equipment | (104) | 21 | (83) | (2,355) | 471 | (1,884) |
| Derecognition of revaluation of available-for-sale financial assets | (24) | - | (24) | - | - | - |
| Revaluation of available -for- sale financial asset | - | - | - | 32 | (2) | 30 |
| **Total** | **(128)** | **21** | **(107)** | **(2,323)** | **469** | **(1,854)** |

### *(c) Deferred income tax*

Recognised deferred tax assets and liabilities are as follows:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **31 December 2010** | **31 December 2009** | **31 December 2010** | **31 December 2009** | **31 December 2010** | **31 December 2009** |
| Property, plant and equipment | - | - | (24,765) | (25,343) | (24,765) | (25,343) |
| Assets classified as held for sale | - | - | (117) | (92) | (117) | (92) |
| Investment property | - | - | (54) | (49) | (54) | (49) |
| Trade and other receivables | 32 | 202 | - | - | 32 | 202 |
| Investments | | 128 | - | - | - | 128 |
| Trade and other payables | 128 | 158 | - | - | 128 | 158 |
| Employee benefits | 82 | 73 | - | - | 82 | 73 |
| Provisions | 14 | 56 | - | - | 14 | 56 |
| Borrowings | - | - | (190) | (205) | (190) | (205) |
| Other | 39 | 89 | (44) | (33) | (5) | 56 |
| **Total** | **295** | **706** | **(25,170)** | **(25,722)** | **(24,875)** | **(25,016)** |

(in millions of Russian Roubles)

Movements in deferred income tax during the year ended 31 December 2009 and the year ended 31 December 2010 are as follows:

| | 31 December 2008 | Recognised in income | Recognized in equity | Reclassification | 31 December 2009 |
|---|---|---|---|---|---|
| Property, plant and equipment | (25,705) | (336) | 471 | 227 | (25,343) |
| Assets classified as held for sale | - | 417 | - | (509) | (92) |
| Investment property | (656) | 325 | - | 282 | (49) |
| Trade and other receivables | (33) | 235 | - | - | 202 |
| Investments | - | 128 | - | - | 128 |
| Trade and other payables | 114 | 44 | - | - | 158 |
| Employee benefits | 97 | (24) | - | - | 73 |
| Provisions | 51 | 5 | - | - | 56 |
| Borrowings | (3) | (202) | - | - | (205) |
| Other | 27 | 31 | (2) | - | 56 |
| **Total** | **(26,108)** | **623** | **469** | **-** | **(25,016)** |

| | 31 December 2009 | Recognised in income | Recognized in - equity | Reclassification | 31 December 2010 |
|---|---|---|---|---|---|
| Property, plant and equipment | (25,343) | 557 | 21 | - | (24,765) |
| Assets classified as held for sale | (92) | (25) | - | - | (117) |
| Investment property | (49) | (5) | - | - | (54) |
| Trade and other receivables | 202 | (170) | - | - | 32 |
| Investments | 128 | (128) | - | - | - |
| Trade and other payables | 158 | (30) | - | - | 128 |
| Employee benefits | 73 | 9 | - | - | 82 |
| Provisions | 56 | (42) | - | - | 14 |
| Borrowings | (205) | 15 | - | - | (190) |
| Other | 56 | (61) | - | - | (5) |
| **Total** | **(25,016)** | **120** | **21** | **-** | **(24,875)** |

## 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 2010 | Year ended 31 December 2009 |
|---|---|---|
| Issued shares | 39,749,360 | 39,749,360 |
| Effect of own shares held | (140,229) | (147,376) |
| **Weighted average number of ordinary shares (thousands)** | **39,609,131** | **39,601,984** |

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

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Weighted average number of ordinary shares issued (thousands) | 39,609,131 | 39,601,984 |
| Profit for the year | 8,668 | 1,658 |
| **Profit per ordinary share (basic and diluted) (in Russian Roubles)** | **0.22** | **0.04** |

(in millions of Russian Roubles)

## 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 2010** | **31 December 2009** |
| **Held-to-maturity investments** | **-** | **12,130** |
| Investments (Note 11) | - | 12,130 |
| **Loans and receivables** | **18,886** | **16,986** |
| Trade and other receivables (Note 12) | 18,886 | 16,986 |
| **Available-for-sale financial assets** | **13** | **256** |
| Other non-current assets (Note 13) | 13 | 256 |
| **Cash and cash equivalents** (Note 14) | **28,334** | **2,267** |
| **Total financial assets** | **47,233** | **31,639** |

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

| | Carrying amount | |
|---|---|---|
| | **31 December 2010** | **31 December 2009** |
| Electricity | 3,777 | 3,988 |
| Heat | 11,408 | 9,644 |
| Other | 3,701 | 3,354 |
| **Total** | **18,886** | **16,986** |

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

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

The most important customers of the Group, OJSC "MOEK" and CJSC "CFR" accounts for RR 7,707 million and RR 3,556 million, respectively, for the trade receivables carrying amount at 31 December 2010 (31 December 2009: RR 5,273 million and RR 3,407 million, respectively).

### *(ii) Impairment losses*

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

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | **Gross** | **Impairment** |
| Not past due | 14,469 | - | 11,133 | - |
| Past due 0-30 days | 2,333 | - | 2,917 | - |
| Past due 31-120 days | 402 | - | 349 | - |
| Past due 121-365 days | 1,600 | - | 1,400 | - |
| More than one year | 1,516 | 1,434 | 2,777 | 1,590 |
| **Total** | **20,320** | **1,434** | **18,576** | **1,590** |

(in millions of Russian Roubles)

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

| | 2010 | 2009 |
|---|---|---|
| Balance at 1 January | 1,590 | 1,765 |
| Impairment loss recognised/(reversed) during the period | 616 | (169) |
| Allowance used during the period | (772) | (6) |
| **Balance at 31 December** | **1,434** | **1,590** |

The impairment allowance at 31 December 2010 of RR 1,434 million (31 December 2009: RR 1,590 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 365 days; 92.54 percent of the balance (at 31 December 2009: 85.02 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

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

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

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

| Name of the bank | Rating agency | Rating | 31 December 2010 | Rating | 31 December 2009 |
|---|---|---|---|---|---|
| OJSC Bank "VTB" | Fitch Ratings | AAA (rus) | 13,260 | AAA (rus) | - |
| OJSC "Gazprombank" | Standard & Poor's | ruAA | 8,478 | ruAA | 1,543 |
| OJSC "AB "Russia" | Moody's Interfax | Baa1.ru | 3,084 | Aa3.ru | 262 |
| OJSC "Alfa-Bank" | Fitch Ratings | AA-(rus) | 3,507 | A+(rus) | 29 |
| OJSC "Bank of Moscow" | Fitch Ratings | AA+(rus) | - | AA+(rus) | 382 |
| Other | - | - | 5 | - | 51 |
| **Total** | | | **28,334** | | **2,267** |

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

***(b) Liquidity risk***

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

| | 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 | 2,334 | 4,234 | 174 | 351 | 678 | 663 | 451 | 259 | 1,658 |
| Unsecured bond issues | 14,412 | 16,559 | 727 | 5,356 | 10,476 | - | - | - | - |
| Trade and other payables | 12,786 | 12,786 | 12,786 | - | - | - | - | - | - |
| **Total** | **29,532** | **33,579** | **13,687** | **5,707** | **11,154** | **663** | **451** | **259** | **1,658** |

(in millions of Russian Roubles)

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** |

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

### *(c) Currency risk*

#### *(i) Exposure to currency risk*

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| | EURO-denominated | EURO-denominated |
| Unsecured bank loans | (2,334) | (2,263) |
| **Gross balance sheet exposure** | **(2,334)** | **(2,263)** |
| Estimated forecasted interest expenses | (73) | (11) |
| **Gross exposure** | **(73)** | **(11)** |
| **Net exposure** | **(2,407)** | **(2,274)** |

The following significant exchange rates applied during the period:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | 31 December 2010 | 31 December 2009 | 31 December 2010 | 31 December 2009 |
| EURO 1 | 40.2980 | 44.1299 | 40.3331 | 43.3883 |

#### *(ii) Sensitivity analysis*

A 9% strengthening of the RR against EUR at 31 December 2010 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 2009.

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| EURO | 209 | 198 |

A 9% weakening of the RR against the EUR at 31 December 2010 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 2010 was approximately 9% for the EURO (31 December 2009: 21 %), although the difference between the two actual extremes in the reported period was approximately 16% (31 December 2009: 14%).

(in millions of Russian Roubles)

### *(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 2010** | **31 December 2009** |
| **Fixed rate instruments** | | |
| Financial assets (Note 11, 12, 13 and 14) | 47,233 | 31,639 |
| Financial liabilities (Note 16,18) | (28,068) | (29,252) |
| **Total** | **19,165** | **2,387** |
| **Variable rate instruments** | | |
| Financial liabilities (Note 16) | (1,464) | (1,246) |
| **Total** | **(1,464)** | **(1,246)** |

#### *(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 2009.

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decreas** |
| Variable rate instruments | (30.2) | 30.2 | (77.8) | 77.8 |
| **Cash flow sensitivity (net)** | **(30.2)** | **30.2** | **(77.8)** | **77.8** |

### *(e) Fair values*

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

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Investments (Note 11) | - | - | 12,130 | 12,130 |
| Trade and other receivables (Note 12) | 18,886 | 18,886 | 16,986 | 16,986 |
| Available-for-sale financial assets (Note 13) | 13 | 13 | 256 | 256 |
| Cash and cash equivalents (Note 14) | 28,334 | 28,334 | 2,267 | 2,267 |
| Unsecured bank loans (Note 16) | (2,334) | (2,334) | (2,263) | (2,263) |
| Unsecured bond issues (Note 16) | (14,412) | (14,951) | (16,412) | (16,612) |
| Notes (Note 16) | - | - | (90) | (90) |
| Trade and other payables (Note 18) | (12,786) | (12,786) | (11,733) | (11,733) |

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

(in millions of Russian Roubles)

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

| | **31 December 2010** | **31 December 2009** |
|---|---|---|
| Borrowings | 12.1 | 13.1 |

## Note 31. Leases

### *(a) Operating leases*

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for a periods from 5 to 45 years with an option to renew the lease. During the year ended 31 December 2010 and the year ended 31 December 2009 operating lease expenses in amount of RR 660 million and RR 458 million respectively were recognised in profit or loss.

Non-cancellable operating lease rentals are payable as follows:

| | **31 December 2010** | **31 December 2009** |
|---|---|---|
| Less than one year | 383 | 366 |
| Between one and five years | 1,444 | 1,363 |
| More than five years | 8,644 | 8,619 |
| **Total** | **10,471** | **10,348** |

### *(b) Finance leases*

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

| | **31 December 2010** | | | **31 December 2009** | | |
|---|---|---|---|---|---|---|
| | **Future minimum lease payments** | **Interest** | **Present value of minimum lease payments** | **Future minimum lease payments** | **Interest** | **Present value of minimum lease payments** |
| Less than one year | 127 | 25 | 102 | 297 | 77 | 220 |
| Between one and five years | 24 | 5 | 19 | 122 | 19 | 103 |
| More than five years | - | - | - | - | - | - |
| **Total** | **151** | **30** | **121** | **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*

At 31 December 2010 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 13,376 million (at 31 December 2009: RR 13,643 million.). The amount includes Capacity Supply Contracts capital commitments for the amount RR 6,483 million (at 31 December 2009: RR 0 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.

(in millions of Russian Roubles)

***(c) Environmental liabilities***

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

***(d) Insurance***

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

***(e) Guarantees***

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounted to RR 208 million as of 31 December 2010 (31 December 2009: RR 296 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 unmodernized 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 2010 is as follows:

| | **Note** | **Electricity** | **Heat** | **All other segments** | **Total** |
|---|---|---|---|---|---|
| **Revenue from external customers** | **21** | **78,862** | **62,307** | **4,129** | **145,298** |
| Expenses: | | | | | |
| Fuel and water usage expenses | 22 | (71,341) | - | - | (71,341) |
| Purchase heat | 22 | - | (683) | - | (683) |
| Purchase electricity | 22 | (6,429) | - | - | (6,429) |
| Heat transmission | | - | (24,469) | - | (24,469) |
| **Gross margin** | | **1,092** | **37,155** | **4,129** | **42,376** |
| **Segment assets** | | **214,503** | **21,999** | **19,130** | **255,632** |

(in millions of Russian Roubles)

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 assets include impairment loss recognised for property, plant and equipment and investment property for the period ended 31 December 2010 in total amount RR 83 million which was allocated to electricity segment (as at 31 December 2009 RR 4,608 million which was allocated to electricity segment in amount of RR 4,468 million and to all other segments in amount of RR 140 million).

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

| | Note | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| Gross margin for reportable segments | | 38,247 | 32,950 |
| Other segments gross margin | | 4,129 | 3,569 |
| Financial income | 27 | 2,428 | 1,474 |
| Other operating income | 26 | 1,574 | 847 |
| Gain on withdrawal from subsidiary | 9 | 861 | - |
| Income/(loss) from change in fair value of investment property | 8 | 21 | (1,623) |
| Gain on withdrawal from equity accounted investee | | - | 124 |
| Depreciation of property, plant and equipment | 7 | (12,214) | (11,705) |
| Personnel expenses | 24 | (9,419) | (9,169) |
| Maintenance and repairs expenses | | (4,281) | (3,009) |
| Other operating expenses | 25 | (3,885) | (3,551) |
| Taxes other than income tax | | (2,571) | (2,563) |
| Other external supplies | 23 | (2,524) | (2,478) |
| Other materials expenses | 22 | (1,199) | (739) |
| Financial expenses | 27 | (169) | (1,254) |
| Impairment loss of property, plant and equipment | | - | (630) |
| **Profit before income tax** | | **10,998** | **2,243** |

### *(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 2010 | 31 December 2009 |
|---|---|---|---|
| Segment assets | | 255,632 | 249,801 |
| **Unallocated:** | | | |
| Income tax receivables | | 17 | 320 |
| Available-for-sale investments | 13 | 13 | 256 |
| Taxes other than income tax prepaid | 12 | 39 | 55 |
| **Total assets per consolidated statement of financial position** | | **255,701** | **250,432** |

### *(c) Information about major customers*

During the year ended 31 December 2010 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the year ended 31 December 2010 amounted RR 52,823 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.
- Revenue from OJSC "MOEK" for the year ended 31 December 2010 amounted to RR 41,507 million. The revenue was obtained from sales of heat relating to heat segment.
- Revenue from OJSC "Mosenergosbyt" for the year ended 31 December 2010 amounted to RR 22,829 million. The revenue was obtained from sales of electricity and capacity relating to electricity segment.

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