JOINT STOCK COMPANY
TERRITORIAL GENERATING COMPANY №1
AND ITS SUBSIDIARY

BRIEF INTERMEDIATE CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR SIX MONTHS ENDED 30 JUNE 2009

Contents

	30 June 2009	31 December 2008
ASSETS		
Non-current assets		
Property, plant and equipment	67 898 783	64 090 439
Long-term investments	111 849	111 849
Deferred tax assets	293 818	352 847
Other non-current assets	2 489 662	1 341 598
Total non-current assets	**70 794 112**	**65 896 733**
Current assets		
Cash and cash equivalents	3 789 631	2 058 618
Available-for-sale investments	378 411	315 410
Accounts receivable and prepayments	7 303 081	8 250 770
Inventories	2 340 448	2 586 453
Total current assets	**13 811 571**	**13 211 251**
TOTAL ASSETS	**84 605 683**	**79 107 984**
EQUITY AND LIABILITIES		
Equity		
Share capital	38 543 414	38 543 414
Treasury shares	-	(2)
Share premium	22 913 678	22 913 678
Merger reserve	(6 086 949)	(6 086 949)
Fair value reserve	-	-
Retained earnings	6 945 196	4 581 594
Equity attributable to the shareholders of TGC-1	**62 315 339**	**59 951 735**
Minority interest	36 969	-
TOTAL EQUITY	**62 352 308**	**59 951 735**
Non-current liabilities		
Deferred tax liabilities	3 087 414	2 748 940
Long-term borrowings	918 516	2 283 930
Post-employment benefits obligations	727 389	686 266
Total non-current liabilities	**4 733 319**	**5 719 136**
Current liabilities		
Short-term borrowings and current portion of long-term borrowings	8 640 457	2 433 156
Accounts payable and accrued liabilities	8 135 821	10 382 213
Current income tax payable	120 136	151 746
Other taxes payable	623 642	469 998
Total current liabilities	**17 520 056**	**13 437 113**
TOTAL LIABILITIES	**22 253 375**	**19 156 249**
TOTAL EQUITY AND LIABILITIES	**84 605 683**	**79 107 984**

General Director Vaynzikher B.F.

Chief Accountant Stanishevskaya R.V.

(in thousands of Russian Roubles, except per share amounts)

	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue		
Sales of electricity	10 107 886	8 751 484
Sales of heat	10 616 781	8 399 058
Other sales	520 972	423 262
Total revenue	**21 245 639**	**17 573 804**
Operating expenses, net	(18 005 690)	(18 134 880)
Total operating costs	**(18 005 690)**	**(18 134 880)**
Operating profit	**3 239 949**	**(561 076)**
Foreign exchange loss, net	(84 740)	(44 257)
Finance cost	(109 403)	256 003
Profit before income tax	**3 045 806**	**(349 330)**
Income tax charge	(645 235)	(58 495)
Profit for the year	**2 400 571**	**(407 825)**
Attributable to:		
Shareholders of TGC-1	2 363 602	(351 534)
Minority interest	36 969	(56 291)
Earnings per share for profit attributable to the shareholders of TGC-1, basic and diluted (in Russian	0.0006	-

	Six months ended 30 June 2009	Six months ended 30 June 2008
Cash flows from operating activities		
Profit before income tax	3 045 806	(349 330)
Adjustments to non-cash items	1 843 789	1 728 189
Operating cash flows before working capital changes	**4 889 595**	**1 378 859**
Capital changes	(465 376)	(2 219 282)
Cash generated from operations	**4 424 219**	**(840 423)**
Income tax paid and interest paid	(996 763)	(81 384)
Total cash generated from operations	**3 427 456**	**(921 807)**
Net cash used in investing activities	**(6 449 742)**	**(5 460 498)**
Net cash (used in)/from financing activities	**4 753 299**	**(3 469 374)**
Net (decrease)/increase in cash and cash equivalents	**1 731 013**	**(9 851 679)**
Cash and cash equivalents at the beginning of the period	**2 058 618**	**15 976 549**
Cash and cash equivalents at the end of the period	**3 789 631**	**6 124 870**

	Equity attributable to the shareholders of TGC-1								
	Share capital	**Treasury shares**	**Share premium**	**Merger reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2006	**29 022 225**	**(10 000)**	**-**	**(5 769 751)**	**42 780**	**1 505 975**	**24 791 229**	**103 426**	**24 894 655**
Fair value loss on available-for-sale investments	-	-	-	-	**(179 395)**	-	**(179 395)**	-	**(179 395)**
Deferred tax on fair value loss	-	-	-	-	**43 055**	-	**43 055**	-	**43 055**
Net loss recognised directly in equity	-	-	-	-	(136 340)	-	**(136 340)**	-	**(136 340)**
Profit for the year	-	-	-	-	-	**2 409 513**	**2 409 513**	(12 334)	**2 397 179**
Total recognised income for the year	-	-	-	-	(136 340)	2 409 513	**2 273 173**	(12 334)	**2 260 839**
Purchase of treasury shares	-	(6 740)	(13 818)	-	-	-	**(20 558)**	-	**(20 558)**
Sale of treasury shares	-	**10 000**	-	-	-	-	**10 000**	-	**10 000**
Dividends	-	-	-	-	-	(385 304)	**(385 304)**	-	**(385 304)**
Issuance of shares	9 257 143	-	23 142 857	-	-	-	**32 400 000**	-	**32 400 000**
Issuance of shares for the purpose of acquisition of Murmanskaya TPP	230 230	-	142 742	(317 198)	-	-	**55 774**	(**55 774**)	**-**
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**
Impairment of available-for-sale investment	-	-	-	-	**123 105**	-	**123 105**	-	**123 105**
Deferred tax on impairment of available-for-sale investment	-	-	-	-	(29 545)	-	**(29 545)**	-	**(29 545)**
Net loss recognised directly in equity	-	-	-	-	93 560	-	**93 560**	-	**93 560**
Profit for the year	-	-	-	-	-	1 051 410	**1 051 410**	(35 318)	**1 016 092**
Total recognised income for the year	-	-	-	-	93 560	1 051 410	**1 144 970**	(35 318)	**1 109 652**
Transaction costs for issuance of shares in 2007	-	-	(422 308)	-	-	-	**(422 308)**	-	**(422 308)**
Issuance of shares for the purpose of merger with OJSC “TGC -1 Holding”	33 816	6 738	64 205	-	-	-	**104 759**	-	**104 759**
Balance at 31 December 2008	**38 543 414**	**(2)**	**22 913 678**	**(6 086 949)**	**-**	**4 581 594**	**59 951 735**	-	**59 951 735**

Profit for the year	-	-	-	-	-	2 363 602	**2 363 602**	36 969	**2 400 571**
Total recognised income for the half year	-	-	-	-	-	2 363 602	**2 363 602**	36 969	**2 400 571**
Sale of treasury shares	-	2	-	-	-	-	**2**	-	**2**
Balance at 30 June 2009	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**-**	**6 945 196**	**62 315 339**	36 969	**62 352 308**

Note 1. General Information

1.1 The Company 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 minority shareholders. After completion of the share exchange, the Company owns 84.06% of Murmanskaya TPP. The Company together with Murmanskaya TPP hereinafter is referred to as the Group.

In October 2007 the Company further increased its equity via additional issue of ordinary shares by closed subscription in favour of LLC Russian Energy Projects and Fortum Heat and Power Oy (Finland). The shareholding structure of the Company after this share issue is described in Note 1.3.

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 OJSC Gazprom on 23 June 2008.

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.

1.2 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.

Note 1. General Information (Continued)

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

1.3 Relations with the State and current regulation

As at 31 December 2007, the Russian government owned over 50% of the voting shares in RAO UES. In its turn, RAO UES owned 42.31% of the voting shares of the Company. Therefore, the Group was under significant influence of Russian government as at 31 December 2007.

As at 30 June 2009 OJSC Gazprom owned 28,66% of the voting shares of the Company. Other significant shareholders as at 30 June 2009 were Fortum Power and Heat Oy (25,7%), LLC Russian Energy Projects (17,67%).

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.

1.4 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.

Note 1. General Information (Continued)

1.5 Going concern

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The future operations of the Group may be significantly affected by the current and future economic environment and the Group's financial condition.

Recent volatility in global and Russian financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The debtors (borrowers) of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Deteriorating operating conditions for debtors (borrowers) may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in its impairment assessments.

The uncertainty in the global markets combined with other local factors has during 2008 led to very high volatility in the Russian stock markets and at times much higher than normal interbank lending rates.

Management is unable to reliably estimate 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 is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

Current liabilities of the Group are higher than current assets as at 30 June 2009. The management believes that the Group will be able to continue operation on a going concern basis due to the following facts:

- Demand for electricity has shown a long term trend of growth;
- The expected discounted future cash flows significantly exceed the Group's net book value of property, plant and equipment;
- The Group does not expect to reduce its production volumes;
- The Group is not planning to sell significant part of the assets;
- The Group was included in the list 300 of Companies which will receive the support from the government in case of financial problems.

Therefore the accompanying financial statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

Note 2. Summary of Significant Accounting Policies

2.1 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

2.2 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.

Minority 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 minority interest forms a separate component of the Group's equity.

2.3 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.

2.4 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 income statement. Translation at year-end rates does not apply to non-monetary items, that are measured at historical costs.

As at 30 June 2009, 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 31.2904 RUB (31 December 2008 - RUB 29.3804: USD 1), between the Russian Rouble and Euro 43.8191 RUB (31 December 2008 - RUB 41.4411: EUR 1).

Note 2. Summary of Significant Accounting Policies (Continued)

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.

2.5 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 (see Note 2.1), 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 (excepting intermediate financial statements) 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 income statement. 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 the income statement.

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.

2.6 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.

2.7 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.

2.8 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

Note 2. Summary of Significant Accounting Policies (Continued)

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 cashflows beyond those initial expected, would result in impairment. The impairment would be the difference between carrying amount (nominal) and the present value of the latest expected cashflows.

2.9 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 income statement. 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.

2.10 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 are written off to profit or loss 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.

2.11 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

2.12 Classification of financial liabilities

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

2.13 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.

2.14 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.

2.15 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.

2.16 Borrowings

Borrowings are carried at amortised cost using the effective interest method. 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.

2.17 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 income statement on a straight line basis over the expected lives of the related assets.

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

2.18 Minority interest

Minority interest represents the minority shareholders' proportionate share of the equity and results of operations of the Company's subsidiaries. This has been calculated based upon the minority interests'

Note 2. Summary of Significant Accounting Policies (Continued)

ownership percentage of these subsidiaries. In purchases of minority interest, difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded directly in equity.

2.19 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.

2.20 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 income statement over the employees' expected average remaining working lives.

2.21 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 income statement 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 (ie 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

2.22 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.

2.23 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 income statement 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.

2.24 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.

2.25 Environmental liabilities

Note 2. Summary of Significant Accounting Policies (Continued)

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

2.26 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.

2.27 Segment reporting

The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in the North-West of the Russian Federation. The generation of electricity and heat are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

2.28 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.

2.29 Interest

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method. Interest income includes nominal interest and accrued discount and premium.

Note 3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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 balance sheet date the Group assets whether there is any indication that the recoverable amount of the Group's assets has declined below their carrying value. The recoverable amount of property, plant and equipment 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 income statement in the period in which the reduction is identified. If conditions change and management determines that the value of an asset other than goodwill 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

Note 3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibility 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. 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 2009 or later periods and which the Group has not early adopted:

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

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The revised IAS 23 eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. IAS 23 becomes effective for annual periods beginning on or after January 1, 2009.

According to the accounting policy of the Group borrowing costs that are directly attributable to the construction of a qualifying asset are capitalised as part of the cost of the asset. Therefore, the amendment does not impact the Group's financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; 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 Group does not expect the amendment to affect its financial statements.

IFRS 3, Business Combinations (revised January 2008; 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 acquired identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application

Note 4. New Accounting Pronouncements (Continued)

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, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. 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. The Group does not expect the amendment to affect its financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies 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 Group does not expect the amendment to affect its financial statements.

Amendments to IAS 39 Financial instruments: Recognition and measurements (effective from 1 July 2008). An amendment permits an entity to reclassify non – derivative financial assets (other then those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available – for - sale category to the loans and receivables category a financial assets the would have met the definition of loans and receivables (if the financial assets had not been designed as available for sale), if the entity has the intention and ability to hold that financial assets for the foreseeable future. The Group dose not expects these amendments to effect the financial statements.

Amendments to IFRS 7 Financial instruments: Disclosure (effective from 1 July 2008). An amendment requires an entity to make extensive disclosure for any financial asset reclassified in respect of amendments to IAS 39 Financial instruments: Recognition and measurements. The Group dose not expects these amendments to effect the financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). 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. IFRIC 13 is not relevant to the Group's operations because the Group does not operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). 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 Group does not expect IFRS 15 to affect the financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). 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 gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). 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

Note 4. New Accounting Pronouncements (Continued)

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 amendments will not have any impact on the Group's consolidated financial statements.

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 Group's financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 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 Group does not expect the amendments to have any material effect on its financial statements.

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 Group's operations because it does not distribute non-cash assets to owners.

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

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 Group's financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 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.

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 Group does not expect the amendments to have any material effect on its financial statements.

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

Note 5. Property, Plant and Equipment

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/ (recognised) during the year (Note 3.6)	-	-	-	-	-	-	-
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**

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2007	**14 525 011**	**16 434 963**	**11 982 406**	**25 445 937**	**10 946 172**	**14 998 352**	**94 332 841**
Additions	117	**-**	**90 981**	**-**	**11 023 440**	**160 627**	**11 275 165**
Transfers	47 963	14 927	**624 262**	**18 951**	**(1 022 929)**	**316 826**	**-**
Disposals	(10 851)	**-**	**(33 323)**	**-**	**(43 619)**	**(8 352)**	**(96 145)**
Balance as at 30 June 2008	**14 562 240**	**16 449 890**	**12 664 326**	**25 464 888**	**20 903 064**	**15 467 453**	**105 511 861**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2007	**(5 855 371)**	**(5 536 616)**	**(7 855 788)**	**(19 390 758)**	**-**	**(11 654 775)**	**(50 293 308)**
Charge for the year	(236 220)	(258 601)	(372 866)	(305 825)	-	(265 345)	(1 438 857)
Disposals	4 953	-	24 650	-	-	10 036	39 639
Impairment losses reversed/ (recognised) during the year (Note 3.6)	-	-	-	-	-	-	-
Balance as at 30 June 2008	**(6 086 638)**	**(5 795 217)**	**(8 204 004)**	**(19 696 583)**	**-**	**(11 910 084)**	**(51 692 526)**
Net book value as at 31 December 2007	**8 669 640**	**10 898 347**	**4 126 618**	**6 055 179**	**10 946 172**	**3 343 577**	**44 039 533**
Net book value as at 30 June 2008	**8 475 602**	**10 654 673**	**4 460 322**	**5 768 305**	**20 903 064**	**3 557 369**	**53 819 335**

Note 5. Property, Plant and Equipment (Continued)

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 6. Long-term Investments

	% ownership	30 June 2009	31 December 2008
Available-for-sale investments:			
Equity shares in OJSC "Inter RAO UES	0.45%	64 507	64 507
Equity shares in OJSC "RusHydro"	0.02%	27 182	27 182
Other investments			
Investments in OJSC "Hibinskaya TK"	50.00%	20 000	20 000
Other		160	160
Total investments		**111 849**	**111 849**

Note 7. Other Non-Current Assets

	30 June 2009	31 December 2008
Long-term receivables (interest free)	376 955	387 255
Promissory notes	9 764	19 591
Loans issued	-	-
Total financial receivables	**386 719**	**406 846**
VAT in prepayments on capital construction	2 102 943	934 752
Prepayments for property, plant and equipment	-	-
Total other non-current assets	**2 489 662**	**1 341 598**

Note 8. Cash and Cash Equivalents

	30 June 2009	31 December 2008
Short-term deposits in RUB (effective interest rate: 0.5-5.1 %)	1 202 290	796 000
Cash in bank and in hand in RUB (effective interest rate: 0%)	2 370 047	963 572
Foreign currency accounts (primarily EUR)	217 294	299 046
Total	**3 789 631**	**2 058 618**

Note 9. Available-for-sale Investments

Bank deposits and notes	Currency	30 June 2009	31 December 2008
OJSC Alfabank	RUB	66 358	-
OJSC Baltinvestbank	RUB	1 461	-
Bank Rossiya (7.1 %)	Euro	273 453	248 648
Gazenergoprombank	RUB	37 139	66 762
Total		**378 411**	**315 410**

Note 10. Accounts Receivable and Prepayments

	30 June 2009	31 December 2008
Trade receivables, net of provision for impairment of RUB 247 377 thousand (31 December 2008: RUB 248 840 thousand)	5 520 167	4 294 528
Other receivables, net of provision for impairment of RUB 30 400 thousand (31 December 2008: RUB 30 400 thousand)	477 391	671 494
Total financial receivables	**5 997 558**	**4 966 022**
Value-added tax receivable	623 844	2 612 928
Advances to suppliers	366 680	664 483
Other taxes receivable	314 999	7 337
Total accounts receivable and prepayments	**7 303 081**	**8 250 770**

Note 11. Inventories

	30 June 2009	31 December 2008

Fuel supplies	1 381 564	1 664 511
Spare parts	522 281	489 269
Raw materials and other supplies	436 603	432 673
Total	**2 340 448**	**2 586 453**

Raw materials and other supplies are recorded net of provision for impairment in the amount of 17 319 RUB thousand at 30 June 2009 (31 December 2008: 17 319 RUB thousand).

Note 12. Long-term Borrowings

	Currency	Effective interest rate	Maturity	30 June 2009	31 December 2008
Long-term bonds	RUB	7.75%	2014	1 143 503	1 143 503
NORDIC investment bank	Euro	EURIBOR+3%	2014	1 011 210	1 051 965
European Bank for Reconstruction and Development	Euro	EURIBOR+2.75%	2010	350 552	497 294
Nordic environment finance corporation	Euro	EURIBOR+2.00%	2015	131 458	124 324
				2 636 723	**2 817 086**
Less: current portion					
Long-term bonds issued				(1 143 503)	-
NORDIC investment bank				(202 242)	(191 266)
European Bank for Reconstruction and Development				(350 552)	(331 529)
Nordic environment finance corporation				(21 910)	(10 361)
Total long-term borrowings				**918 516**	**2 283 930**

Note 13. Short-Term Borrowings and Current Portion of Long-Term Borrowings

Name of lender	Currency	Effective interest rate	30 June 2009	31 December 2008
OJSC “VTB North-West”	RUB	6.52-17 %	2 500 000	1 500 000
“Kb Globeksbank”	RUB	17.8 %	2 000 000	-
OJSC Alfabank	RUB	17.5 %	1 230 000	-
OJSC “Baltinvestbank”	RUB	12 %	742 250	-
OJSC “AB Russia”	RUB	5.0-18%	450 000	400 000
Current portion of long-term borrowings:				
Bonds	RUB	7.75%	1 143 503	-
Nordic environment finance corporation	Euro	EURIBOR+2.00%	21 910	10 361
European Bank for Reconstruction and Development	Euro	EURIBOR+2.75%	350 552	331 529
NORDIC investment bank	Euro	EURIBOR+3%	202 242	191 266
Total			**8 640 457**	**2 433 156**

Note 14. Accounts Payable and Accrued Liabilities

	30 June 2009	31 December 2008
Trade accounts payable	1 663 353	2 240 841
Accounts payable for capital construction	4 618 426	6 208 612
Accrued liabilities and other payables	219 794	173 259
Interest accrued on loans	71 542	74 644
Total financial payables	**6 573 115**	**8 697 356**
Advances from customers	1 173 176	1 558 442
Employee benefits	389 530	126 415
Total accounts payable and accrued liabilities	**8 135 821**	**10 382 213**

Note 15. Other Taxes Payable

	30 June 2009	31 December 2008
Property tax	135 153	138 319
Water usage tax	69 355	66 950
Employee taxes	76 916	34 052

VAT provision, related penalties and late payment interest	201 649	209 916
Other taxes	140 569	20 761
Total	**623 642**	**469 998**

Note 16. 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 2008	**120 136**	**209 916**	**330 052**
Charged to income statement	-	-	-
Carrying value at 30 June 2009	**120 136**	**209 916**	**330 052**

Note 17. Operating Expenses, net

	Six months ended 30 June 2009	Six months ended 30 June 2008
Fuel	8 268 139	8 807 406
Employee benefits	2 542 434	2 565 225
Electricity and heat purchases	1 588 010	1 227 267
Depreciation	1 507 792	1 438 857
Water usage expenses	878 526	872 997
Repairs and maintenance	486 102	468 126
Heat distribution	672 032	553 609
Taxes other than income tax	236 270	569 013
Other materials	136 074	143 130
Lease expenses	125 524	123 888
Consulting, legal and audit services	127 058	91 684
Security services	164 069	154 997
Transportation services	96 108	92 825
Insurance cost	112 298	100 731
Telecommunication services	69 960	49 324
Provision for/(release of) impairment of accounts receivable	(1 463)	-
Provision charge for taxes other than on income and penalties	-	-
Other operating expenses	1 378 705	960 343
Other operating income	(381 948)	(84 542)
Total	**18 005 690**	**18 134 880**

Note 18. Finance Cost, net

	Six months ended 30 June 2009	Six months ended 30 June 2008
Discounting effect	(13 827)	(25 943)
Interest expense	185 179	145 820
Interest income	(61 949)	(375 880)
Net finance cost	**109 403**	**(256 003)**

Note 19. Subsequent Events

On 7 July 2009 the Company issued 5 000 000 bonds at a nominal value of RUB 1 000 per bond, with the coupon rate of 16.99%, maturing in 2014. The bonds issue terms provide for the possibility of their earlier redemption by the holders in 2011.

In April-July 2009 the Company acquired shares of Murmanskaya TPP in the context of Binding offer in accordance with Federal statute «On Joint-stock companies» № 208-FL of 26.12.1995. On 14 July 2009 the Company owns 90.32% of Murmanskaya TPP (95.03% of ordinary shares).