# Open Joint Stock Company Lenenergo

Unaudited Interim Condensed Consolidated
Financial Statements
Prepared in accordance with
International Accounting Standard No. 34

*For the six months ended 30 June 2010*

# Open Joint Stock Company Lenenergo

## Unaudited Interim Condensed Consolidated Financial Statements

## For the six months ended 30 June 2010

**Contents**

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# Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Board of Directors of OJSC Lenenergo

*Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Lenenergo and its subsidiaries ("the Group"), comprising of the interim consolidated statement of financial position as at 30 June 2010 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 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 the 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 audit 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.

Ernst & Young LLC

25 October 2010
St. Petersburg, Russia

# OJSC LENENERGO

## Interim condensed consolidated statement of financial position as at 30 June 2010

*(in thousands of Russian Rubles)*

| | Note | 30 June 2010 (unaudited) | 31 December 2009 (audited) |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Intangible assets | 5 | **650,179** | 696,275 |
| Property, plant and equipment | 6 | **76,142,100** | 73,332,231 |
| Advances for construction of property, plant and equipment | 7 | **5,022,657** | 4,135,536 |
| Available-for-sale investments | 8 | **33,433** | 525,913 |
| Other non-current assets | | **206,180** | 272,310 |
| **Total non-current assets** | | **82,054,549** | 78,962,265 |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **2,224,795** | 2,948,801 |
| Accounts receivable | 10 | **1,380,020** | 1,332,425 |
| Inventories | | **490,240** | 361,166 |
| Other current assets | 11 | **4,712,915** | 4,720,628 |
| **Total current assets** | | **8,807,970** | 9,363,020 |
| TOTAL ASSETS | | **90,862,519** | 88,325,285 |
| EQUITY AND LIABILITIES | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Ordinary shares | | **4,866,115** | 4,866,115 |
| Preference shares | | **625,603** | 625,603 |
| Share premium | | **5,548,880** | 5,548,880 |
| Other reserves | 13 | **28,694,806** | 29,003,426 |
| Retained earnings | | **8,044,402** | 5,769,857 |
| | | **47,779,806** | 45,813,881 |
| **Non-controlling interest** | | **21,065** | 19,812 |
| **Total equity** | | **47,800,871** | 45,833,693 |
| **Non-current liabilities** | | | |
| Long-term borrowings, net of current portion | 14 | **11,131,173** | 10,073,664 |
| Deferred tax liabilities | | **5,194,961** | 5,283,093 |
| Post-employment benefits liability | | **308,283** | 294,536 |
| Other non-current liabilities | 15 | **501,518** | 1,274,873 |
| **Total non-current liabilities** | | **17,135,935** | 16,926,166 |
| **Current liabilities** | | | |
| Short-term and current portion of long-term borrowings | 14 | **4,671,049** | 6,610,816 |
| Trade and other payables | | **4,065,438** | 3,978,577 |
| Income tax payable | | **26,868** | 553,549 |
| Other current liabilities | 16 | **17,162,358** | 14,422,484 |
| **Total current liabilities** | | **25,925,713** | 25,565,426 |
| **Total liabilities** | | **43,061,648** | 42,491,592 |
| TOTAL EQUITY AND LIABILITIES | | **90,862,519** | 88,325,285 |

General Director — A.V.Sorochinsky

Chief Accountant — G.V.Kuznetsova

25 October 2010

*The accompanying notes form an integral part of these Interim Condensed Consolidated Financial Statements*

# OJSC LENENERGO
## Interim condensed consolidated income statement
## for the six months ended 30 June 2010
*(in thousands of Russian Rubles)*

| | Note | For the six months ended 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
|---|---|---|---|
| Revenues | 17 | **13,285,112** | 10,033,334 |
| Operating expenses | 18 | **(9,841,842)** | (8,151,348) |
| **Operating profit** | | **3,443,270** | 1,881,986 |
| Finance income | 19 | **771,252** | 63,547 |
| Finance expenses | 20 | **(817,052)** | (1,173,745) |
| Foreign exchange loss | | **(112,540)** | (382,000) |
| **Profit before tax** | | **3,284,930** | 389,788 |
| Income tax expense | 21 | **(697,341)** | (147,769) |
| **Net profit for the year** | | **2,587,589** | 242,019 |
| Attributed to: | | | |
| Equity holders | | **2,586,336** | 238,228 |
| Non-controlling interest | | **1,253** | 3,791 |
| Earnings per ordinary share – basic and diluted (Russian Rubles) | 22 | **2.54** | 0.23 |

General Director — A.V.Sorochinsky

Chief Accountant — G.V.Kuznetsova

25 October 2010

# OJSC LENENERGO

## Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2010

*(in thousands of Russian Rubles)*

| | Note | For the six months ended 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
|---|---|---|---|
| **Net profit** | | **2,587,589** | 242,019 |
| **Other comprehensive income** | | | |
| **Available for sale investments** | | | |
| Unrealized gain | 8 | **164,607** | 3,293 |
| Income tax effect | | **(32,921)** | (659) |
| | | **131,686** | 2,634 |
| Reclassification of unrealized gain reserve on available-for-sale financial assets to income statement | 8 | **(532,866)** | - |
| Income tax effect | | **106,573** | - |
| | | **(426,293)** | - |
| **Other comprehensive income, net of tax** | | **(294,607)** | 2,634 |
| **Total comprehensive income, net of tax** | | **2,292,982** | 244,653 |
| Attributed to: | | | |
| Equity holders | | **2,291,729** | 240,862 |
| Non-controlling interest | | **1,253** | 3,791 |
| | | **2,292,982** | 244,653 |

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

25 October 2010

*The accompanying notes form an integral part of these Interim Condensed Consolidated Financial Statements*

# OJSC LENENERGO

## Interim condensed consolidated statement of changes in equity

## for the six months ended 30 June 2010

*(in thousands of Russian Rubles)*

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Ordinary shares** | **Preference shares** | **Share premium** | **Other reserves** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| **As at 1 January 2009** | **4,866,115** | **625,603** | **5,548,880** | **28,857,780** | **3,302,755** | **43,201,133** | **39,430** | **43,240,563** |
| Profit for the period (unaudited) | - | - | - | - | 238,228 | 238,228 | 3,791 | **242,019** |
| Other comprehensive income, net of tax (unaudited) | - | - | - | 2,634 | - | 2,634 | - | **2,634** |
| Total comprehensive income (unaudited) | - | - | - | 2,634 | 238,228 | 240,862 | 3,791 | **244,653** |
| Release of asset revaluation reserve on disposed property plant and equipment items, net of tax (unaudited) | - | - | - | (42,039) | 42,039 | - | - | - |
| Dividends for 2008 (unaudited) | - | - | - | - | (153,961) | (153,961) | - | **(153,961)** |
| **As at 30 June 2009 (unaudited)** | **4,866,115** | **625,603** | **5,548,880** | **28,818,375** | **3,429,061** | **43,288,034** | **43,221** | **43,331,255** |
| | | | | | | | | |
| **As at 31 December 2009** | **4,866,115** | **625,603** | **5,548,880** | **29,003,426** | **5,769,857** | **45,813,881** | **19,812** | **45,833,693** |
| Profit for the period (unaudited) | - | - | - | - | 2,586,336 | 2,586,336 | 1,253 | **2,587,589** |
| Other comprehensive income, net of tax (unaudited) | - | - | - | (294,607) | - | (294,607) | - | **(294,607)** |
| Total comprehensive income (unaudited) | - | - | - | (294,607) | 2,586,336 | 2,291,729 | 1,253 | 2,292,982 |
| Release of asset revaluation reserve on disposed property plant and equipment items, net of tax (unaudited) | - | - | - | (14,013) | 14,013 | - | - | - |
| Dividends for 2009 (unaudited) | - | - | - | - | (325,804) | (325,804) | - | (325,804) |
| **As at 30 June 2010 (unaudited)** | **4,866,115** | **625,603** | **5,548,880** | **28,694,806** | **8,044,402** | **47,779,806** | **21,065** | **47,800,871** |

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

25 October 2010

# OJSC LENENERGO

## Interim condensed consolidated statement of cash flows

## for the six months ended 30 June 2010

*(in thousands of Russian Rubles)*

| | Note | For the six months ended 30 June 2010 (unaudited) | For the six months ended 30 June 2009 (unaudited) |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | | **3,284,930** | 389,788 |
| Adjustments to reconcile profit before tax and net cash flow from operating activities: | | | |
| Loss on disposal of property, plant and equipment | | **26,000** | 53,764 |
| Finance income | 19 | **(771,252)** | (63,547) |
| Depreciation of property, plant and equipment | 6, 18 | **2,153,428** | 1,968,060 |
| Amortization of intangible assets | 5, 18 | **59,617** | 58,560 |
| Finance expenses | 20 | **817,052** | 1,173,745 |
| Foreign exchange loss | | **112,540** | 382,000 |
| Net movement in the provision for impairment of accounts receivable, advances given and other current assets | 18 | **(43,703)** | 111,356 |
| Non-cash settlement of technological connection revenue | 17 | **(2,453,385)** | (1,051,659) |
| Net expense/(income) for the defined benefit plan | | **29,868** | (25,030) |
| (Reversal of ) Provision for impairment of inventories | 18 | **(41,755)** | 31,877 |
| Impairment loss on finance leases | 6, 18 | **21,887** | - |
| Net movements in other provisions | | **(83,856)** | (72,864) |
| **Operating cash flows before changes in working capital** | | **3,111,371** | 2,956,050 |
| Increase/(decrease) in accounts payable and accrued expenses | | **250,969** | (827,465) |
| Increase in other current liabilities | | **2,413,933** | 3,203,820 |
| Decrease in other non-current liabilities | | **(717,532)** | (2,031,819) |
| Decrease/(increase) in trade and other receivables | | **286,673** | (520,178) |
| (Increase)/decrease in inventories | | **(85,268)** | 37 |
| Decrease in taxes payable other than income tax | | **(36,111)** | (199,863) |
| (Increase)/decrease in other current assets | | **(431,352)** | 323,081 |
| **Cash generated from operations** | | **4,792,683** | 2,903,663 |
| Interest paid | | **(679,520)** | (456,292) |
| Income tax paid | | **(1,165,500)** | (386,954) |
| Pension benefits paid | | **(16,121)** | (14,013) |
| **Net cash generated from operating activities** | | **2,931,542** | 2,046,404 |

*(in thousands of Russian Rubles)*

| | Note | For the six months ended 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
|---|---|---|---|
| **Cash flow from investing activities** | | | |
| Purchases of property, plant and equipment | | **(2,481,262)** | (3,043,268) |
| Purchases of intangible assets | | **(43,330)** | - |
| (Increase)/decrease in advances for construction of property, plant and equipment | | **(843,259)** | 550,449 |
| Proceeds from sale of available-for-sale investments | 8, 10 | **352,884** | - |
| Proceeds from disposal of property, plant and equipment | | **777** | 1,378 |
| Interest received | | **52,484** | 39,186 |
| **Net cash used in investing activities** | | **(2,961,706)** | (2,452,255) |
| **Cash flow from financing activities** | | | |
| Partial settlement of swap agreement | 14 | **(2,450,000)** | - |
| Payment of finance lease liabilities | | **(575,842)** | (1,355,218) |
| Long-term borrowings received | 14 | **1,347,000** | - |
| Short-term borrowings received, net | 14 | **985,000** | - |
| **Total cash used in financing activities** | | **(693,842)** | (1,355,218) |
| **Net decrease in cash and cash equivalents** | | **(724,006)** | (1,761,069) |
| Cash and cash equivalents at the beginning of the period | | **2,948,801** | 2,498,850 |
| **Cash and cash equivalents at the end of the period** | | **2,224,795** | 737,781 |

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

25 October 2010

## 1. Corporate information

Open joint stock company of Electricity and Electrification Lenenergo (hereinafter "the Company") was established on 22 January 1993 as the successor of the rights and obligations of state-owned enterprise Electricity and Electrification Industrial Association Lenenergo to the extent specified in the privatization plan dated 22 December 1992. On 1 October 2005, as a result of corporate restructuring through the spin off of electricity generation and sales, heat generation, distribution and sales businesses, the Company retained the electricity transmission networks. Currently the Company provides electricity transmission and network connection services to the consumers.

As at 30 June 2010 the Group comprised OJSC Lenenergo and its subsidiaries: CJSC Lenenergospetsremont (100%), CJSC Kurortenergo (98.13%) and OJSC Tsarskoselskaya Energeticheskaya Compania (96.95%) (hereinafter collectively referred to as "the Group"). The latter two companies were acquired in September and November of 2008 via CJSC Lenenergospetsremont.

### *Relations with the state and current legislation*

The Group is under control of OJSC MRSK Holding (hereinafter "MRSK-Holding"), which as at 30 June 2010 and 31 December 2009 owned 45.71% of the Group's share capital, including 50.31% of voting ordinary shares, and which in turn is controlled by the Russian Federation. The Group provides services to a number of entities controlled by or closely related to the state. In addition, a number of the Group's suppliers are state-controlled entities.

The government directly influences the Group's operations through the regulation of wholesale electricity sales by the Federal Service on Tariffs (FST) and of retail electricity sales by Regional Electricity commissions for St. Petersburg and Leningrad Region. The Group sets electricity transmission tariffs for its customers based on regulated tariffs. The Russian Federation government's economic, social and other policies can have a material effect on the Group's operations.

### *Financial position and liquidity*

As at 30 June 2010 the Group's current liabilities exceeded its current assets by 17,117,743 (31 December 2009: 16,202,406). The Group's net profit for the six months ended 30 June 2010 was 2,587,589 (2009: 242,019), including 2,586,336 (2009: 238,228) attributed to equity holders of the parent. For the six months ended 30 June 2010 the Group generated cash flow from operating activities of 2,931,542 (2009: 2,046,404).

As at 30 June 2010 liquidity ratios did not significantly change in comparison with 31 December 2009. Current ratio, being current assets divided by current liabilities, decreased from 0.37 as at 31 December 2009 to 0.34 as at 30 June 2010; quick assets ratio, being current receivables and cash (including cash equivalents) divided by current liabilities, decreased from 0.17 as at 31 December 2009 to 0.14 as at 30 June 2010.

The Group's management continues to monitor compliance with financial performance requirements set forth in the loan agreement with Barclay's Bank concluded in December 2007 (Note 14). As at 30 June 2010 the Group's financial performance indicators were in line with the covenants imposed by the respective loan.

The Group's management is taking the following measures to improve the Group's financial and liquidity position:

**1. Corporate information (continued)**

***Financial position and liquidity (continued)***

1) Adjustment of the Group's investments into power lines and equipment:
    - the emphasis was shifted from the construction of new electric power supplies and other power equipment to completion of the previously launched projects having high stage of completion in order to ensure additional operating cash flows within relatively short period of time;
    - measures are being taken to decrease the construction period from 2-2.5 years to one year and thus to accelerate cash inflows from customers for technological connection to the electricity grids;
    - certain types of engineering and construction works were suspended and some investment projects may be deferred or scaled down commensurate with the financing needed to support the Group's current operations.
2) Negotiating with federal and regional governments and regulators on increases in tariffs to support adequate long-term investments into electricity transmission and distribution assets of the Group. For the six months ended 30 June 2010 the average increase in transmission regulated tariffs comprised 11%.
3) Improving operating efficiency of the Group through implementing programs to reduce technological losses on transmission of electricity through the Group's own network and operating expenses.
4) Implementing improved financial budgeting procedures with a strong focus on timely collection of receivables; restructuring of liabilities to enable their repayment over a longer period.
5) Negotiating favorable terms for attracting additional borrowings. During the six months ended 30 June 2010 the Group received long-term and short-term borrowings in the amount of 1,347,000 and 985,000 respectively (Note 14).
6) Gradually transferring from assets-settled to cash-settled technological connections to the Group's network.

The above measures are expected to ensure cash inflows sufficient to finance operations till at least 30 June 2011, including refinancing of short-term liabilities under the existing borrowings.

**2. Basis of presentation of the financial statements and accounting policies**

**2.1 Basis of preparation**

These interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and comprise the financial statements of OJSC Lenenergo and its subsidiaries.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2009. The management of the Group believes that the notes to the interim condensed consolidated financial statements are sufficient to provide an explanation of events and transactions to enable users to understand the changes in financial position and performance of the Group since year end. In the opinion of the Group's management, the business is not subject to material seasonal fluctuations.

These interim condensed consolidated financial statements may not be necessarily indicative of the financial results for any later interim periods or for the whole year.

These interim condensed consolidated financial statements are in Russian Rubles, with all amounts rounded to thousands, except where stated otherwise.

**2.2 Significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new Standards and Interpretations as of 1 January 2010, as stated below:

**IFRS 1 *(Revised) First-time Adoption of International Financial Reporting Standards (Revised 2009)***

Introduces additional exemptions for first-time adopters. The Group is not a first-time IFRS adopter, therefore, amendments to IFRS 1 have no impact on the financial statements of the Group.

**IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions***

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

**IFRS 3 *(Revised) Business Combinations***

Introduces changes in the accounting for business combinations that will impact the amount if goodwill recognized, the reported results in the period when the acquisition occurs and future reported results. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

**2. Basis of presentation of the financial statements and accounting policies (continued)**

**2.2 Significant accounting policies (continued)**

**IAS 27 *(Revised) Consolidated and Separate Financial Statements***

Requires that a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The amendment had no effect on the financial position or performance of the Group.

**IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items***

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position of performance of the Group, as the Group has not entered into any such hedges.

**IFRIC 9 *Reassessment of Embedded Derivatives***

Requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

**IFRIC 17 *Distribution of Non-cash Assets to Owners***

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

**2.3 Reclassifications**

Certain prior year amounts and disclosures have been reclassified to conform to the current year presentation. The reclassifications and other presentation changes made by the Group are as follows:

- Non-cash settlement of technological connection revenue for the six months ended 30 June 2009 amounted to 1,051,659 and is presented separately in the Interim Condensed Consolidated Statement of Cash Flows while previously was partially reported within Increase/(decrease) in accounts payable and accrued expenses.

Such reclassification had no impact on the financial position or performance of the Group.

## 3. Segment information

The Group operates in one industry segment, being the provision of electricity transmission services and technological connection to the electricity grids to domestic customers in one geographic area, i.e. St. Petersburg and Leningrad region. The results of this segment and assets and liabilities are presented in the interim consolidated statement of comprehensive income and the interim consolidated statement of financial position.

An analysis of revenue by service type is disclosed in Note 17.

All of the Group's assets are located within the territory of St. Petersburg and Leningrad Region.

## 4. Impairments and changes in fair value of non-current assets

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Based on the analysis performed as at 30 June 2010, the Group did not recognize any impairment of the investment.

*Property, plant and equipment*

The last revaluation was carried out as at 31 December 2008 by an independent appraiser. Management believes that as of 30 June 2010 no material changes in the fair value of property, plant and equipment have occurred.

**5. Intangible assets**

| | Accounting software | Certificates | Access right | Goodwill | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **As at 31 December 2008** | 269,440 | 88,641 | - | 312,833 | 670,914 |
| Additions for the period | 3,093 | 4,869 | 373,815 | - | 381,777 |
| **As at 30 June 2009 (unaudited)** | 272,533 | 93,510 | 373,815 | 312,833 | 1,052,691 |
| **As at 31 December 2009** | 337,007 | 103,277 | 624,000 | 312,833 | 1,377,117 |
| Additions for the period | 10,220 | 3,301 | - | - | 13,521 |
| Disposal for the period | (62,880) | (6,893) | - | - | (69,773) |
| **As at 30 June 2010 (unaudited)** | **284,347** | **99,685** | **624,000** | **312,833** | **1,320,865** |
| **Amortization and impairment** | | | | | |
| **As at 31 December 2008** | (65,131) | (35,629) | - | - | (100,760) |
| Charge for the period | (45,000) | (13,560) | - | - | (58,560) |
| **As at 30 June 2009 (unaudited)** | (110,131) | (49,189) | - | - | (159,320) |
| **As at 31 December 2009** | (152,200) | (62,809) | (153,000) | (312,833) | (680,842) |
| Charge for the period | (36,753) | (14,856) | (8,008) | - | (59,617) |
| Disposal for the period | 62,880 | 6,893 | - | - | 69,773 |
| **As at 30 June 2010 (unaudited)** | **(126,073)** | **(70,772)** | **(161,008)** | **(312,833)** | **(670,686)** |
| **Net book value as at 31 December 2008** | 204,309 | 53,012 | - | 312,833 | 570,154 |
| **Net book value as at 30 June 2009 (unaudited)** | 162,402 | 44,321 | 373,815 | 312,833 | 893,371 |
| **Net book value as at 31 December 2009** | 184,807 | 40,468 | 471,000 | - | 696,275 |
| **Net book value as at 30 June 2010 (unaudited)** | **158,274** | **28,913** | **462,992** | **-** | **650,179** |

**6. Property, plant and equipment**

| | Production premises | Power lines | Equipment, power equipment, sub-stations | Other | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **As at 31 December 2008** | 12,395,759 | 57,406,179 | 19,738,420 | 8,820,729 | 14,511,774 | 112,872,861 |
| Additions | 250,185 | 801 | 1,756,067 | 1,790 | 3,953,454 | 5,962,297 |
| Disposals | (597) | (5,199) | (9,622) | (16,657) | (43,018) | (75,093) |
| Transfer | 799,086 | 690,741 | 1,033,478 | 308,762 | (2,832,067) | - |
| **As at 30 June 2009 (unaudited)** | 13,444,433 | 58,092,522 | 22,518,343 | 9,114,624 | 15,590,143 | 118,760,065 |
| **As at 31 December 2009** | 15,091,999 | 58,935,761 | 25,161,729 | 9,915,830 | 15,199,607 | 124,304,926 |
| Additions | - | - | 86,718 | - | 4,925,243 | 5,011,961 |
| Disposals | (299) | (430) | (3,495) | (23,006) | (17,790) | (45,020) |
| Transfer | 2,039,035 | 534,935 | 1,619,227 | 82,407 | (4,275,604) | - |
| **As at 30 June 2010 (unaudited)** | **17,130,735** | **59,470,266** | **26,864,179** | **9,975,231** | **15,831,456** | **129,271,867** |
| **Accumulated depreciation and impairment** | | | | | | |
| **As at 31 December 2008** | (2,038,102) | (30,306,847) | (5,417,947) | (6,982,034) | (1,892,139) | (46,637,069) |
| Charge for the year | (208,826) | (1,145,026) | (496,380) | (117,828) | - | (1,968,060) |
| Disposals | 118 | 2,804 | 3,499 | 12,871 | - | 19,292 |
| **As at 30 June 2009 (unaudited)** | (2,246,810) | (31,449,069) | (5,910,828) | (7,086,991) | (1,892,139) | (48,585,837) |
| **As at 31 December 2009** | (2,465,437) | (32,581,527) | (6,839,380) | (7,194,212) | (1,892,139) | (50,972,695) |
| Charge for the year | (245,371) | (1,128,866) | (569,218) | (209,973) | - | (2,153,428) |
| Impairment loss on initial recognition of finance leases | - | - | (21,887) | - | - | (21,887) |
| Disposals | 60 | 255 | 1,306 | 16,622 | - | 18,243 |
| **As at 30 June 2010 (unaudited)** | **(2,710,748)** | **(33,710,138)** | **(7,429,179)** | **(7,387,563)** | **(1,892,139)** | **(53,129,767)** |
| **Net book value as at 31 December 2008** | 10,357,657 | 27,099,332 | 14,320,473 | 1,838,695 | 12,619,635 | 66,235,792 |
| **Net book value as at 30 June 2009 (unaudited)** | 11,197,623 | 26,643,453 | 16,607,515 | 2,027,633 | 13,698,004 | 70,174,228 |
| **Net book value as at 31 December 2009** | 12,626,562 | 26,354,234 | 18,322,349 | 2,721,618 | 13,307,468 | 73,332,231 |
| **Net book value as at 30 June 2010 (unaudited)** | **14,419,987** | **25,760,128** | **19,435,000** | **2,587,668** | **13,939,317** | **76,142,100** |

## 6. Property, plant and equipment (continued)

### *Impairment analysis*

The Group performed impairment test of property, plant and equipment as at 30 June 2010. The Group considered delay in Regulatory Asset Base (RAB) tariffs implementation in Leningrad region, among other factors, when reviewing indicators of impairment.

The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculated using cash-flow projections from financial budgets approved by the management of the Group covering a 12-year period. The selected forecast period is stipulated by fluctuations of the expected cash flows during 10 years after RAB tariff system implementation expected to be in 2011. However, due to uncertainty regarding new tariff system in Leningrad region, in the course of impairment analysis the Group assumed one-year delay in its implementation. After 2021 year the average cash flows are forecasted as stable.

### *Key assumptions used in value-in-use calculations*

The calculation of value-in-use for a cash-generating unit is the most sensitive to the following assumptions:

| | Six months ended December 31, 2010 | 2011 | 2012-2013 | 2014-2015 | 2016-2021 |
|---|---|---|---|---|---|
| Transmission revenue tariff increase, % | (2%)-2% | 11%-29% | 27%-33% | 2%-27% | (2%)-12% |
| Transmission volume increase, % | (2%)-1% | 1.5%-1.6% | 0%-1.8% | 0%-1.2% | 0% |
| Normal network technological losses, % | 11.0%-11.7% | 13.1%-13.2% | 10.9%-13.2% | 10.9%-12.0% | 10.9%-12.0% |
| Weighted average cost of capital (WACC) | 13.0% | 19.3% | 15.6%-15.9% | 16.1%-19.1% | 16.1%-18.7% |

As a result of analysis the Group concluded that its property, plant and equipment are not impaired as at 30 June 2010.

### *Property, plant and equipment under finance lease*

As at 30 June 2010 the net book value of property, plant and equipment received under finance lease contracts was as follows:

| | Power equipment | Vehicles | Total |
|---|---|---|---|
| **Cost** | | | |
| As at 31 December 2009 | 3,674,878 | 11,784 | 3,686,662 |
| Additions | 86,718 | - | 86,718 |
| ***As at 30 June 2010 (unaudited)*** | ***3,761,596*** | ***11,784*** | ***3,773,380*** |
| **Accumulated depreciation** | | | |
| As at 31 December 2009 | (607,879) | (9,178) | (617,057) |
| Charge for the year | (64,567) | (2,019) | (66,586) |
| Impairment loss on finance leases | (21,887) | - | (21,887) |
| **As at 30 June 2010 (unaudited)** | **(694,333)** | **(11,197)** | **(705,530)** |
| Net book value as at 31 December 2009 | 3,066,999 | 2,606 | 3,069,605 |
| **Net book value as at 30 June 2010 (unaudited)** | **3,067,263** | **587** | **3,067,850** |

**6. Property, plant and equipment (continued)**

Property, plant and equipment under finance lease were pledged as security for the respective finance lease agreements.

Acquisitions under finance lease of 86,718 were excluded from the interim condensed consolidated statement cash flows, so investing activities in the interim condensed consolidated cash flow statement represent actual cash transactions.

**7. Advances for construction of property, plant and equipment**

Advances of 5,022,657 paid to construction contractors (31 December 2009: 4,135,536) are stated net of impairment provision of 134,034 (31 December 2009: 176,502). Movements in the provision for impairment of advances to construction contractors are disclosed in Note 12.

**8. Available-for-sale investments**

| | % Shareholding | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|---|
| OJSC Petersburg Sales Company (OJSC PSK) | - | - | 303,000 |
| OJSC FSK UES | - | - | 189,480 |
| OJSC North-West Energy Management Company | **12.5%** | **33,300** | 33,300 |
| Other | - | **133** | 133 |
| **Total** | | **33,433** | 525,913 |

In 2010 the Group sold the interest in OJSC FSK UES and OJSC PSK for a cash consideration of 657,087, representing the fair value of investments as of the date of transaction. The increase in fair values of the investments from 31 December 2009 till the date of sale in the amount of 164,607 is recognized within other comprehensive income.

Reclassification of unrealized gain reserve on disposal of available-for-sale investments before tax in the amount of 532,866 is recognized within finance income (Note 19).

By 30 June 2010 the Group received 352,884 of total cash consideration, the remaining 304,116 is included in other accounts receivable (Note 10).

**9. Cash and cash equivalents**

| | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|
| Bank deposits reclaimable on demand – Rubles | **1,940,235** | 2,057,208 |
| Bank accounts and cash in hand – Rubles | **284,560** | 791,593 |
| Promissory notes | - | 100,000 |
| **Total** | **2,224,795** | 2,948,801 |

**10. Accounts receivable**

| | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|
| Trade receivables net of impairment provision of 410,272 (2009: 410,310) | **902,182** | 1,114,615 |
| Other accounts receivable net of impairment provision of 40,256 (2009: 39,889) | **477,838** | 217,810 |
| **Total** | **1,380,020** | 1,332,425 |

As at 30 June 2010 other accounts receivable include unpaid amount of 304,116 of cash consideration for available-for-sale investments.

Management determined the provision for impairment of receivables based on specific customer solvency, industry-specific payment trends, subsequent receipts and settlements and analysis of expected future cash flows. The Group analyses the ability of debtors to fulfill the payment obligation on a regular basis and creates provision for impairment that represents the estimate of potential losses in respect of trade and other receivables (Note 12). The components of this provision are a specific provision for individual losses. Management believes that the Group will be able to realize the net receivable amount through direct collections and non-cash settlements. Movements in the provision for impairment of accounts receivable are disclosed in Note 12.

For trade and other receivables which are neither past due nor impaired at the reporting date, no information is available to indicate that the debtors may default on their obligations, as the Group monitors debtors on an ongoing basis and periodically reconciles receivable balances. Trade and other receivables bear no interest and are generally repaid within a calendar year.

**11. Other current assets**

| | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|
| VAT receivable net of impairment provision of 54,324 (2009: 53,924) | **3,668,233** | 3,218,752 |
| Fair value of the derivative instrument | **638,348** | 1,075,836 |
| Prepayments and advances given to suppliers net of impairment provision of 14,615 (2009: 22,615) | **353,860** | 372,231 |
| Income tax and other taxes receivable | **50,023** | 1,275 |
| Promissory notes | **-** | 51,458 |
| Other current assets | **2,451** | 1,076 |
| **Total** | **4,712,915** | 4,720,628 |

Fair value of the derivative instrument (interest rate and currency swap contract) concluded for the long-term USD-denominated loan granted by Barclay's bank (Note 14) is calculated by discounting future cash flows determined by conditions and payments schedule of the swap agreement using forward rates of similar instruments at the reporting date. The Group did not designate the above derivative as hedging instrument. Therefore, this financial instrument was classified as financial asset at fair value through profit and loss, with the loss of 437,488 for the six months ended 30 June 2010 included in finance income (Note 19).

Movements in the provision for impairment of VAT receivable, prepayments and advances to suppliers are disclosed in Note 12.

## 12. Impairment provision for accounts receivable, advances given and other current assets

Movements in the provision for impairment of accounts receivable, advances given and other current assets were as follows:

| | Trade receivables | VAT receivable | Advances to suppliers | Advances for construction | Other receivables | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2008** | **631,427** | **65,154** | **21,710** | **110,805** | **63,533** | **892,629** |
| Charge | 194,245 | - | 14,177 | 5,951 | 336 | 214,709 |
| Released | (63,656) | (24,681) | (7,158) | (3,427) | (4,431) | (103,353) |
| Utilized | - | - | - | - | (10,383) | (10,383) |
| **As at 30 June 2009 (unaudited)** | **762,016** | **40,473** | **28,729** | **113,329** | **49,055** | **993,602** |
| **As at 31 December 2009** | **410,310** | **53,924** | **22,615** | **176,502** | **39,889** | **703,240** |
| Charge | 63,329 | 15,477 | 1,466 | 5,475 | 4,616 | 90,363 |
| Released | (57,331) | (15,077) | (9,466) | (47,943) | (4,249) | (134,066) |
| Utilized | (6,036) | - | - | - | - | (6,036) |
| **As at 30 June 2010 (unaudited)** | **410,272** | **54,324** | **14,615** | **134,034** | **40,256** | **653,501** |

## 13. Equity

### Distributable earnings

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory net profit of the Company for the six months ended 30 June 2010 amounted to 1,619,933 (as at 30 June 2009: 1,732,256).

### Dividend declared

For the six months ended 30 June 2010 dividends for the year ended 31 December 2009 were declared in the amount of 3.4933 Rubles per preference share (nil per ordinary share). The total amount of dividends accrued in 2010 for the year ended 31 December 2009 was 325,804 (31 December 2008: 153,961). By 30 June 2010 the dividends for 2009 were not paid (Note 16).

**13. Equity (continued)**

**Other reserves**

| | Asset revaluation reserve | Net (loss) / gain on available-for-sale investments | Total |
|---|---|---|---|
| **As at 31 December 2008** | **28,753,090** | **104,690** | **28,857,780** |
| Effect on other comprehensive income resulting from available-for-sale investments, net of tax effect of 659 | - | 2,634 | **2,634** |
| Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax effect of 10,510 | (42,039) | - | **(42,039)** |
| **As at 30 June 2009 (unaudited)** | **28,711,051** | **107,324** | **28,818,375** |
| | | | |
| **As at 31 December 2009** | **28,721,632** | **281,794** | **29,003,426** |
| Effect on other comprehensive income resulting from available-for-sale investments, net of tax effect of 73,652 | - | (294,607) | **(294,607)** |
| Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax effect of 3,503 | (14,013) | - | **(14,013)** |
| **As at 30 June 2010 (unaudited)** | **28,707,619** | **(12,813)** | **28,694,806** |

Asset revaluation reserve is used to record increases in the fair value of property, plant and equipment and assets under construction and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

Net unrealized gains reserve accumulates changes in the fair value of available-for-sale investments.

**14. Borrowings**

| | Currency | Effective interest rate | Maturity date | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|---|---|---|
| Bonds issued by the Group | | | | | |
| series 02 | Rubles | 8.54% | 2012 | **2,990,895** | 2,988,301 |
| series 03 | Rubles | 8.02% | 2012 | **2,989,780** | 2,987,237 |
| Bank loans (local currency denominated) | Rubles | 6.95% - 17.25% | 2010 - 2012 | **5,332,000** | 3,000,000 |
| Bank loans (foreign currency denominated) | USD | Libor + 1.25% | 2010 | **3,107,118** | 6,026,914 |
| Finance lease liabilities | Rubles | | 2010 - 2015 | **1,382,429** | 1,682,028 |
| **Total borrowings** | | | | **15,802,222** | 16,684,480 |
| Less: current portion of finance lease liabilities | | | | **(578,931)** | (583,902) |
| Less: current portion of bank loans | | | | **(3,107,118)** | (6,026,914) |
| Less: short-term bank loans | | | | **(985,000)** | - |
| **Short-term and current portion of long-term borrowings** | | | | **(4,671,049)** | (6,610,816) |
| **Long-term borrowings, net of current portion** | | | | **11,131,173** | 10,073,664 |

**14. Borrowings (continued)**

***Bonds***

During the six months ended 30 June 2010 the Group fully met its coupon obligations under the 6th coupon of the 2nd and 3rd bond issues in the total amount of 127,740 and 119,970, respectively.

***Loans***

*Bank loans (denominated in local currency)*

On 9 March 2010 the Group entered into a renewable credit line agreement with OJSC Alfa-Bank for a total amount of 1,225,000 maturing on 9 March 2011 and bearing the interest of 8.81%. During the six months ended 30 June 2010 the Group received several tranches in the total amount of 1,200,000 under this agreement. At the same time the Group repaid 715,000 under an agreement with OJSC Alfa-bank concluded in 2009.

On 31 May 2010 the Group entered into two non-renewable credit line agreements with OJSC Bank VTB Severo-Zapad for a total amount of 2,225,000 maturing on 30 May 2012 and bearing the interest of 6.95% and 6.97%, respectively. During the six months ended 30 June 2010 tranches totaling 1,250,000 were received by the Group under these agreements.

On 31 May 2010 the Group entered into a non-renewable credit line agreement with OJSC Bank Russia for a total amount of 800,000 maturing on 31 May 2012 and bearing the interest of 7.1%. During the six months ended 30 June 2010 the Group received several tranches in the total amount of 97,000 under this agreement.

In May 2010 the Group received several tranches from OJSC Bank Saint-Petersburg in the total amount of 500,000 repayable on 16 July 2010 under a credit line provided in 2009.

*Bank loans (denominated in foreign currency)*

In the six months ended 30 June 2010 the Group made 2 out of 4 quarterly payment obligations under the loan agreement with Barclays Bank at a fixed swap exchange rate.

As at 30 June 2010 and for the six months then ended, the Group complied with all restrictions and covenants imposed by the syndicated loan agreement with Barclays Bank.

**14. Borrowings (continued)**

**Finance lease commitments**

As at 30 June 2010 the Group entered into new lease agreements for electricity transmission equipment and transportation vehicles which have been delivered to the Group by the reporting date and, therefore, are recognized in these interim condensed consolidated financial statements. Future minimum lease payments under finance lease are as follows:

| | During the next year | During 2-5 years | Over 5 years | Total |
|---|---|---|---|---|
| **As at 30 June 2010 (unaudited)** | | | | |
| Future minimum lease payments | **840,772** | **951,149** | - | **1,791,921** |
| Less: future interest expenses | **(261,841)** | **(147,651)** | - | **(409,492)** |
| **Present value of future minimum lease payments** | **578,931** | **803,498** | - | **1,382,429** |
| **As at 31 December 2009** | | | | |
| Future minimum lease payments | 915,129 | 1,348,503 | - | 2,263,632 |
| Less: future interest expenses | (331,227) | (250,377) | - | (581,604) |
| **Present value of future minimum lease payments** | 583,902 | 1,098,126 | - | 1,682,028 |

All lease agreements are fully secured against the Group's leased assets (Note 6).

As at 30 June 2010 the Group's primary lessors were LLC Sevzapleasing and LLC Rosgazleasing. In the first half of 2010 effective interest rate on lease liabilities ranged from 17.59% to 68.03% p.a.

Certain finance lease agreements provide for inception and commencement dates which are substantially different in time and the Group is required to prepay a substantial amount of the fair value of the leased assets before commencement date. As of the commencement dates the present value of future minimum lease payments together with the amounts already prepaid exceeded the fair value of the leased assets, and the Group had to recognize an impairment loss on initial recognition of the leased assets. As a result, the difference of 21,887 was immediately recognized within operating expenses in the income statement for the six months ended 30 June 2010 (Note 18).

The Group had entered into a number of finance leases under which equipment was not received as at 30 June 2010. Accordingly, the liabilities arising from the above financial leases are not reported in these financial statements. The present value of future minimum lease payments under these agreements as at 30 June 2010 is 650,579 (31 December 2009: 819,976). Future interest expense is 974,495 (31 December 2009: 1,007,011). As at 30 June 2010 the Group paid advances of 1,063,066 under these leases (31 December 2009: 1,058,499).

**15. Other non-current liabilities**

| | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|
| Long-term advances received | **439,630** | 1,223,292 |
| Trade accounts payable | **61,888** | 51,581 |
| **Total** | **501,518** | 1,274,873 |

### 16. Other current liabilities

| | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|
| Advances received | **16,836,554** | 14,422,484 |
| Dividends payable | **325,804** | - |
| **Total** | **17,162,358** | 14,422,484 |

### 17. Revenue

| | For the six months ended 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
|---|---|---|
| Network transmission of electricity | **11,277,698** | 9,564,955 |
| Technological losses at the normal (expected) level | **(2,785,495)** | (2,096,910) |
| **Network transmission of electricity, net of normal (expected) losses** | **8,492,203** | 7,468,045 |
| Technological connection to electricity grids | **4,565,327** | 2,240,951 |
| Other revenue | **227,582** | 324,338 |
| **Total** | **13,285,112** | 10,033,334 |

For the six months ended 30 June 2010 electricity transmission revenue of 9,299,840 (2009: 7,975,701) was generated from two customers that individually accounted for greater than 10%.

Technological connection fees for the six months ended 30 June 2010 of 2,453,385 (2009: 1,051,659) were settled by way of contribution of property, plant and equipment from the customers.

### 18. Operating expenses

| | For the six months ended 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
|---|---|---|
| Transmission fee | **4,819,747** | 3,259,617 |
| Depreciation (Note 6) | **2,153,428** | 1,968,060 |
| Payroll and payroll taxes | **1,427,806** | 1,304,527 |
| Repairs and maintenance | **258,901** | 251,522 |
| Rent | **248,954** | 230,522 |
| Raw materials and supplies | **109,815** | 101,758 |
| Telecommunication and information services | **107,679** | 99,299 |
| Social expenses | **76,032** | 68,176 |
| Taxes other than income tax | **74,827** | 80,408 |
| Electric metering services | **65,267** | 149,064 |
| Utilities | **60,869** | 45,904 |
| Consulting, legal and audit services | **60,182** | 68,897 |
| Amortization of intangible assets (Note 5) | **59,617** | 58,560 |
| Internal security expenses | **54,879** | 53,977 |
| Impairment loss on finance leases (Note 14) | **21,887** | - |
| Agency services | **15,190** | 21,588 |
| (Reversal of) Provision for impairment of inventories | **(41,755)** | 31,877 |
| (Reversal of) Provision for impairment of receivables (Note 12) | **(43,703)** | 111,356 |
| Other operating expenses | **312,220** | 246,236 |
| **Total** | **9,841,842** | 8,151,348 |

## 19. Finance income

| | For the six months ended | |
|---|---|---|
| | 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
| *Reclassification of unrealized gain reserve on disposal of* available-for-sale investments | **532,866** | - |
| Gain on swap settlement | **154,352** | - |
| Interest receivable | **59,715** | 37,536 |
| Dividends received | **24,301** | 15,472 |
| Other finance income | **18** | 10,539 |
| **Total** | **771,252** | 63,547 |

Gain on partial swap contract settlement in the amount of 154,352 is presented net of change in fair value of swap asset of 437,488 (Note 11).

## 20. Finance expenses

| | For the six months ended | |
|---|---|---|
| | 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
| Interest expense on loans | **368,788** | 216,898 |
| Interest expense on bonds | **251,486** | 256,291 |
| Interest expense on finance leases | **182,620** | 338,974 |
| Other finance expenses | **14,158** | 31,369 |
| Change in fair value of swap | - | 330,213 |
| **Total** | **817,052** | 1,173,745 |

## 21. Income tax

| | For the six months ended | |
|---|---|---|
| | 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
| **Current income tax:** | | |
| Current income tax charge | **711,820** | 544,569 |
| **Deferred income tax:** | | |
| Relating to origination and reversal of temporary differences | **(14,479)** | (396,800) |
| **Income tax expense reported in the income statement** | **697,341** | 147,769 |

Reconciliation between tax expense and accounting profit multiplied by tax rate for the six months ended 30 June 2010 and 2009 is as follows:

| | For the six months ended | |
|---|---|---|
| | 30 June 2010 (unaudited) | 30 June 2009 (unaudited) |
| Accounting profit before tax | **3,284,930** | 389,788 |
| Theoretical tax expense at statutory income tax rate of 20% | **656,986** | 77,958 |
| Non-deductible expenses | **40,355** | 69,811 |
| **Income tax expense reported in the consolidated income statement** | **697,341** | 147,769 |

**22. Earnings per share**

| | For the six months ended | |
|---|---|---|
| | **30 June 2010 (unaudited)** | **30 June 2009 (unaudited)** |
| Weighted average number of outstanding ordinary shares (thousands) | **926,022** | 926,022 |
| Weighted average number of outstanding preference shares (thousands) | **93,264** | 93,264 |
| Net profit attributable to equity holders: | **2,586,336** | 238,228 |
| - attributable to holders of ordinary shares | **2,349,686** | 216,430 |
| - attributable to holders of preference shares | **236,650** | 21,798 |
| **Earnings per ordinary share – basic and diluted (Rubles)** | **2.54** | 0.23 |
| **Earnings per preference share – basic and diluted (Rubles)** | **2.54** | 0.23 |

**23. Commitments and contingencies**

**Capital commitments**

Future capital expenditures for which contracts have been signed amounted to 19,194,795 as at 30 June 2010 (31 December 2009: 18,865,916).

**Guarantees issued**

As at 30 June 2010 the Group provided the following guarantees for the loans granted by OJSC Bank VTB Severo-Zapad to the Group's lessor (CJSC Rosgazleasing):

| Guarantee | Underlying loan agreement | Maturity date | Amount of loan guaranteed |
|---|---|---|---|
| CJSC Rosgazleasing | #107/07 dated 22 August 2007 | 22 August 2012 | 35,340 |
| CJSC Rosgazleasing | #108/07 dated 22 August 2007 | 22 August 2012 | 183,180 |

**Tax legislation**

The existing Russian tax, currency and customs legislation allows for various interpretations and is prone to frequent changes. Interpretation by the Group's management of the legislation in place when applicable to the Group's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a tougher stance with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods.

As at 30 June 2010 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

In 2010 the tax authorities performed a tax field audit of the Group covering the period from 1 January 2007 to 31 December 2008. As a result no significant incompliancies with tax legislation were identified.

## 24. Related party transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group had balances outstanding as at 30 June 2010 and 31 December 2009 with the following related parties.

### Transactions with MRSK-Holding and entities under MRSK-Holding control

| | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|
| ***Accounts receivable, including:*** | | |
| **Trade accounts receivable** | **165** | - |
| MRSK-Holding | **165** | - |
| **Advances given** | **807** | 916 |
| OJSC North-West Energy Management Company | **485** | 674 |
| OJSC EnergoUchet | **322** | 242 |
| ***Accounts payable, including*** | | |
| **Trade accounts payable** | **5,731** | 6,210 |
| MRSK-Holding | **5,664** | 5,664 |
| OJSC North-West Energy Management Company | **67** | 546 |
| **Other accounts payable** | **44,198** | 44,198 |
| MRSK-Holding | **44,198** | 44,198 |

### Transactions with other related parties

*Non-government pension fund Electroenergetiki*

The outstanding balances with NPF Electroenergetiki were as follows:

| | 30 June 2010 (unaudited) | 31 December 2009 |
|---|---|---|
| Other accounts receivable | **123,312** | 112,967 |

### Compensation to key management personnel

Key management personnel comprise general director of the Company and his deputies, including finance director and chief accountant, as well as members of the Board of Directors. Total compensation to key management personnel, which is represented by short-term and long-term employee benefits (monthly payroll, annual bonuses and pensions), included in payroll and payroll taxes in the interim condensed consolidated income statement, was as follows:

| | For the six months ended 30 June 2010 (unaudited) | For the six months ended 30 June 2009 (unaudited) |
|---|---|---|
| Short-term employee benefits | **34,248** | 35,279 |
| Termination benefits | - | 13,891 |
| **Total** | **34,248** | 49,170 |

## 25. Financial risk management

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The exposure of the Group to these and other financial risks is disclosed below.

### Credit risk

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments, financial assets at fair value through profit and loss and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### Liquidity risk

The table below summarizes the maturity profile of the Group's financial liabilities as at 30 June 2010 and 31 December 2009 based on contractual undiscounted payments:

| **As at 30 June 2010 (unaudited)** | **1 year** | **2 years** | **3-5 years** | **Over 5 years** |
|---|---|---|---|---|
| Bonds issued | 649,987 | 6,341,244 | - | - |
| Interest-bearing loans | 3,976,683 | 4,541,485 | - | - |
| Trade and other accounts payable | 3,529,177 | 3,600 | 106,151 | - |
| *Other financial obligations* | *840,772* | *651,988* | *299,161* | - |
| **Total** | 9,651,580 | 11,537,540 | 405,312 | - |

| **As at 31 December 2009** | **1 year** | **2 years** | **3-5 years** | **Over 5 years** |
|---|---|---|---|---|
| Bonds issued | 652,348 | 496,800 | 6,090,802 | - |
| Interest-bearing loans | 5,732,985 | 3,299,545 | - | - |
| Trade and other accounts payable | 3,212,936 | 1,800 | 5,400 | 102,551 |
| Other financial obligations | 915,129 | 796,962 | 551,541 | - |
| **Total** | **11,419,009** | **4,595,107** | **6,647,743** | **102,551** |

### Fair values

Set out below is a comparison by category of carrying amount and fair value of the Group's financial instruments that are carried in these interim condensed consolidated financial statements:

| | **30 June 2010 (unaudited)** | | **31 December 2009** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **Financial assets** | | | | |
| Cash | **2,224,795** | **2,224,795** | 2,948,801 | 2,948,801 |
| Available-for-sale investments | **33,433** | **33,433** | 525,913 | 525,913 |
| Loans and receivables | **1,380,020** | **1,380,020** | 1,383,883 | 1,383,883 |
| Derivative financial instruments | **638,348** | **638,348** | 1,075,836 | 1,075,836 |
| **Financial liabilities** | | | | |
| ***Interest-bearing loans and borrowings:*** | | | | |
| Obligations under finance leases | **(1,382,429)** | **(1,382,429)** | (1,682,028) | (1,682,028) |
| Floating rate borrowings | **(3,107,126)** | **(3,107,126)** | (6,026,914) | (6,026,914) |
| Short-term fixed rate borrowings | **(985,000)** | **(985,000)** | - | - |
| Long-term fixed rate borrowings | **(10,327,675)** | **(10,412,700)** | (8,975,538) | (8,692,200) |
| Interest payable on borrowings | **(172,426)** | **(172,426)** | (246,430) | (246,430) |

**25. Financial risk management (continued)**

The fair value of derivatives and borrowings with floating rate has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of fixed rate borrowings and other financial assets has been calculated using market interest rates.

The following table presents the valuation methods used to determine fair values of financial instruments carried at fair value.

| | 30 June 2010 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Available-for-sale investments | **33,433** | - | - | 33,433 |
| Derivative financial instruments | **638,348** | - | 638,348 | - |

For financial instruments for which quoted prices in an active market are available, the fair value is determined directly from those quoted market prices (Level 1).

For financial instruments which do not have quoted market prices directly available from an active market, fair values are estimated using valuation techniques or models, based wherever possible on assumption supported by observable market prices or rate prevailing at the balance sheet date (Level 2).

For other financial instruments the fair value cannot be obtained directly from quoted market prices, or indirectly using valuation techniques or models supported (Level 3). For these instruments the fair value is estimated using income approach.

During the six months ended 30 June 2010 there were no transfers among any levels of fair value measurements. The movements within Level 1 and Level 3 since 31 December 2009 consisted of a fair value decrease of 492,480 occurred due to the disposal of available-for-sale investments (Note 8). The movement within Level 2 for the derivative financial instrument (swap) since 31 December 2009 consisted of a fair value decrease of 437,488 reflected as finance income (Note 19).

**26. Events after the reporting date**

In July and October 2010 the Group fully met its coupon obligations on the 2nd and 3rd bond issue under the 7th coupon at 8.54% and 8.02% p.a. in the total amount of 127,740 and 119,970 respectively.

In August 2010 the Group fully repaid dividends for 2009 in the amount of 325,804.

In July 2010 the Group borrowed 637,300 and 480,800 under credit lines granted by AKB Russia and OJSC Bank VTB Severo-Zapad bearing interest of 7.1% and 6.95% respectively.

In August 2010 the Group entered into agreements with OJSC Bank VTB Severo-Zapad and OJSC Sberbank for non-renewable credit lines of 850,000 and 1,000,000 bearing interest of 7.83% and 7.51% respectively.

Following the decision of 2 August 2010 interests in CJSC Kurortenergo (98.13%) and CJSC Tsarskoselskaya Energeticheskaya Compania (96.95%), previously owned by subsidiary of the Group CJSC Lenenergospetsremont, were transferred to OJSC Lenenergo.