

**JSC QUADRA – POWER GENERATION
(FORMERLY TGC-4)**

**Interim condensed consolidated
financial statements (unaudited)**

for the six months ended 30 June 2010

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

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JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated on the independent auditor’s report on review of interim condensed consolidated financial statements set out on page 2, is made with a view to distinguishing the responsibilities of management and those of the independent auditors in relation to the interim condensed consolidated financial statements of Joint Stock Company Quadra – Power Generation (formerly Joint Stock Company TGC–4 or “Company”) and its subsidiaries (the “Group”).

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the consolidated financial position of the Group as at 30 June 2010, and results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”).

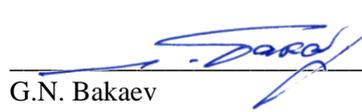
In preparing the interim condensed consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the interim condensed consolidated financial statements; and
- preparing the interim condensed consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with the legislation and accounting standards of the Russian Federation;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The interim condensed consolidated financial statements for the six months ended 30 June 2010 were approved on 20 December 2010 by:


G.N. Bakaev
General Director

Tula, Russia
20 December 2010




I.A. Lapitskaya
Chief Accountant

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Joint Stock Company Quadra – Power Generation:

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Joint Stock Company Quadra – Power Generation (formerly Joint Stock Company TGC–4) and its subsidiaries (the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2010 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



Moscow, Russia
20 December 2010

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

	Notes	30 June 2010	31 December 2009
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	5	22,449,554	22,382,576
Intangible assets		61,976	56,014
Investments in associates		14,758	13,602
Available-for-sale investments		70,691	52,645
Accounts receivable and advances paid	6	157,340	38,108
Deferred tax assets		289,465	488,669
Other assets		21,600	27,307
		23,065,384	23,058,921
<i>Current assets</i>			
Inventories		1,838,925	1,738,319
Accounts receivable and advances paid	6	4,445,920	5,817,444
Income tax receivable		496,603	84,912
Bank deposits	7	–	712,345
Cash and cash equivalents	8	2,095,852	3,053,110
Other assets		892	462
Assets held for sale	9	709,659	–
		9,587,851	11,406,592
TOTAL ASSETS		32,653,235	34,465,513
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Ordinary shares	10	19,125,056	19,125,056
Preferred shares	10	752,729	752,729
Share premium		10,921,097	10,921,097
Merger reserve		(1,807,993)	(1,807,993)
Revaluation reserve for property, plant and equipment		6,215,135	7,301,163
Revaluation reserve for available-for-sale investments		33,758	19,321
Accumulated deficit		(6,392,813)	(8,212,670)
Equity attributable to owners of the Company		28,846,969	28,098,703
Non-controlling interests		(6,026)	(1,283)
TOTAL EQUITY		28,840,943	28,097,420
<i>Non-current liabilities</i>			
Loans and borrowings	11	11,918	–
Obligations under finance leases		54,970	73,501
Pension liabilities		790,966	750,634
Deferred tax liabilities		23,063	256,925
		880,917	1,081,060
<i>Current liabilities</i>			
Loans and borrowings	11	11,092	1,957,832
Obligations under finance leases		66,459	145,260
Accounts payable and accruals		1,358,535	1,547,920
Provision for legal claims	12	782,209	807,215
Income tax payable		–	86,214
Other taxes payable		654,938	742,592
Liabilities associated with assets held for sale	9	58,142	–
		2,931,375	5,287,033
TOTAL LIABILITIES		3,812,292	6,368,093
TOTAL EQUITY AND LIABILITIES		32,653,235	34,465,513

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

	Notes	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Revenue			
Heat energy		10,196,799	8,746,163
Electricity and capacity		8,301,519	7,844,206
Other revenue		369,043	363,991
Total revenue		18,867,361	16,954,360
Operating (expenses)/income			
Fuel		(10,540,012)	(7,631,056)
Staff costs		(2,211,996)	(2,200,151)
Depreciation and amortisation		(1,754,682)	(764,156)
Purchase of electricity		(1,319,548)	(1,388,010)
Repair and maintenance		(443,506)	(448,009)
Water usage expenses		(348,627)	(359,927)
Materials and spare parts		(324,656)	(336,151)
Change in allowance for doubtful receivables		(295,644)	(99,001)
Taxes, other than income tax		(188,790)	(188,075)
OREM services		(152,582)	(141,796)
Rent expenses		(136,123)	(143,346)
Security services		(69,937)	(77,705)
Change in provision for legal claims		–	64,509
Reversal of impairment of property, plant and equipment	9	320,878	–
Other operating income		97,281	87,062
Other operating expenses		(442,356)	(459,587)
Operating profit		1,057,061	2,868,961
Interest income		17,584	171,021
Finance costs, net		(103,654)	(376,322)
Foreign currency gain, net		44,374	494,247
Share of results of associates		(1,033)	54
Profit before income tax		1,014,332	3,157,961
Income tax expense			
Current income tax expense		(233,069)	(427,135)
Deferred tax expense		(19,875)	(272,937)
Total income tax expense		(252,944)	(700,072)
PROFIT FOR THE PERIOD		761,388	2,457,889
Attributable to:			
Owners of the Company		766,131	2,459,867
Non-controlling interests		(4,743)	(1,978)
		761,388	2,457,889
OTHER COMPREHENSIVE INCOME			
Effect of previously unrecognised deferred tax assets		–	196,379
		–	196,379
Revaluation of available-for-sale investments		18,046	26,187
Attributable income tax		(3,609)	(5,237)
Other comprehensive income for the period, net of income tax		14,437	217,329
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		775,825	2,675,218
Attributable to:			
Owners of the Company		780,568	2,677,196
Non-controlling interests		(4,743)	(1,978)
		775,825	2,675,218
EARNINGS PER SHARE			
Basic and diluted earnings per share (in Roubles)	10	0.00040	0.00127

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

	For the six months ended 30 June 2010	For the six months ended 30 June 2009
OPERATING ACTIVITIES		
Profit before income tax	1,014,332	3,157,961
Adjustments for:		
Depreciation of property, plant and equipment	1,745,268	754,801
Gain from disposal of property, plant and equipment	(5,249)	(12,021)
Reversal of impairment of property, plant and equipment	(320,878)	–
Amortisation of intangible assets	9,414	9,355
Interest income	(17,584)	(171,021)
Finance costs, net	103,654	376,322
Foreign currency gain, net	(44,374)	(494,247)
Share of results of associates	1,033	(54)
Change in allowance for doubtful receivables	295,644	99,001
Change in provision for legal claims	–	(64,509)
Other	(11,245)	(5,505)
Operating profit before working capital changes	2,770,015	3,650,083
(Increase)/decrease in inventories	(117,106)	30,785
Decrease in accounts receivable and advances paid	941,889	592,022
Increase/(decrease) in pension liabilities	6,888	(86,532)
(Decrease)/increase in accounts payable and accruals	(125,367)	220,556
Decrease in other taxes payable	(87,654)	(61,099)
Cash generated from operations	3,388,665	4,345,815
Interest received	31,168	199,225
Interest paid	(71,322)	(366,341)
Income tax paid	(730,974)	(1,366,788)
Net cash generated from operating activities	2,617,537	2,811,911
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,306,129)	(1,312,216)
Proceeds from disposal of property, plant and equipment	47,530	10,437
Purchase of intangible assets	(15,378)	(2,979)
Contribution to share capital of newly created associate	(2,450)	–
Proceeds from repayment of bank deposits	712,345	4,500,000
Dividend received	262	–
Net cash (used in)/generated from investing activities	(1,563,820)	3,195,242
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	5,744,996	10,135,594
Repayments of loans and borrowings	(7,673,000)	(15,066,834)
Cash receipt on re-issuance of treasury shares	–	246
Dividends paid	(30,184)	(401)
Repayments of finance leases	(97,332)	(64,154)
Net cash used in financing activities	(2,055,520)	(4,995,549)
Effect of exchange rates changes on the balance of cash held in foreign currencies	44,545	495,616
Net (decrease)/increase in cash and cash equivalents	(957,258)	1,507,220
Cash and cash equivalents at beginning of the period	3,053,110	4,592,694
Cash and cash equivalents at end of the period	2,095,852	6,099,914

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

	Equity attributable to owners of the Company										
	Ordinary shares	Preferred shares	Treasury shares	Share premium	Merger reserve	Revaluation reserve for property, plant and equipment	Revaluation reserve for available-for-sale investments	Accumulated deficit	Total	Non-controlling interests	Total
Balance at 31 December 2008	19,125,056	752,729	(1,069)	10,921,097	(1,807,993)	3,485,857	–	(5,706,177)	26,769,500	3,401	26,772,901
Dividends	–	–	–	–	–	–	–	(1,763)	(1,763)	–	(1,763)
Profit for the period	–	–	–	–	–	–	–	2,459,867	2,459,867	(1,978)	2,457,889
Effect of previously unrecognised deferred tax assets	–	–	–	–	–	196,379	–	–	196,379	–	196,379
Revaluation of available-for-sale investments	–	–	–	–	–	–	26,187	–	26,187	–	26,187
Attributable income tax	–	–	–	–	–	–	(5,237)	–	(5,237)	–	(5,237)
Total comprehensive income for the period	–	–	–	–	–	196,379	20,950	2,459,867	2,677,196	(1,978)	2,675,218
Re-issuance of treasury shares	–	–	1,069	–	–	–	–	(822)	247	–	247
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit	–	–	–	–	–	(219,621)	–	219,621	–	–	–
Income tax attributable to transfer	–	–	–	–	–	43,924	–	(43,924)	–	–	–
Balance at 30 June 2009	19,125,056	752,729	–	10,921,097	(1,807,993)	3,506,539	20,950	(3,073,198)	29,445,180	1,423	29,446,603
Balance at 31 December 2009	19,125,056	752,729	–	10,921,097	(1,807,993)	7,301,163	19,321	(8,212,670)	28,098,703	(1,283)	28,097,420
Dividends	–	–	–	–	–	–	–	(32,302)	(32,302)	–	(32,302)
Profit for the period	–	–	–	–	–	–	–	766,131	766,131	(4,743)	761,388
Revaluation of available-for-sale investments	–	–	–	–	–	–	18,046	–	18,046	–	18,046
Attributable income tax	–	–	–	–	–	–	(3,609)	–	(3,609)	–	(3,609)
Total comprehensive income for the period	–	–	–	–	–	–	14,437	766,131	780,568	(4,743)	775,825
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit	–	–	–	–	–	(1,357,535)	–	1,357,535	–	–	–
Income tax attributable to transfer	–	–	–	–	–	271,507	–	(271,507)	–	–	–
Balance at 30 June 2010	19,125,056	752,729	–	10,921,097	(1,807,993)	6,215,135	33,758	(6,392,813)	28,846,969	(6,026)	28,840,943

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company Territorial Generation Company №4 (the “TGC–4”) was established on 18 April 2005, as a subsidiary of Open Joint Stock Company RAO “UES of Russia” within the framework of Russian electricity sector restructuring. On 18 May 2010, the Company’s name was changed to Open Joint Stock Company Quadra – Power Generation (“Quadra” or the “Company”).

The principal business activity of the Company and its subsidiaries (the “Group”) is generation and sale of electricity (capacity) and heat energy. The major operational facilities of the Group are located on the territory of the Russian Federation in the following regions: Belgorod, Bryansk, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk, Tambov and Tula.

The Company’s registered office is located at: 99v, Timiryazev str., 300012, Tula, Russian Federation.

2. BASIS OF PRESENTATION

Statement of compliance

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2009, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Seasonality

The Group’s production and operation results are subject to seasonal fluctuations as a result of weather conditions with corresponding effect on production of electricity and heat energy. The period from April to October of each year typically results in lower generation of electricity and heat energy, revenues and operation results.

For the twelve months ended 30 June 2010, the Group had revenue of RUB 33,548,076 thousand and loss for the twelve months ended 30 June 2010 of RUB 4,555,708 thousand.

Foreign currencies

Exchange rates used in the preparation of the interim condensed consolidated financial statements are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
<i>RUB to 1 US Dollar</i>		
Period end rates	31.20	30.24
<i>RUB to 1 Euro</i>		
Period end rates	38.19	43.39

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments, estimates and assumptions made by management of the Group and applied in these interim condensed consolidated financial statements for the six months ended 30 June 2010 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2009.

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2009, except for adoption of new and revised International Financial Reporting Standards and Interpretations issued by International Financial Reporting Committee ("IFRIC") that are mandatory for adoption in annual periods beginning on or after 1 January 2010.

Adoption of revisions and amendments to the following Standards and Interpretations detailed below did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*;
- IFRS 2 *Share-based Payments*;
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- IFRS 8 *Operating Segment Information*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 7 *Statement of Cash Flows*;
- IAS 17 *Leases*;
- IAS 31 *Investments in Joint Ventures*;
- IAS 36 *Impairment of Assets*;
- IAS 38 *Intangible Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operations*;
- IFRIC 17 *Distributions of Non-cash Assets to Owners*; and
- IFRIC 18 *Transfers of Assets from Customers*.

JSC QUADRA – POWER GENERATION (FORMERLY JSC TGC–4)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

5. PROPERTY, PLANT AND EQUIPMENT

	<u>Property, plant and equipment</u>	<u>Construction- in-progress</u>	<u>Total</u>
<i>Cost or valuation</i>			
Balance at 31 December 2008	39,738,331	7,470,762	47,209,093
Additions	2,891	1,246,120	1,249,011
Transfers from construction-in-progress	59,694	(59,694)	–
Disposals	(29,036)	(800)	(29,836)
Balance at 30 June 2009	39,771,880	8,656,388	48,428,268
Balance at 31 December 2009	15,658,916	6,757,806	22,416,722
Additions	22,646	2,190,894	2,213,540
Transfers from construction-in-progress	93,655	(93,655)	–
Disposals	(42,360)	(4,260)	(46,620)
Reclassified to assets held for sale (refer to not 9)	(406,513)	(906)	(407,419)
Balance at 30 June 2010	15,326,344	8,849,879	24,176,223
<i>Accumulated depreciation and impairment</i>			
Balance at 31 December 2008	(23,655,425)	(1,675,389)	(25,330,814)
Depreciation charge for the period	(754,801)	–	(754,801)
Reclassification of impairment due to transfers from construction-in-progress	(45,700)	45,700	–
Eliminated on disposals	8,272	765	9,037
Balance at 30 June 2009	(24,447,654)	(1,628,924)	(26,076,578)
Balance at 31 December 2009	(19,729)	(14,417)	(34,146)
Depreciation charge for the period	(1,745,268)	–	(1,745,268)
Eliminated on disposals	1,885	650	2,535
Release of impairment	319,823	1,055	320,878
Reclassified to assets held for sale (refer to note 9)	(269,613)	(1,055)	(270,668)
Balance at 30 June 2010	(1,712,902)	(13,767)	(1,726,669)
<i>Carrying value</i>			
Balance at 31 December 2009	15,639,187	6,743,389	22,382,576
Balance at 30 June 2010	13,613,442	8,836,112	22,449,554

Property, plant and equipment pledged as security

The Group leases property, plant and equipment under a number of finance lease agreements. At the end of the term of the lease the Group takes automatic ownership of the assets or has an option to purchase leased assets at a beneficial price. Finance leases obligations are secured by the lessors' title to the leased assets.

	<u>30 June 2010</u>	<u>31 December 2009</u>
Carrying value of leased equipment	1,543,155	1,601,563

Certain items of property, plant and equipment have been pledged to secure bank loans and borrowings granted to the Group:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Carrying value of pledged property, plant and equipment	1,153,823	1,217,009

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

6. ACCOUNTS RECEIVABLE AND ADVANCES PAID

	<u>30 June 2010</u>	<u>31 December 2009</u>
Trade accounts receivable	5,191,314	4,696,865
Other accounts receivable	55,367	74,547
Less: allowance for doubtful receivables	<u>(1,015,217)</u>	<u>(763,685)</u>
Total financial assets	4,231,464	4,007,727
Advances paid and prepaid expenses	224,005	1,394,724
VAT reimbursable	118,524	451,022
Other taxes receivable	<u>29,267</u>	<u>2,079</u>
Total non-financial assets	371,796	1,847,825
Total non-current accounts receivable and advances paid	157,340	38,108
Total current accounts receivable and advances paid	4,445,920	5,817,444

7. BANK DEPOSITS

	<u>30 June 2010</u>	<u>31 December 2009</u>
JSC AKB International Financial Club	–	712,345

International Financial Club – USD-denominated deposit bearing interest at 5.0% per annum maturing on 10 February 2010. The deposit was redeemed on due date.

8. CASH AND CASH EQUIVALENTS

	<u>30 June 2010</u>	<u>31 December 2009</u>
Bank deposits	1,161,845	2,846,912
Current bank accounts, including:		
USD-denominated	752,865	–
RUB-denominated	180,532	205,618
Other cash equivalents	<u>610</u>	<u>580</u>
Total	2,095,852	3,053,110

Bank deposits

<u>Bank name</u>	<u>Currency</u>	<u>Maturity</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
JSC Gazprombank	RUB	14/07/2010	1,161,845	–
JSC Gazprombank	USD	19/01/2010	<u>–</u>	<u>2,846,912</u>
Total			1,161,845	2,846,912

As at 30 June 2010 and 31 December 2009, bank deposits were placed in Gazprombank bearing interest rates varying from 1.95% per annum to 2.55% per annum for RUB-denominated deposits and at 0.2% per annum for USD-denominated deposits with original maturity of less than three months.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

in thousands of Russian Roubles, unless otherwise stated

9. ASSETS CLASSIFIED AS HELD FOR SALE

During the six months ended 30 June 2010, the management of the Group made a decision to dispose of Pervomayskaya Thermal Water Plant (the “PTWP”). On 29 June 2010, the Group concluded preliminary sale agreement under the terms of which transaction should be completed at 31 December 2010.

On 30 June 2010, the Group performed an impairment test in respect of non-current assets held for sale and, as a result, recovered impairment provision for property, plant and equipment recognised in prior years in the amount of RUB 320,878 thousand.

On 30 June 2010, property, plant and equipment and inventories subject to disposal were reclassified to assets held for sale together with the deferred tax liabilities associated with assets. They are presented as follows:

	30 June 2010
Property, plant and equipment	678,087
Inventories	31,572
Total assets held for sale	709,659
Deferred tax liabilities	58,142
Total liabilities associated with assets held for sale	58,142

Management of the Group determined that the sale of PTWP does not constitute a discontinued operation.

As at 30 June 2010, revaluation reserve for property, plant and equipment associated with assets held for sale in the amount of RUB 199,471 thousand, net of deferred tax of RUB 49,868 thousand, was presented as a part of other comprehensive income of the Group.

10. CAPITAL AND RESERVES

Ordinary and preferred shares

	<u>Ordinary shares</u>		<u>Preferred shares</u>	
	<u>Number of shares, in thousands</u>	<u>Balance</u>	<u>Number of shares, in thousands</u>	<u>Balance</u>
Balance at beginning and end of the period	1,912,505,578	19,125,056	75,272,939	752,729

Dividends and retained earning

The statutory financial statements of the Company are the basis for profit distribution and other appropriations. As at 30 June 2010 and 31 December 2009, the Company’s retained earnings in the financial statements prepared under legislation and accounting and reporting standards of the Russian Federation, which may potentially be distributed between shareholders in the form of dividends, amounted to RUB 3,252,462 thousand and RUB 3,008,288 thousand, respectively.

During the six months ended 30 June 2010 and 2009, the Company declared dividends in respect of preferred shares.

	<u>For the six months ended 30 June 2010</u>		<u>For the six months ended 30 June 2009</u>	
	<u>Dividends per share, RUB</u>	<u>Declared dividends</u>	<u>Dividends per share, RUB</u>	<u>Declared dividends</u>
Dividends declared	0.00042913	32,302	0.00002342	1,763

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Profit per share

Profit per share for the six months ended 30 June 2010 and 2009 were calculated based on weighted average number of the Company's ordinary shares outstanding during respective periods and profit for the period, attributable to owners of the Company as presented as follows:

	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Profit for the period attributable to owners of the Company	766,131	2,459,867
Less: earnings attributable to the holders of the Company's preferred shares	(5,803)	(22,681)
Profit for the period used in the calculation of profit per share	760,328	2,437,186
Weighted average number of the Company's ordinary shares, in thousands	1,912,505,578	1,912,505,549
Profit per share, in RUB	0.00040	0.00127

11. LOANS AND BORROWINGS

	30 June 2010		31 December 2009	
	Rate, as %	Balance	Rate, as %	Balance
Secured bank loans:				
JSC Sberbank of the Russian Federation	–	–	11.25 – 13.75	381,700
JSC Gazpombank	–	–	10.70 – 17.00	759,200
Unsecured bank loans:				
JSC Sberbank of the Russian Federation	10.00 – 13.50	4,834	8.40 – 14.25	779,643
JSC Gazpombank	9.75 – 12.50	5,807	–	–
RUB-denominated Corporate bonds	8.00	11,918	7.60	30,018
Interest payable on loans and borrowings	N/A	451	N/A	7,271
		23,010		1,957,832
Long-term portion of loans and borrowings		11,918		–
Current portion repayable in one year and shown under current liabilities		11,092		1,957,832

All bank loans are RUB-denominated and represent credit facilities provided to the Group. Interest rates are fixed for each tranches at set up in credit facility agreements and respective addendums. Certain bank loans are subject to the restrictive covenants, including but not limited to:

- prohibition of issuance of additional Group's promissory notes and debentures without bank pre-approval; and
- pre-approval of guaranties issued.

All bank loan agreements have accelerated clauses, allowing creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants.

The following items of property, plant and equipment and inventories were pledged to secure bank loans:

	30 June 2010	31 December 2009
Property, plant and equipment (refer to note 5)	1,153,823	1,217,009
Inventories	560,739	1,257,352
Total	1,714,562	2,474,361

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12. PROVISION FOR LEGAL CLAIMS

	<u>30 June 2010</u>	<u>31 December 2009</u>
Balance at beginning of the period	807,215	812,591
Additional provision recognised	–	122,540
Reversal of previously recognised provision	–	(127,744)
Settled in cash	(25,006)	(172)
Balance at end of the period	<u>782,209</u>	<u>807,215</u>

13. RELATED PARTIES

Related parties include shareholders, associates, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in these interim condensed consolidated financial statements.

Details of transactions and outstanding balances between the Group and other related parties are presented as follows:

	<u>Sales of electricity and heat energy</u>		<u>Purchase of goods and services</u>	
	<u>For the six months ended 30 June 2010</u>	<u>For the six months ended 30 June 2009</u>	<u>For the six months ended 30 June 2010</u>	<u>For the six months ended 30 June 2009</u>
JSC Tul'skaya Distribution Company	–	583,282	–	1,774
LLC SK Soglasiye	–	–	39,868	56,479
Other	–	–	1,461	499
	<u>–</u>	<u>583,282</u>	<u>41,329</u>	<u>58,752</u>

On 10 February 2010, the Group settled USD-denominated deposit in the amount of RUB 733,030 thousand (including RUB 17,640 thousand of interest income) in JSC AKB International Financial Club, a company related by means of common control and ownership.

As at 30 June 2010, RUB 752,865 thousand of cash were placed on USD-denominated current accounts in JSC AKB International Financial Club.

There are no significant outstanding balances with related parties as at 30 June 2010 and 31 December 2009, except for deposits and cash in JSC AKB International Financial Club, as disclosed above.

14. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 30 June 2010, the Group's contractual capital commitments amounted to RUB 9,151,102 thousand.

Operating leases: Group as a lessee

The land on which the Group's production facilities are located is partially owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2058. According to the term of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities. The Group also leases other property, plant and equipment.

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The respective lease agreements have an average life of 1 to 50 years and generally do not have renewal option at the end of the term. There are no restrictions placed upon the lessee by entering into these agreements.

Future minimum rental expenses under non-cancellable operating leases are as follows:

	30 June 2010	31 December 2009
Due within one year	216,368	228,791
Due from second to fifth year	483,869	489,698
Due thereafter	1,903,810	2,056,887
Total	2,604,047	2,775,376

Purchase commitments

The Group entities concluded a number of long-term contracts with JSC Gazprom and its subsidiaries for the purchase in 2010-2012 of the limited gas with guaranteed volumes and delivery terms. Purchase volumes are determined on the basis of estimated production demands. The purchase price of gas is determined by *Federal Service on Tariffs*. The gas demand that is not covered by the limited volumes set up by JSC Gazprom shall be satisfied by commercial gas purchases under short-term (up to one month) supply contracts entered into by results of tenders held on the electronic platform of LLC Mezhrefiongaz and at prices determined by the tender.

15. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Obligations for capacity supplies during 2010-2015

According to agent agreements signed by the Group on 19 October 2010, the Group accepts responsibility to provide capacity from objects under construction and existing capacities during the period from 2010 to 2015. Expected dates for capacity supplies for objects covered by the agreement are presented as follows:

	Date of completion
Voronezhskaya TETs-2 (completed)	31/12/2010
The boiler in North-West region of the town of Kursk	01/05/2011
Kaluzhskaya TETs	01/05/2011
Livenskaya TETs	31/12/2011
Novomoskovskaya GRES	01/07/2012
Dyagilevskaya TETs	30/09/2013
Aleksinskaya TETs	31/12/2013
Voronezhskaya TETs-1	31/12/2014
Kurskaya TETs-1	31/12/2015

Establishment of joint venture and disposal of assets

On 24 November 2010, the Group entered into an agreement with Dalkia International S.A. (“Dalkia”) to form a joint venture for the purpose of engaging in the district heating business including (i) heat production, (ii) distribution of heat and other energies and (iii) the procurement or sales of heat and other energies within the Russian Federation. Details of the agreement are as follows:

- *Establishment of Regional Energy Company B.V.* The Group will contribute about RUB 490,000 thousand in cash and the Group’s interest in LLC Kursk Energy in exchange for 50.0% minus one share interest in share capital of newly created joint venture Regional Energy Company B.V., the company will serve as the holding company that will own the district heating businesses that the Group and Dalkia will decide to contribute to the joint venture from time to time.
- *Sale of property, plant and equipment.* The Group will sell property, plant and equipment related to distribution of heat in Kursk with a carrying value of approximately RUB 7,411 thousand to LLC Kursk Energy for a cash consideration of RUB 501,680 thousand.

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Disposal of Pervomayskaya Thermal Water Plant (the “PTWP”)

On 30 November 2010, the Group received prepayment of RUB 930,000 thousand of the consideration (refer to note 9). The management of the Group is expecting to complete disposal of PTWP’s assets to 31 December 2010.

Loans obtained by the Group

Up to the date of authorisation of these interim condensed consolidated financial statements, the Group obtained the following loans:

- *JSC Gazprombank*. Two RUB-denominated credit lines in the amount of RUB 158,241 thousand. The credit lines bear interest at 9.0% per annum and maturing in January 2012; and
- *JSC Royal Bank of Scotland*. The USD-denominated loan in the amount of USD 15,000 thousand. The loan bear interest at 3.5% per annum and maturing in November 2013.