

**Joint Stock Company
Territorial Generating Company №1
and its subsidiaries**

Brief Intermediate Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
for the six months ended 30 June 2010

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THREE MONTHS ENDED 30 JUNE 2010

(in thousands of Russian Roubles)

	30 June 2010	31 December 2009
ASSETS		
Non-current assets		
Property, plant and equipment	88 682 693	84 962 638
Long-term investments	20 010	20 010
Deferred tax assets	556 095	523 018
Other non-current assets	657 297	637 841
Total non-current assets	89 916 095	86 143 507
Current assets		
Cash and cash equivalents	496 944	579 574
Short-term investments	134 381	595 695
Accounts receivable and prepayments	9 671 193	10 023 839
Inventories	2 186 285	2 143 210
Total current assets	12 488 803	13 342 318
TOTAL ASSETS	102 404 898	99 485 825
EQUITY AND LIABILITIES		
Equity		
Share capital	38 543 414	38 543 414
Treasury shares	-	-
Share premium	22 913 678	22 913 678
Merger reserve	(6 086 949)	(6 086 949)
Fair value reserve	-	161 452
Retained earnings	15 704 438	12 929 217
Equity attributable to the shareholders of TGC-1	71 074 581	68 460 812
Non-controlling interest	-	-
TOTAL EQUITY	71 074 581	68 460 812
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	4 931 737	4 661 287
Long-term borrowings	13 420 582	9 420 451
Post-employment benefits obligations	816 077	772 794
Total non-current liabilities	19 168 396	14 854 532
Current liabilities		
Short-term borrowings and current portion of long-term borrowings	3 470 337	5 617 750
Accounts payable and accrued liabilities	7 934 500	9 755 467
Current income tax payable	121 524	144 905
Other taxes payable	635 560	652 359
Total current liabilities	12 161 921	16 170 481
TOTAL LIABILITIES	31 330 317	31 025 013
TOTAL EQUITY AND LIABILITIES	102 404 898	99 485 825

General Director

Vaynzikher B.F.

Chief Accountant

Stanishevskaya R.V.

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR SIX MONTHS ENDED 30 JUNE 2010

(in thousands of Russian Roubles)

	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue		
Sales of electricity	13 715 293	10 107 886
Sales of heat	13 200 000	10 616 781
Other sales	287 907	520 972
Total revenue	27 203 200	21 245 639
Operating expenses, net	(23 250 391)	(18 005 690)
Impairment loss reversed during the year	-	-
Impairment loss recognised during the year	-	-
Total operating expenses	(23 250 391)	(18 005 690)
Operating profit	3 952 809	3 239 949
Finance income	3 181	75 776
Finance cost	(492 674)	(185 179)
Finance income, net	(489 493)	(109 403)
Profit before income tax	3 463 316	3 130 546
Income tax charge	(639 968)	(645 235)
Profit	2 823 348	2 485 311
Other comprehensive income		
Foreign currency translation differences, net	120 187	(84 740)
Net change in fair value of available-for-sale investments	(201 815)	-
Income tax on other comprehensive income	40 363	-
Other comprehensive income, net of tax	(41 265)	(84 740)
Total comprehensive income	2 782 083	2 400 571
Profit attributable to:		
Shareholders of TGC-1	2 823 348	2 448 342
Non-controlling interests	-	36 969
Profit	2 823 348	2 485 311
Total comprehensive income attributable to:		
Shareholders of TGC-1	2 782 083	2 363 602
Non-controlling interests	-	36 969
Total comprehensive income	2 782 083	2 400 571

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED CASH FLOW STATEMENT FOR SIX MONTHS ENDED 30 JUNE 2010

(in thousands of Russian Roubles)

	Six months ended 30 June 2010	Six months ended 30 June 2009
Cash flows from operating activities		
Profit before income tax	3 463 316	3 130 546
Adjustments to non-cash items	1 917 576	1 759 049
Operating cash flows before working capital changes	5 380 892	4 889 595
Capital changes	(375 671)	(465 376)
Cash generated from operations	5 005 221	4 424 219
Income tax paid and interest paid	(1 729 767)	(996 763)
Total cash generated from operations	3 275 454	3 427 456
Net cash used in investing activities	(5 341 850)	(6 449 742)
Net cash (used in)/from financing activities	1 983 766	4 753 299
Net (decrease)/increase in cash and cash equivalents	(82 630)	1 731 013
Cash and cash equivalents at the beginning of the period	579 574	2 058 618
Cash and cash equivalents at the end of the period	496 944	3 789 631

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR SIX MONTHS ENDED 30 JUNE 2010

(in thousands of Russian Roubles)

Equity attributable to the shareholders of TGC-1									
	Share capital	Treasury shares	Share premium	Merger reserve	Fair value reserve	Retained earnings	Total	Non - controlling interest	Total equity
Balance at 31 December 2007	38 509 598	(6 740)	23 271 781	(6 086 949)	(93 560)	3 530 184	59 124 314	35 318	59 159 632
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	1 215 783	1 215 783	(35 318)	1 180 465
Other comprehensive income									
Foreign currency translation differences, net	-	-	-	-	-	(164 373)	(164 373)	-	(164 373)
Net change in fair value of available-for-sale investments	-	-	-	-	123 105	-	123 105	-	123 105
Income tax on other comprehensive income	-	-	-	-	(29 545)	-	(29 545)	-	(29 545)
<i>Total other comprehensive income</i>	-	-	-	-	93 560	(164 373)	(70 813)	-	(70 813)
Total comprehensive income for the year	-	-	-	-	93 560	1 051 410	1 144 970	(35 318)	1 109 652
Transactions with owners									
Transaction cost for issuance of shares in 2007	-	-	(422 308)	-	-	-	(422 308)	-	(422 308)
Issuance of shares for the purpose of merger with "TGC-1 Holding"	33 816	6 738	64 205	-	-	-	104 759	-	104 759
Total transactions with owners	33 816	6 738	(358 103)	-	-	-	(317 549)	-	(317 549)
Balance at 31 December 2008	38 543 414	(2)	22 913 678	(6 086 949)	-	4 581 594	59 951 735	-	59 951 735
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	8 414 557	8 414 557	-	8 414 557
Other comprehensive income									
Foreign currency translation differences, net	-	-	-	-	-	(64 281)	(64 281)	-	(64 281)
Net change in fair value of available-for-sale investments	-	-	-	-	201 815	-	201 815	-	201 815
Income tax on other comprehensive income	-	-	-	-	(40 363)	-	(40 363)	-	(40 363)
<i>Total other comprehensive income</i>	-	-	-	-	161 452	(64 281)	97 171	-	97 171
Total comprehensive income for the year	-	-	-	-	161 452	8 350 276	8 511 728	-	8 511 728
Transactions with owners									
Sale of treasury shares	-	2	-	-	-	-	2	-	2
Change in non - controlling interest of Murmanskaya TPP	-	-	-	-	-	(2 653)	(2 653)	-	(2 653)
Total transactions with owners	-	2	-	-	-	(2 653)	(2 651)	-	(2 651)
Balance at 31 December 2009	38 543 414	-	22 913 678	(6 086 949)	161 452	12 929 217	68 460 812	-	68 460 812

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR SIX MONTHS ENDED 30 JUNE 2010

(in thousands of Russian Roubles)

Comprehensive income									
Profit	-	-	-	-	-	2 823 348	2 823 348	-	2 823 348
Other comprehensive income									
Foreign currency translation differences, net	-	-	-	-	-	120 187	120 187	-	120 187
Net change in fair value of available-for-sale investments	-	-	-	-	(201 815)	-	(201 815)	-	(201 815)
Income tax on other comprehensive income	-	-	-	-	40 363	-	40 363	-	40 363
<i>Total other comprehensive income</i>	-	-	-	-	(161 452)	120 187	(41 265)	-	(41 265)
Total comprehensive income	-	-	-	-	(161 452)	2 943 535	2 782 083	-	2 782 083
Transactions with owners									
Dividends	-	-	-	-	-	(168 314)	(168 314)	-	(168 314)
Total transactions with owners	-	-	-	-	-	(168 314)	(168 314)	-	(168 314)
Balance at 31 March 2010	38 543 414	-	22 913 678	(6 086 949)	-	15 704 438	71 074 581	-	71 074 581

Note 1. The Group and its operations

Joint-Stock Company (JSC) Territorial Generating Company № 1 (hereinafter “TGC-1”, or the “Company”) was established on 25 March 2005 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 181 adopted by the Board of directors of RAO UES of Russia (hereinafter “RAO UES”) on 26 November 2004. The structure and principles of foundation of TGC-1 were adopted by the Board of Directors of RAO UES on 23 April 2004 (Resolution No. 168).

The Company was founded by three regional energy companies, all controlled by RAO UES: OJSC Lenenergo, OJSC Kolenergo and OJSC Karelenergogeneratsya.

On 1 November 2006, OJSC Petersburg Generating Company, OJSC Kolskaya Generating Company, OJSC Apatitskaya Thermal Power Plant and OJSC Karelenergogeneratsya, all controlled by RAO UES, were merged into TGC-1 and ceased to exist as separate legal entities. Since that time TGC-1 has been the owner of their generating assets.

In May 2007, the Company issued additional ordinary shares in order to exchange them for the shares of OJSC Murmanskaya Thermal Power Plant (hereinafter “Murmanskaya TPP”) held by RAO UES and certain non - controlling shareholders. After completion of the share exchange, the Company owns 84.06% of Murmanskaya TPP. On 1 February 2010, the Group founded OJSC “Saint-Petersburg Heating Grid” in accordance with Resolution adopted by the Board of Directors on 21 December 2009. The Group is the only founder of the company. The Company together with Murmanskaya TPP and Saint-Petersburg Heating Grid hereinafter is referred to as the Group.

In October 2007, the Company further increased its equity via additional issue of ordinary shares by open subscription. The major part of the shares issued was bought by LLC Russian Energy Projects and Fortum Power and Heat Oy (Finland).

Following the reorganization process, an extraordinary general shareholder’s meeting of RAO UES of Russia on 26 October 2007 decided to spin-off several holding companies to which shares in electricity generation companies, including OJSC TGC-1, 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 the generation companies after reorganization. Accordingly upon spin-off from RAO UES of Russia OJSC TGC-1 Holding (the “TGC-1 Holding”) received the stake in OJSC TGC-1 held by RAO UES of Russia. Simultaneously with the spin-off, on 1 July 2008 TGC-1 Holding was merged with the Company and its shares were converted into the Company’s shares.

On 29 October 2007, the Extraordinary General Meeting of Shareholders of TGC-1 approved an additional issue of shares for the purpose of the merger with OJSC “TGC-1 Holding”.

Shares representing an interest of 28,69% in the group owned by RAO UES of Russia were acquired by the Gazprom Group on 23 June 2008.

In April 2009, the Group increased its share in Murmanskaya TPP from 84,06% to 90,34% in accordance with the resolution of Board of Directors (minute № 6 from 15 September 2009 and № 15 from 26 February 2009).

Currently, the Group operates 55 power plants and its principal activity is electricity and heat generation.

The Group’s generating assets are located in the North-West of Russia, in particular, St. Petersburg, Leningrad region, Murmansk region and Karelia. The Company’s registered office is located at 1, Marsovo pole, 191186, Saint-Petersburg, Russia.

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty

regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. Also, the borrowers of the Group may have been affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group.

Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2008 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The uncertainty in the global markets combined with other local factors has led over the recent period to very high volatility in the Russian Stock Markets and at times much higher than normal interbank lending rates. Management is unable to estimate reliably the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it takes all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Relations with the State and current regulation

As at 30 June 2010, TGC-1 is controlled by Gazprom Group (51.79%) via its subsidiary LLC "Gazprom energoholding". Other significant shareholder as at 30 June 2010 is Fortum Power and Heat Oy (25.7%)

As at 31 December 2008, Gazprom Group owned 28.66% of the voting shares of the Company. Other significant shareholders as at 31 December 2008 were Fortum Power and Heat Oy (25.7%), LLC Russian Energy Projects (17.67%) and HC Interros (5.6%).

Gazprom Group, in its turn, is controlled by the Russian Federation; therefore, the Russian Government is the ultimate controlling party of the Group as at 30 June 2010.

The Group's customer base also includes a large number of entities controlled by, or related to the State. Furthermore, the State controls a number of the Group's fuel and other suppliers.

The government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service on Tariffs ("FST"), with respect to its wholesale energy purchases, and by the St. Petersburg and Leningrad Oblast Regional Services on Tariffs ("RSTs"), with respect to its retail electricity and heat sales. The operations of all generating facilities are coordinated by OAO System Operator of Unified Energy System. System Operator is controlled by Russian Federation.

Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning cost of service plus a margin, where costs are determined based on the information taken from the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards.

The government's economic, social and other policies could have material effects on the operations of the Group.

Regulatory issues and sector restructuring

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

Starting 2007 the volumes of electricity and power traded in the wholesale market applying regulated prices are substantially reducing, pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to

the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and power supplied at regulated prices will gradually decrease.

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

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

On 30 June 2008, a Resolution of the Russian Government was issued on the launch of the capacity market where available capacity volumes will be allowed to be traded at transition auctions providing for supplies during 2009-2011 and long-term auctions for 10 years supplies, provided they pass through the competitive selection procedure in their respective free power flow zone. For the first time, the wholesale market agents will have the possibility to conclude non-regulated contracts for capacity supply.

On 13 April 2010, Russian Federation Government adopted Resolution №238 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" effective from 26 April 2010. This Resolution determines the pricing parameters of capacity trading on the wholesale capacity market during the transition period and together with Russian Federation Government Resolution № 89 "Certain organizational aspects of long-term capacity take-off on a competitive basis on the wholesale electricity (capacity) market", fully determine the principles of wholesale capacity market functioning.

In accordance with above resolution in case of discover by the Federal Antimonopoly Service (FAS) the reason for settle and applying the maximum level of capacity price, based on competitive capacity take-off in the zone of free capacity exchange, the maximum level of capacity price will be settled. This level will be defined for 2011 as a maximum monthly price on the level of RUB 112.5 thousand per MW for the first price zone and RUB 120.35 thousand for the second price zone adjust on coefficient of utilizing power for auxiliaries (1.05).

Management believes that ultimately a stable regulatory regime and a competitive power market will be put in place such that the Group will be able to raise required financing to sustain the business. However, there can be no assurance in this regard.

Financial condition

As at 30 June 2010, the Group's current assets exceeded its current liabilities by RUB 326 882 thousand (as at 31 December 2009 the Group's current liabilities exceeded its current assets by RUB 2 828 163 thousand).

Note 2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention except as described below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Group maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation (RAR). These consolidated financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of each of the entity of the Group and the currency in which these consolidated financial statements are presented.

Accounting for the effects of hyperinflation

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Hyperinflation in the Russian Federation ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to non-monetary assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Reclassification

Certain reclassifications have been made to prior year data to conform to the current year presentation:

- Balance of Other property plant and equipment have been increased by RUB 1 748 thousand as a result of the reclassification of generation equipment's balance;
- Accumulated depreciation of production buildings have been decreased by RUB 306 985 thousand as result of the reclassification of accumulated depreciation of hydrotechnical buildings by RUB 8 295 thousand, generating equipment by RUB 259 566 thousand, heating networks by RUB 34 845 thousand, other property plant and equipment by RUB 4 279 thousand.

Note 3. Critical Accounting Estimates and assumption

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of property, plant and equipment

At each reporting date the Group assesses whether there is any indication that the recoverable amount of the Group's property, plant and equipment and assets under construction has declined below the carrying value. The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management's judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibles of specific customer accounts worsened compared to previous period estimates. If there is a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations.

Note 4. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and the financial statements of those entities, in which the Company has control. Control is presumed to exist when the Company has the right to control entities directly or indirectly through subsidiaries.

Subsidiaries are those companies and other entities (including special purpose entities) in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and its subsidiary use uniform accounting policies consistent with the Group's policies.

Non - controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. The non-controlling interest forms a separate component of the Group's equity.

Transfers of subsidiaries from parties under common control

Contributions to share capital of shares in subsidiaries from parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are recognised at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital and other considerations contributed is accounted for in the consolidated financial statements as an adjustment to equity.

Foreign currency

Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the balance sheet date, are translated into Russian Roubles at the official exchange rates of the Central Bank of the Russian Federation prevailing at the respective balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the other comprehensive income or losses. Translation at year-end rates does not apply to non-monetary items that are measured at historical costs.

As at 30 June 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("USD") was RUB 31.1954 (31 December 2009-RUB 30.2442: USD 1), between the Russian Rouble and Euro: RUB 38.1863 (31 December 2009-RUB 43.3883: EUR 1).

As at the balance sheet date, exchange restrictions and currency controls existed relating to converting the Russian Rouble into other currencies. The Russian Rouble is not freely convertible in most countries outside of the Russian Federation.

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated

depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's foundation in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by the Predecessor (RAO UES).

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognised in prior periods is reversed if there has been a positive change in the estimates used to determine an asset's recoverable amount.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not capitalised as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or in respect of internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives, in years, of assets by type of facility are as follows:

Type of facility	Acquired prior to 1 January 2007*	Acquired subsequent to 1 January 2007
Production buildings	4-50	50
Hydrotechnical buildings	3-50	50
Generating equipment	6-30	20-30
Heating networks	3-20	20
Other	3-25	10-25

* remaining useful lives as at the date of assessment

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Value added tax on purchases and sales

Output value added tax ("VAT") related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Long-term input VAT is recognised upon initial recognition at nominal amount. Any IAS36 type impairment indicator, which would include a delay in cash flows beyond those initially expected, would result in impairment. The impairment would be the difference between carrying amount (nominal) and the present value of the latest expected cash flows.

Accounts receivable

Accounts receivable are recorded inclusive of VAT. Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Such a provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of provision for impairment account. When a trade receivable is uncollectible, it is written off against the provision for impairment of trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the profit or losses. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following are the other principal criteria used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced in the financial information that the Group obtains;
- the counterparty undergoes bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after more than one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Classification, recognition and measurement of financial assets

The Group classifies its financial assets into the following measurement categories available-for-sale and loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category. Available-for-sale investments are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other

elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is transferred from equity to profit or loss.

Impairment losses for available-for-sale investments are recognised in profit or loss 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 removed from equity and recognised in profit or loss. 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.

Classification of financial liabilities

The Group classifies its financial liabilities into other financial liabilities which are carried at amortised cost.

Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Accounts payable and accrued liabilities

Accounts payable are stated inclusive of VAT. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. If accounts payable are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to finance costs as a gain on restructuring, and the non-current portion of the discounted payable is classified as other non-current liabilities. The discount is amortized as an interest expense.

Borrowings

Borrowings are recognized initially at its’ fair value. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized as an interest expense over the period of the borrowing obligation. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government

grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit or losses on a straight line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in the profit or losses over the period necessary to match them with the costs that they are intended to compensate.

Non-controlling interest

Non-controlling interest represents the non-controlling shareholders' proportionate share of the equity and results of operations of the Company's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. In purchases of non-controlling interest, difference, if any, between the carrying amount of a non-controlling interest and the amount paid to acquire it is recorded directly in equity.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. In respect of some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service cost. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to the other comprehensive income over the employees' expected average remaining working lives.

Income tax

Income taxes have been provided for in these consolidated financial statements in accordance with the Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or losses unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Provisions for undeclared taxes, and related interest and penalties, are recognised when the Group has a present legal obligation, and a reliable estimate of the amount can be made. A provision is recognised for undeclared taxes and interest when they become payable according to law. The provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and disclosed as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for undeclared taxes, interest and penalties are calculated based on management's best estimate of the obligations, in accordance with rates set out in the respective laws in effect at the balance sheet date.

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiary, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiary. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Revenue recognition

Revenue is recognised on the delivery of electricity and heat and on the dispatch of non-utility goods and services during the period. Revenue amounts are presented exclusive of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Equity

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as share premium.

Merger reserve. Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve.

Treasury shares. Where the Company purchases its equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Earnings per share

Earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the reporting period.

Segment reporting

Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. Primary activity of the Group is production of electric and heat power and capacity. The Group generates its revenues from the generation of electricity and heat in Russian Federation, so the Group holds assets in the same geographical area - the Russian Federation.

Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from sales of heat are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power.

Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form are part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

Other borrowing costs are recognised as an expense on an accrual basis using the effective interest method. Interest income includes nominal interest and accrued discount and premium.

Note 5. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The revised IFRS 8 had an impact on the presentation of information about its operating segments but had no impact on the recognition or measurement of specific transactions and balances.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The revised IAS 23 did not have impact on this financial statement.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2009). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Company.

Puttable Financial Instruments and Obligations Arising on Liquidation - IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have an impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

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

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods and which the Company has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Company's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and

the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Company's financial statements.

Classification of Rights Issues - Amendment to IAS 32 (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.

IAS 27, Consolidated and Separate Financial Statements (revised January 2009; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Company does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2009; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Company as it does not expect a business combination to occur.

Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment 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 is not expected to have any impact on the Company's financial statements as the Company does not apply hedge accounting.

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

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, 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 Company does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the

application of their national accounting requirements produced the same result. The amendments will not have any impact on the Company's financial statements.

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

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. Management of the Group currently assesses the potential effect of the amendment.

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.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (issued in November 2009, effective for annual periods beginning on or after 1 July 2010 with earlier application permitted). The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees

to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies that a) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; b) the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

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

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Note 6. Property, Plant and Equipment

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2009	15 028 980	16 632 842	19 071 275	30 269 991	34 727 285	17 933 131	133 663 504
Additions	2 211	-	4 924	-	5 474 066	25 810	5 507 011
Transfers	40 300	-	241 929	464 462	(1 204 957)	458 266	-
Disposals	(155)	-	(11 412)	(363 817)	(43 475)	(190 377)	(609 236)
Balance as at 30 June 2010	15 071 336	16 632 842	19 306 716	30 370 636	38 952 920	18 226 830	138 561 280
Accumulated depreciation (including impairment)							
Balance as at 31 December 2009	(4 789 906)	(6 499 637)	(7 398 212)	(18 963 038)	(56 439)	(10 993 634)	(48 700 866)
Charge for the year	(353 360)	(238 724)	(348 742)	(334 365)	-	(348 609)	(1 623 800)
Disposals	132	-	10 971	323 413	-	111 563	446 079
Impairment losses reversed during the year	-	-	-	-	-	-	-
Impairment losses recognised during the year	-	-	-	-	-	-	-
Balance as at 30 June 2010	(5 143 134)	(6 738 361)	(7 735 983)	(18 973 990)	(56 439)	(11 230 680)	(49 878 587)
Net book value as at 31 December 2009	10 239 074	10 133 205	11 673 063	11 306 953	34 670 846	6 939 497	84 962 638
Net book value as at 30 June 2010	9 928 202	9 894 481	11 570 733	11 396 646	38 896 481	6 996 150	88 682 693

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Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2008	14 805 875	16 550 921	13 685 741	27 558 799	26 779 896	16 440 714	115 821 946
Additions	-	-	914	-	5 417 752	12 646	5 431 312
Transfers	50 053	18 050	1 541 640	327 478	(2 324 977)	387 757	-
Disposals	(8 550)	-	(3 940)	(261 640)	(3 843)	(10 872)	(288 845)
Balance as at 30 June 2009	14 847 378	16 568 971	15 224 355	27 624 637	29 868 830	16 830 244	120 964 415
Accumulated depreciation (including impairment)							
Balance as at 31 December 2008	(5 775 671)	(6 030 927)	(8 087 294)	(20 155 406)	-	(11 682 209)	(51 731 507)
Charge for the year	(286 861)	(286 853)	(292 953)	(362 378)	-	(278 747)	(1 507 792)
Disposals	3 460	-	3 716	161 923	-	4 568	173 667
Impairment losses reversed during the year	-	-	-	-	-	-	-
Impairment losses recognised during the year	-	-	-	-	-	-	-
Balance as at 30 June 2009	(6 059 072)	(6 317 780)	(8 376 531)	(20 355 861)	-	(11 956 388)	(53 065 632)
Net book value as at 31 December 2008	9 030 204	10 519 994	5 598 447	7 403 393	26 779 896	4 758 505	64 090 439
Net book value as at 30 June 2009	8 788 306	10 251 191	6 847 824	7 268 776	29 868 830	4 873 856	67 898 783

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

Other property, plant and equipment includes electricity transmission equipment, motor vehicles, computer equipment, office fixtures and other equipment.

Note 7. Long-term Investments

	% of ownership	30 June 2010	31 December 2009
Investments			
Investments in OJSC "Hibinskaya TK"	50.00%	20 000	20 000
Other		10	10
Total investments		20 010	20 010

Note 8. Other Non-Current Assets

	30 June 2010	31 December 2009
Long-term receivables (interest free)	499 838	472 203
Promissory notes	11 724	10 083
Total financial receivables	511 562	482 286
Intangible assets	17 804	-
VAT in prepayments on capital construction	127 931	155 555
Total other non-current assets	657 297	637 841

Note 9. Cash and Cash Equivalents

	30 June 2010	31 December 2009
Promissory notes with maturing less three month	83 200	61 400
Cash in bank and in hand in RUB (effective interest rate: 0%)	305 471	275 417
Foreign currency accounts (primarily EUR)	108 273	242 757
Total cash and cash equivalents	496 944	579 574

Note 10. Short-term Investments

	Currency	30 June 2010	31 December 2009
Equity shares in OJSC "Inter RAO UES"	RUB	-	445 881
KIT Finance (promissory notes)	RUB	-	95 985
CJSC "Energoinvest" (loan issued)	RUB	45 273	45 273
Gazenergoprombank (promissory notes)	RUB	-	7 095
OJSC "Baltinvestbank" (promissory notes)	RUB	-	1 461
OJSC "Mosnarbank"	RUB	88 543	-
OJSC "Alfabank"	RUB	565	-
Total short-term investments		134 381	595 695

Note 11. Accounts Receivable and Prepayments

	30 June 2010	31 December 2009
Trade receivables, net of provision for impairment of RUB 373 353 thousand (31 December 2009: RUB 374 676 thousand)	7 376 725	5 371 666
Other receivables, net of provision for impairment of RUB 102 990 thousand (31 December 2009: RUB 112 790 thousand)	217 076	39 792
Total financial receivables	7 593 801	5 411 458
Value-added tax receivables	1 247 380	3 656 693
Advances to suppliers	103 987	939 330

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Other taxes receivable	726 025	16 358
Total accounts receivable and prepayments	9 671 193	10 023 839

Note 12. Inventories

	30 June 2010	31 December 2009
Fuel supplies	1 285 665	1 360 013
Spare parts	486 875	415 575
Raw materials and other supplies	413 745	367 622
Total inventories	2 186 285	2 143 210

As at 30 June 2010 raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 6 367 thousand (31 December 2009: RUB 6 367 thousand).

Note 13. Long-term Borrowings

	Curr ency	Effective interest rate	Maturity	30 June 2010	31 December 2009
Long-term bonds	RUB	16.99%	2014	5 000 000	5 000 000
Long-term bonds	RUB	8.5%	2014	923 126	921 939
NORDIC investment bank European Bank for Reconstruction and Development Nordic environment finance corporation	Euro	EURIBOR + 3%	2014	704 977	901 142
	Euro	EURIBOR + 2.75%	2010	-	173 551
	Euro	EURIBOR + 2.00%	2015	95 466	119 319
OJSC "AB Rossiya"	RUB	5-7.5%	2013	1 200 000	-
OJSC "TransCreditBank"	RUB	8.5%	2012	2 792 350	2 700 000
LLC «Barclays Bank»	RUB	8.5%	2013	1 000 000	-
OJSC «Bank VTB North- West»	RUB	7.1%	2012	600 000	-
OJSC «Sberbank»	RUB	9.5%	2013	1 300 000	-
				13 615 919	9 815 951
Less: current portion					
NORDIC investment bank				(176 244)	(200 254)
European Bank for Reconstruction and Development Nordic environment finance corporation				-	(173 551)
				(19 093)	(21 695)
Total long-term borrowings				13 420 582	9 420 451

On 7 July 2009, Group issued 5 000 000 bonds at a nominal value of for RUB 1 000 per bond, with coupon rate of 16.99%, maturing in 2014 and bond a put date in 2011.

On March 2007, the Group issued 4 000 000 bonds at a nominal value of RUB 1 000 per bond, with the coupon rate of 7.75%, maturing in 2014. As a result of the offer Group did not redeemed any issued bonds, therefore the total amount of bonds outstanding as at 30 June 2010 was equal to 1 143 503 with coupon rate of 8.5%. The fair value of these bonds (including the current portion) was estimated by management on the basis of future contracted cash flows and marketable interest rates on similar instruments applicable to the Group as at 30 June 2010.

Note 14. Short-Term Borrowings and Current Portion of Long-Term Borrowings

Name of lender	Currency	Effective interest rate	30 June 2010	31 December 2009
OJSC "Bank VTB North-West"	RUB	4.9-12.6%	2 075 000	500 000
OJSC "Alfabank"	RUB	12.15-17.5%	-	1 230 000
CJSC "Gazenergoprombank"	RUB	9.95%	1 200 000	1 200 000

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OJSC "AB Rossiya"	RUB	5-7.5%	-	250 000
CJSC "Unicreditbank"	RUB	11%	-	1 300 000
OJSC "Baltinvestbank"	RUB	11%	-	742 250
Nordic environment finance corporation	Euro	EURIBOR+2.00%	19 093	21 695
European Bank for Reconstruction and Development	Euro	EURIBOR+2.75%	-	173 551
NORDIC investment bank	Euro	EURIBOR+3%	176 244	200 254
Total short-Term Borrowings			3 470 337	5 617 750

Note 15. Accounts Payable and Accrued Liabilities

	30 June 2010	31 December 2009
Trade accounts payable	1 798 414	2 792 198
Accounts payable for capital construction	3 869 116	5 416 898
Accrued liabilities and other payables	584 351	434 731
Interest accrued on loans	483 900	77 365
Total financial payables	6 735 781	8 721 192
Advances from customers	652 573	882 848
Employee benefits	377 832	151 427
Accrued liabilities of related parties (for dividends)	168 314	-
Total accounts payable and accrued liabilities	7 934 500	9 755 467

Note 16. Other Taxes Payable

	30 June 2010	31 December 2009
Property tax	146 277	157 914
Water usage tax	40 167	67 419
Employee taxes	93 866	1 367
VAT provision, related penalties and late payment interest	279 809	347 947
Other taxes	75 441	77 712
Total taxes Payable	635 560	652 359

Note 17. Tax Provision

Following the results of a tax inspection of the Company for the period from 25 March 2005 to 31 December 2006 finalised in March 2009, management recorded a provision in respect of additional taxes, penalties and late payment interest as presented below:

	Income tax payable	Taxes other than on income, and penalties	Total
Carrying value at 31 December 2009	120 136	209 916	330 052
Charged to profit or losses	-	-	-
Carrying value at 30 June 2010	120 136	209 916	330 052

Note 18. Operating Expenses, net

	Six months ended 30 June 2010	Six months ended 30 June 2009
Fuel	12 130 630	8 268 139
Employee benefits	3 024 512	2 542 434
Electricity and heat purchases	2 489 050	1 588 010
Depreciation	1 623 800	1 507 792
Repairs and maintenance	223 301	486 102
Water usage expenses	1 062 300	1 034 270
Heat distribution	298 116	672 032
Taxes other than income tax	506 376	497 647
Dispatcher's fees	319 653	298 094
Other materials	255 142	136 074
Security services	167 401	164 069
Consulting, legal and audit services	149 922	127 058
Lease expenses	278 697	125 524
Insurance cost	112 155	112 298
Transportation services	227 941	201 803
Telecommunication services	76 580	69 960
Other operating income	(219 902)	(381 948)
Other operating expenses	524 717	556 332
Total operating expenses, net	23 250 391	18 005 690

Note 19. Finance income, net

	Six months ended 30 June 2010	Six months ended 30 June 2009
Interest expense	486 297	185 179
Interest income	(3 181)	(61 949)
Effect of discounting	6 377	(13 827)
Finance income, net	489 493	109 403

Note 20. Subsequent Events

New borrowings

In July 2010, the Group concluded several loan agreements and received the loans from the following banks:

- CJSC "Unicreditbank" for the total amount of RUB 846 302 thousand with the maturity date of 30 January 2012 and annual interest rate of 7.73%.
- OJSC "Bank VTB North-West" for the total amount of RUB 400 000 thousand with maturity date of 11 January 2012 and annual interest rate of 7.1%.
- OJSC "Bank VTB North-West" for the total amount of RUB 676 500 thousand with maturity date of 11 January 2012 and annual interest rate of 7.75%.
- OJSC "Bank VTB North-West" for the total amount of RUB 617 000 thousand with maturity date of 24 November 2012 and annual interest rate of 4.7%.

In August 2010, the Group received the loan from CJSC "Unicreditbank" for the total amount of RUB 115 448 thousand with the maturity date of 30 January 2012 and annual interest rate of 7.73%.

Repayment of loans

For the period from June till 23 August 2010 the Group repaid loans for the total amount of RUB 2 718 888 thousand.