

## **JSC QUADRA – POWER GENERATION**

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

**for the six months ended 30 June 2011**

# JSC QUADRA – POWER GENERATION

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## JSC QUADRA – POWER GENERATION

### STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

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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 (the “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 2011, 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:

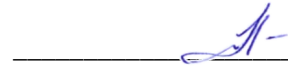
- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with the legislation and accounting standards of the Russian Federation;
- taking steps to safeguard the assets of the Group; and
- detecting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

The interim condensed consolidated financial statements for the six months ended 30 June 2011 were approved on 23 September 2011 by:

  
G.N. Bakaev  
General Director

Tula, Russia  
23 September 2011



  
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 and its subsidiaries (the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2011 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  
23 September 2011

# JSC QUADRA – POWER GENERATION

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011 (UNAUDITED) *in thousands of Russian Roubles*

	Notes	30 June 2011	31 December 2010
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	5	27,723,479	26,954,781
Intangible assets		50,077	52,779
Investments in associates		12,323	15,077
Available-for-sale investments		61,609	75,440
Accounts receivable and advances paid	6	716,148	119,955
Deferred tax assets		568,241	532,158
Other assets		11,374	15,897
		<b>29,143,251</b>	<b>27,766,087</b>
<i>Current assets</i>			
Inventories	7	1,840,251	1,691,780
Accounts receivable and advances paid	6	5,083,225	4,611,369
Income tax receivable		540,652	27,429
Cash and cash equivalents	8	1,587,417	3,713,203
Other assets		7,782	832
		<b>9,059,327</b>	<b>10,044,613</b>
Assets held for sale		260,740	271,100
		<b>9,320,067</b>	<b>10,315,713</b>
<b>TOTAL ASSETS</b>		<b>38,463,318</b>	<b>38,081,800</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Capital and reserves</i>			
Ordinary shares	9	19,125,056	19,125,056
Preferred shares	9	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		4,592,625	5,001,763
Revaluation reserve for available-for-sale investments		26,492	37,557
Accumulated deficit		(2,650,925)	(3,942,751)
<b>Equity attributable to owners of the Company</b>		<b>30,959,081</b>	<b>30,087,458</b>
Non-controlling interests		(6,025)	(6,025)
<b>TOTAL EQUITY</b>		<b>30,953,056</b>	<b>30,081,433</b>
<i>Non-current liabilities</i>			
Loans and borrowings	10	421,137	627,313
Obligations under finance leases		14,810	35,102
Pension liabilities		794,562	763,101
Deferred tax liabilities		657,733	515,353
		<b>1,888,242</b>	<b>1,940,869</b>
<i>Current liabilities</i>			
Loans and borrowings	10	2,152,630	2,058,263
Obligations under finance leases		40,160	38,399
Accounts payable and accruals		2,207,019	2,157,347
Provision for legal claims	11	639,183	644,385
Income tax payable		4,465	234,297
Other taxes payable	12	578,563	926,807
		<b>5,622,020</b>	<b>6,059,498</b>
<b>TOTAL LIABILITIES</b>		<b>7,510,262</b>	<b>8,000,367</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>38,463,318</b>	<b>38,081,800</b>

# JSC QUADRA – POWER GENERATION

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

*in thousands of Russian Roubles*

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010
<b>Revenue</b>			
Heat energy		11,198,285	10,196,799
Electricity and capacity		10,860,222	8,301,519
Other revenue		363,602	369,043
<b>Total revenue</b>		<b>22,422,109</b>	<b>18,867,361</b>
<b>Operating (expenses)/income</b>			
Fuel		(11,856,461)	(10,540,012)
Staff costs		(2,513,328)	(2,211,996)
Purchase of energy		(2,479,768)	(1,319,548)
Depreciation and amortisation		(1,359,679)	(1,754,682)
Change in allowance for doubtful receivables		(572,510)	(295,644)
Repair and maintenance		(474,178)	(443,506)
Materials and spare parts		(403,705)	(324,656)
Water usage expenses		(370,070)	(348,627)
Taxes, other than income tax		(290,287)	(188,790)
OREM services		(164,908)	(152,582)
Rent expenses		(147,559)	(136,123)
Security services		(75,703)	(69,937)
Reversal of impairment of property, plant and equipment		7,766	320,878
Change in provision for legal claims		5,202	–
Other operating income		22,776	97,281
Other operating expenses		(526,260)	(442,356)
<b>Operating profit</b>		<b>1,223,437</b>	<b>1,057,061</b>
Interest income		30,768	17,584
Finance costs, net		(101,140)	(103,654)
Foreign currency gain, net		35,886	44,374
Share of results of associates		(2,421)	(1,033)
<b>Profit before income tax</b>		<b>1,186,530</b>	<b>1,014,332</b>
<b>Income tax expense</b>			
Current income tax expense		(120,131)	(233,069)
Deferred tax expense		(159,463)	(19,875)
<b>Total income tax expense</b>		<b>(279,594)</b>	<b>(252,944)</b>
<b>PROFIT FOR THE PERIOD</b>		<b>906,936</b>	<b>761,388</b>
Attributable to:			
Owners of the Company		906,936	766,131
Non-controlling interests		–	(4,743)
		<b>906,936</b>	<b>761,388</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
(Loss)/gain from revaluation of available-for-sale investments		(13,831)	18,046
Attributable income tax		2,766	(3,609)
<b>Other comprehensive (loss)/income for the period, net of income tax</b>		<b>(11,065)</b>	<b>14,437</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>895,871</b>	<b>775,825</b>
Attributable to:			
Owners of the Company		895,871	780,568
Non-controlling interests		–	(4,743)
		<b>895,871</b>	<b>775,825</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted earnings per share	9	0.00047	0.00040

## JSC QUADRA – POWER GENERATION

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

*in thousands of Russian Roubles*

	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
<b>OPERATING ACTIVITIES</b>		
<b>Profit before income tax</b>	<b>1,186,530</b>	<b>1,014,332</b>
Adjustments for:		
Depreciation of property, plant and equipment	1,349,159	1,745,268
Loss/(gain) from disposal of property, plant and equipment	4,590	(5,249)
Reversal of impairment of property, plant and equipment	(7,766)	(320,878)
Amortisation of intangible assets	10,520	9,414
Interest income	(30,768)	(17,584)
Finance costs, net	101,140	103,654
Foreign currency gain, net	(35,886)	(44,374)
Share of results of associates	2,421	1,033
Change in allowance for doubtful receivables	572,510	295,644
Change in provision for legal claims	(5,202)	–
Other	(8,382)	(11,245)
<b>Operating profit before working capital changes</b>	<b>3,138,866</b>	<b>2,770,015</b>
Increase in inventories	(139,898)	(117,106)
(Increase)/decrease in accounts receivable and advances paid	(1,637,768)	941,889
Decrease in other assets	4,522	–
(Decrease)/increase in pension liabilities	(7,055)	6,888
Increase/(decrease) in accounts payable and accruals	33,309	(125,367)
Decrease in other taxes payable	(348,244)	(87,654)
<b>Cash generated from operations</b>	<b>1,043,732</b>	<b>3,388,665</b>
Interest received	28,422	31,168
Interest paid	(109,160)	(71,322)
Income tax paid	(903,226)	(730,974)
<b>Net cash generated from operating activities</b>	<b>59,768</b>	<b>2,617,537</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(2,076,135)	(2,306,129)
Proceeds from disposal of property, plant and equipment	1,903	47,530
Purchase of intangible assets	(7,817)	(15,378)
Loans issued	(6,950)	–
Contribution to share capital of newly created associate	–	(2,450)
Proceeds from repayment of bank deposits	–	712,345
Dividend received	–	262
<b>Net cash used in investing activities</b>	<b>(2,088,999)</b>	<b>(1,563,820)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from loans and borrowings	17,824,874	5,744,996
Repayments of loans and borrowings	(17,902,866)	(7,673,000)
Dividends paid	–	(30,184)
Repayments of finance leases	(18,531)	(97,332)
<b>Net cash used in financing activities</b>	<b>(96,523)</b>	<b>(2,055,520)</b>
Effect of exchange rates changes on the balance of cash held in foreign currencies	(32)	44,545
<b>Net decrease in cash and cash equivalents</b>	<b>(2,125,786)</b>	<b>(957,258)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>3,713,203</b>	<b>3,053,110</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,587,417</b>	<b>2,095,852</b>

## JSC QUADRA – POWER GENERATION

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

*in thousands of Russian Roubles*

	Equity attributable to owners of the Company							Non-controlling interests	Total	
	Ordinary shares	Preferred shares	Share premium	Merger reserve	Revaluation reserve for property, plant and equipment	Revaluation reserve for available-for-sale investments	Accumulated deficit			
<b>Balance at 31 December 2009</b>	<b>19,125,056</b>	<b>752,729</b>	<b>10,921,097</b>	<b>(1,807,993)</b>	<b>7,301,163</b>	<b>19,321</b>	<b>(8,212,670)</b>	<b>28,098,703</b>	<b>(1,283)</b>	<b>28,097,420</b>
Total comprehensive income/(loss) for the period	–	–	–	–	–	14,437	766,131	<b>780,568</b>	(4,743)	<b>775,825</b>
Dividends	–	–	–	–	–	–	(32,302)	<b>(32,302)</b>	–	<b>(32,302)</b>
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)	–	–	–
<b>Balance at 30 June 2010</b>	<b>19,125,056</b>	<b>752,729</b>	<b>10,921,097</b>	<b>(1,807,993)</b>	<b>6,215,135</b>	<b>33,758</b>	<b>(6,392,813)</b>	<b>28,846,969</b>	<b>(6,026)</b>	<b>28,840,943</b>
<b>Balance at 31 December 2010</b>	<b>19,125,056</b>	<b>752,729</b>	<b>10,921,097</b>	<b>(1,807,993)</b>	<b>5,001,763</b>	<b>37,557</b>	<b>(3,942,751)</b>	<b>30,087,458</b>	<b>(6,025)</b>	<b>30,081,433</b>
Total comprehensive income/(loss) for the period	–	–	–	–	–	(11,065)	906,936	<b>895,871</b>	–	<b>895,871</b>
Dividends	–	–	–	–	–	–	(24,248)	<b>(24,248)</b>	–	<b>(24,248)</b>
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit	–	–	–	–	(511,423)	–	511,423	–	–	–
Income tax attributable to transfer	–	–	–	–	102,285	–	(102,285)	–	–	–
<b>Balance at 30 June 2011</b>	<b>19,125,056</b>	<b>752,729</b>	<b>10,921,097</b>	<b>(1,807,993)</b>	<b>4,592,625</b>	<b>26,492</b>	<b>(2,650,925)</b>	<b>30,959,081</b>	<b>(6,025)</b>	<b>30,953,056</b>



# JSC QUADRA – POWER GENERATION

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

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### 1. GENERAL INFORMATION

#### Organisation

Open Joint Stock Company Quadra – Power Generation (“Quadra” or the “Company”) 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.

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 2011 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 2010, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

#### Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating 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.

For the twelve months ended 30 June 2011, the Group’s revenue and profit amounted to RUB 39,097,232 thousand (30 June 2010: 33,548,076 thousand) and RUB 2,575,237 thousand (30 June 2010: loss of RUB 4,555,708 thousand), respectively.

#### Foreign currencies

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

	<u>30 June 2011</u>	<u>31 December 2010</u>
<b><i>RUB to 1 US Dollar</i></b>		
Period end rates	28.08	30.48
<b><i>RUB to 1 Euro</i></b>		
Period end rates	40.39	40.33

## JSC QUADRA – POWER GENERATION

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

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#### 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 2011 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2010.

#### 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 2010, 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 beginnings on or after 1 January 2011.

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 3 *Business Combination*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 24 *Related parties*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IAS 32 *Financial Instruments: Presentation*;
- IAS 34 *Interim Financial Reporting*;
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 14 *IAS 19: The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction*; and
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.

## JSC QUADRA – POWER GENERATION

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (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>			
<b>Balance at 31 December 2009</b>	<b>15,658,916</b>	<b>6,757,806</b>	<b>22,416,722</b>
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	(406,513)	(906)	(407,419)
<b>Balance at 30 June 2010</b>	<b>15,326,344</b>	<b>8,849,879</b>	<b>24,176,223</b>
<b>Balance at 31 December 2010</b>	<b>23,291,615</b>	<b>9,219,727</b>	<b>32,511,342</b>
Additions	51,043	2,065,848	2,116,891
Transfers from construction-in-progress	3,862,234	(3,862,234)	–
Disposals	(6,009)	(4,037)	(10,046)
<b>Balance at 30 June 2011</b>	<b>27,198,883</b>	<b>7,419,304</b>	<b>34,618,187</b>
<i>Accumulated depreciation and impairment</i>			
<b>Balance at 31 December 2009</b>	<b>(19,729)</b>	<b>(14,417)</b>	<b>(34,146)</b>
Depreciation charge	(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	(269,613)	(1,055)	(270,668)
<b>Balance at 30 June 2010</b>	<b>(1,712,902)</b>	<b>(13,767)</b>	<b>(1,726,669)</b>
<b>Balance at 31 December 2010</b>	<b>(5,008,624)</b>	<b>(547,937)</b>	<b>(5,556,561)</b>
Depreciation charge	(1,349,159)	–	(1,349,159)
Reclassification of impairment due to transfer from construction-in-progress	(63,570)	63,570	–
Eliminated on disposals	2,592	654	3,246
Release of impairment	–	7,766	7,766
<b>Balance at 30 June 2011</b>	<b>(6,418,761)</b>	<b>(475,947)</b>	<b>(6,894,708)</b>
<i>Carrying value</i>			
<b>Balance at 31 December 2010</b>	<b>18,282,991</b>	<b>8,671,790</b>	<b>26,954,781</b>
<b>Balance at 30 June 2011</b>	<b>20,780,122</b>	<b>6,943,357</b>	<b>27,723,479</b>

#### 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 2011</u>	<u>31 December 2010</u>
Carrying value of leased equipment	189,668	199,061

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

	<u>30 June 2011</u>	<u>31 December 2010</u>
Carrying value of pledged property, plant and equipment	798,343	838,508

## JSC QUADRA – POWER GENERATION

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

*in thousands of Russian Roubles, unless otherwise stated*

#### 6. ACCOUNTS RECEIVABLE AND ADVANCES PAID

	<u>30 June 2011</u>	<u>31 December 2010</u>
Trade accounts receivable	7,419,114	5,946,481
Other accounts receivable	55,996	95,320
Less: allowance for doubtful receivables	<u>(2,105,951)</u>	<u>(1,547,087)</u>
<b>Total financial assets</b>	<b>5,369,159</b>	<b>4,494,714</b>
Advances paid and prepaid expenses	337,269	156,523
VAT reimbursable	91,731	64,465
Other taxes receivable	<u>1,214</u>	<u>15,622</u>
<b>Total non-financial assets</b>	<b>430,214</b>	<b>236,610</b>
<b>Total non-current accounts receivable and advances paid</b>	<b>716,148</b>	<b>119,955</b>
<b>Total current accounts receivable and advances paid</b>	<b>5,083,225</b>	<b>4,611,369</b>

During the six months ended 30 June 2011, the Group restructured an outstanding debt from MUP Gorteploset', Kursk, of RUB 583,618 thousand (net of impairment provision of RUB 215,297 thousand). In accordance with the re-negotiated terms of agreement, the balance is expected to be settled before 30 June 2013. As at 30 June 2011, these receivables were presented at net present value discounted at 17.0% per annum.

#### 7. INVENTORIES

	<u>30 June 2011</u>	<u>31 December 2010</u>
Fuel	1,007,063	1,215,891
Raw materials	588,464	329,399
Other inventories	<u>252,208</u>	<u>153,985</u>
<b>Total inventories, at cost</b>	<b>1,847,735</b>	<b>1,699,275</b>
Less: allowance for obsolete and slow moving items	<u>(7,484)</u>	<u>(7,495)</u>
<b>Total</b>	<b>1,840,251</b>	<b>1,691,780</b>

Increase in balance of raw materials and other inventories as at 30 June 2011 compared to 31 December 2010 was mostly due to the increased volume of repair and maintenance activities in summer, for which these inventories were required.

#### 8. CASH AND CASH EQUIVALENTS

	<u>30 June 2011</u>	<u>31 December 2010</u>
Current bank accounts, including:		
RUB-denominated	1,556,628	3,712,489
USD-denominated	15	39
Bank deposits	30,000	–
Other cash equivalents	<u>774</u>	<u>675</u>
<b>Total</b>	<b>1,587,417</b>	<b>3,713,203</b>

During the six months ended 30 June 2011, a substantial amount of cash was used for the acquisition of property, plant and equipment as a part of execution of the Group's investment program.

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#### 9. CAPITAL AND RESERVES

##### Ordinary and preferred shares

	Ordinary shares		Preferred shares	
	Number of shares, in thousands	Balance	Number of shares, in thousands	Balance
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 2011 and 31 December 2010, 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 5,083,553 thousand and RUB 4,470,196 thousand, respectively.

During the six months ended 30 June 2011 and 2010, the Company declared dividends in respect of preferred shares.

	For the six months ended 30 June 2011		For the six months ended 30 June 2010	
	Dividends per share, RUB	Declared dividends	Dividends per share, RUB	Declared dividends
Dividends declared	0.00032214	24,248	0.00042913	32,302

##### Profit per share

Profit per share for the six months ended 30 June 2011 and 2010, 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 2011	For the six months ended 30 June 2010
<b>Profit for the period attributable to owners of the Company</b>	<b>906,936</b>	<b>766,131</b>
Less: earnings attributable to the holders of the Company's preferred shares	(10,870)	(5,803)
<b>Profit for the period used in the calculation of profit per share</b>	<b>896,066</b>	<b>760,328</b>
Weighted average number of the Company's ordinary shares, in thousands	1,912,505,578	1,912,505,578
<b>Profit per share</b>	<b>0.00047</b>	<b>0.00040</b>

#### 10. LOANS AND BORROWINGS

	30 June 2011		31 December 2010	
	Rate, as %	Balance	Rate, as %	Balance
JSC Gazpombank	5.80 – 9.00	1,745,792	8.50 – 12.50	1,039,666
JSC Royal Bank of Scotland	3.50	421,137	3.50	457,153
JSC Sberbank of the Russian Federation	6.84 – 7.43	388,630	6.10 – 7.70	1,172,749
RUB-denominated Corporate Bonds	8.00	11,918	7.60 – 8.00	11,918
Interest payable on loans and borrowings	N/A	6,290	N/A	4,090
		<b>2,573,767</b>		<b>2,685,576</b>
<b>Long-term portion of loans and borrowings</b>		<b>421,137</b>		<b>627,313</b>
<b>Current portion repayable in one year and shown under current liabilities</b>		<b>2,152,630</b>		<b>2,058,263</b>

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All bank loans, except for a USD-denominated loan provided by JSC Royal Bank of Scotland, 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:

	<b>30 June 2011</b>	<b>31 December 2010</b>
Property, plant and equipment (refer to note 5)	798,343	838,508
Inventories	–	560,739
<b>Total</b>	<b>798,343</b>	<b>1,399,247</b>

#### 11. PROVISION FOR LEGAL CLAIMS

	<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Balance at beginning of the period</b>	<b>644,385</b>	<b>807,215</b>
Additional provision recognised	24,512	28,511
Reversal of previously recognised provision	(29,714)	(153,271)
Settled in cash	–	(38,070)
<b>Balance at end of the period</b>	<b>639,183</b>	<b>644,385</b>

#### 12. OTHER TAXES PAYABLE

	<b>30 June 2011</b>	<b>31 December 2010</b>
Value added tax	260,310	641,988
Social security taxes	166,589	164,552
Property tax	91,407	67,694
Personal income tax	31,194	33,289
Land tax	26,836	16,908
Other taxes	2,227	2,376
<b>Total</b>	<b>578,563</b>	<b>926,807</b>

#### 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.

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

	Sales and other income		Purchase of goods and services	
	For the six months ended 30 June 2011	For the six months ended 30 June 2010	For the six months ended 30 June 2011	For the six months ended 30 June 2010
LLC SK Soglasiye	2,039	–	60,132	39,868
Other	275	–	808	1,461
<b>Total</b>	<b>2,314</b>	<b>–</b>	<b>60,940</b>	<b>41,329</b>

During the six months ended 30 June 2011, the Group provided loan to LLC Kursk Energiya, a Group's associate, in the amount of RUB 6,950 thousand. Loan issued bears interest at 9.12% per annum and matures on 30 November 2011. There were no significant outstanding balances with related parties as at 30 June 2011 and 31 December 2010.

#### 14. COMMITMENTS AND CONTINGENCIES

##### Capital commitments

As at 30 June 2011, the Group's contractual capital commitments amounted to RUB 3,900,077 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. 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 2011	31 December 2010
Due within one year	254,426	248,833
Due from second to fifth year	672,821	659,441
Due thereafter	2,609,020	2,184,453
<b>Total</b>	<b>3,536,267</b>	<b>3,092,727</b>

##### 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 Mezhregiongaz and at prices determined by the tender.

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#### Obligations for power capacity delivery in 2011 – 2015

According to the agent agreements signed on 19 October 2010, the Group undertook an obligation to deliver to the market additional capacity during the period from 2011 to 2015. Expected dates for capacity supplies for objects covered by the agreement are presented as follows:

	<u>Expected date of supply</u>	<u>Factual date of supply</u>
The boiler in North-West region of the town of Kursk	01/05/2011	01/07/2011
Kaluzhskaya TETs	01/05/2011	01/08/2011
Livenskaya TETs	01/12/2012	n/a
Novomoskovskaya GRES	01/12/2012	n/a
Dyagilevskaya TETs	30/06/2014	n/a
Aleksinskaya TETs	30/09/2014	n/a
Voronezhskaya TETs-1	30/09/2015	n/a
Kurskaya TETs-1	31/12/2015	n/a

During six months ended 30 June 2011, the Company has breached its commitments in respect to capacity delivery dates on two objects, due to delays in works performed by its contractors. The Company was penalised with fines in the amount of RUB 70,223 thousand. This amount was recorded within operating expenses, and fully paid in July 2011. The Group intends to claim respective losses from its contractors that caused these penalties.