JSC “IDGC of Centre”

Interim Consolidated Financial Statements for the six months ended 30 June 2012 (unaudited)

Contents

Thousands of Russian Roubles, unless otherwise stated

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue	7	34,152,960	35,215,286
Operating expenses	8	(29,696,217)	(29,884,961)
Other income		933,456	454,779
Results from operating activities		**5,390,199**	**5,785,104**
Finance income	10	93,555	37,805
Finance costs	10	(961,843)	(848,400)
Net finance costs		**(868,288)**	**(810,595)**
Profit before income tax		**4,521,911**	**4,974,509**
Income tax expense	11	(1,065,917)	(1,137,916)
Profit and total comprehensive income for the period		**3,455,994**	**3,836,593**
Profit and total comprehensive income attributable to:			
Owners of the Company		3,446,747	3,833,537
Non-controlling interests		9,247	3,056
Profit and total comprehensive income for the period		**3,455,994**	**3,836,593**
Earnings per share – basic and diluted (in Russian Roubles)	21	0.082	0.091

These interim consolidated financial statements were approved on 28 August 2012:

General Director

D.O. Gudzhoyan

Chief Accountant

M.V. Danilova

The interim consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set out on pages 7 – 39.

Thousands of Russian Roubles, unless otherwise stated

	Note	30 June 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	12	63,616,958	62,195,991
Intangible assets	13	770,763	945,109
Investments and financial assets	15	514,564	533,976
Other non-current assets	16	190,880	173,789
Total non-current assets		**65,093,165**	**63,848,865**
Current assets			
Cash and cash equivalents	17	3,322,346	2,646,152
Trade and other receivables	18	12,387,762	8,409,867
Income tax receivable		82,277	456,905
Inventories	19	1,877,482	1,445,720
Other current assets		4,054	9,286
Total current assets		**17,673,921**	**12,967,930**
Total assets		**82,767,086**	**76,816,795**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		4,221,794	4,221,794
Additional paid-in capital		88,660	88,660
Retained earnings		37,281,272	34,256,704
Total equity attributable to equity holders of the Company		**41,591,726**	**38,567,158**
Non-controlling interests		19,817	10,570
Total equity		**41,611,543**	**38,577,728**
Non-current liabilities			
Loans and borrowings	22	20,163,787	20,070,000
Finance lease liability	23	212,853	400,360
Employee benefits	24	2,047,149	2,083,121
Deferred tax liabilities	14	4,410,030	4,006,752
Other non-current liabilities		583,285	353,592
Total non-current liabilities		**27,417,104**	**26,913,825**
Current liabilities			
Loans and borrowings	22	1,222,877	1,167,320
Finance lease liability	23	415,697	466,376
Trade and other payables	26	9,852,698	8,484,681
Employee payables	25	898,212	946,413
Income tax payable		8,430	542
Other taxes payable	27	1,340,525	259,910
Total current liabilities		**13,738,439**	**11,325,242**
Total liabilities		**41,155,543**	**38,239,067**
Total equity and liabilities		**82,767,086**	**76,816,795**

The interim consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set out on pages 7 – 39.

Thousands of Russian Roubles, unless otherwise stated

CASH FLOWS FROM OPERATING ACTIVITIES	**Note**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Profit before income tax		**4,521,911**	**4,974,509**
Adjustments for:			
Depreciation and amortization	8	3,794,845	3,026,736
Allowance for impairment of accounts receivable	8	(667,348)	78,576
Net finance costs	10	868,288	810,595
Provision for inventory obsolescence		(21,789)	98,224
Loss on disposal of property, plant and equipment		23,793	65,640
Bad debts written-off	8	81	926
Adjustment for other non-cash transactions		24,951	45,361
Cash flows from operating activities before changes in working capital		**8,544,732**	**9,100,567**
Change in trade and other receivables		(3,311,271)	(43,815)
Change in inventories		(409,973)	(458,094)
Change in other assets		20,631	(8,507)
Change in trade and other payables		1,791,743	181,148
Change in employee payables		(48,201)	151,639
Change in employee benefits		(111,757)	219,888
Change in other liabilities		203,959	178,859
Change in other taxes payable		1,080,615	815,399
Cash flows from operations before income taxes and interest paid		**7,760,478**	**10,137,084**
Interest paid		(999,076)	(728,308)
Income tax paid		(280,123)	(755,408)
Cash flows from operating activities		**6,481,279**	**8,653,468**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(5,828,430)	(5,083,224)
Proceeds from disposal of property, plant and equipment		42,780	11,601
Interest received	10	81,296	37,805
Cash flows used in investing activities		**(5,704,354)**	**(5,033,818)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		163,808	149,647
Repayment of loans and borrowings		(24,485)	(899,647)
Dividends paid		(1,868)	-
Repayment of finance lease liabilities		(238,186)	(330,058)
Cash flows from financing activities		**(100,731)**	**(1,080,058)**
Net increase/(decrease) in cash and cash equivalents		**676,194**	**2,539,492**
Cash and cash equivalents at beginning of period		2,646,152	258,889
Cash and cash equivalents at end of period	17	**3,322,346**	**2,798,381**

The interim consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set out on pages 7 – 39.

Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Company					
	Ordinary share capital	**Additional paid in capital**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2011	**4,221,794**	**88,660**	**29,336,103**	**33,646,557**	**7,900**	**33,654,457**
Profit for the period	-	-	3,833,537	3,833,537	3,056	3,836,593
Total comprehensive income	-	-	3,833,537	3,833,537	3,056	3,836,593
Transactions with owners, recorded directly in equity						
Dividends declared	-	-	(610,932)	(610,932)	-	(610,932)
Total transactions with owners, recorded directly in equity			**(610,932)**	**(610,932)**	**-**	**(610,932)**
At 30 June 2011	**4,221,794**	**88,660**	**32,558,708**	**36,869,162**	**10,956**	**36,880,118**
At 1 January 2012	**4,221,794**	**88,660**	**34,256,704**	**38,567,158**	**10,570**	**38,577,728**
Profit for the period			3,446,747	3,446,747	9,247	3,455,994
Total comprehensive income			3,446,747	3,446,747	9,247	3,455,994
Transactions with owners, recorded directly in equity						
Dividends declared			(422,179)	(422,179)	-	(422,179)
Total transactions with owners, recorded directly in equity			**(422,179)**	**(422,179)**	**-**	**(422,179)**
At 30 June 2012	**4,221,794**	**88,660**	**37,281,272**	**41,591,726**	**19,817**	**41,611,543**

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim consolidated financial statements set out on pages 7 –39.

1 BACKGROUND

(a) The Group and its operations

Joint-Stock Company “IDGC of Centre” (hereafter, the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors’ decision (board of directors’ meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of the Russian Open Joint-Stock Company RAO “United Energy Systems of Russia” (hereafter, “RAO UES”).

The Company’s registered office is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Company’s de facto address is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Group’s principal activity is the transmission of electricity and the connection of customers to the electricity grid.

The Group consists of JSC “IDGC of Centre” and its subsidiaries, presented in Note 5.

As at 30 June 2012, the Government of the Russian Federation owned 54.52% shares of JSC IDGC Holding (at 31 December 2011 – 53.69%), which in turn owned 50.23% of the Company.

The Government of the Russian Federation influences the Group’s activities through setting transmission tariffs.

(b) Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The interim consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

These interim consolidated financial statements (hereinafter “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except for investments at fair value through profit or loss; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these Financial Statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of interim consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 28 – allowances for impairment of trade and other receivables;
- Note 29 – lease classification.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial period is included in the following note:

- Note 31 – contingencies.

(e) Changes in accounting policies and presentation

With effect from 1 January 2011, the Group changed its accounting policies in disclosure of information about related parties.

From 1 January 2011 the Group has applied revised IAS 24 *Related Party Disclosures* (2009). As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of Russian Federation has control, joint control or significant influence both over them and the Group.

The Group discloses a share of sales to government-related entities and share of key purchases from such entities as quantitative indications of related-parties transactions.

The comparative disclosures were changed retrospectively as if new policies had been applied since the beginning of the earliest period presented. As this change affected disclosures only, there were no any changes in earnings per share.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by Group entities, except as explained in note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus,
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(iv) Business combinations involving entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognized previously in the acquired entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity, trade and other receivables, cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprises the following financial assets: trade and other receivables as presented in Note 16 and Note 18, cash and cash equivalents as presented in Note 17.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(f)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liability category.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment by type of facility are as follows:

- Buildings 15 – 50 years
- Transmission networks 5 – 20 years
- Equipment for electricity transformation 5 – 20 years
- Other 1 – 30 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(iv) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term.

(d) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see 3 (a) (iii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(iv) Amortization

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Patents and licenses 1 – 12 years

- Computer software 1 – 10 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories includes all acquisition costs, production costs and other costs incurred to bring inventories to their existing condition and location. The cost of inventories is determined using the weighted average cost method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale equity securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(h) Revenue

Revenue from electricity transmission is recognized in profit or loss when the customer acceptance of the volume of electricity transmitted is obtained. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. Revenue is recognized when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognized in proportion to the stage of completion when an act of acceptance is signed by the customer.

Revenue from installation, repair and maintenance services and other sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(i) Finance income and costs

Finance income comprises interest income on cash balances and bank deposits, dividend income and changes in the fair value of financial assets at fair value through profit and loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, employee benefits, finance leases, changes in the fair value of financial assets at fair value through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognised in profit or loss using the effective interest method.

(j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefits plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in profit or loss in the period in which they arise.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations as at reporting date and that are denominated in the same currency in which the benefits are expected to be paid.

The Group calculates obligation in respect of other long-term employee benefits using the projected unit credit method.

Interest cost as a result of discount release is recognized as finance costs in profit or loss.

Any actuarial gain or losses and past benefit costs are recognized in full amount in profit or loss in the period in which they occur.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and if the obligation can be estimated reliably.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(m) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Experts, the Group's operating decision making body, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(o) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 June 2012, and have not been applied in preparing Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective and has not yet determined the potential effect of the amendments.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that

are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 July 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Thousands of Russian Roubles, unless otherwise stated

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Investments in equity

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(d) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 SUBSIDIARIES

(a) List of subsidiaries

	Country of incorporation	30 June 2012 Ownership/voting, %	31 December 2011 Ownership/voting, %
OJSC “Energetic”	Russian Federation	100	100
OJCS “Yaroslavskaya Setevaya Company”	Russian Federation	51	51
OJSC “Yargorelectroset”	Russian Federation	100	100
OJSC “Energy Service Company”	Russian Federation	100	100
CJSC “Innovation and energy efficiency center”	Russian Federation	51	51

(b) Establishment of subsidiaries

(i) OJSC “Energy Service Company”

On 11 January 2011 the Group established a joint stock company “Energy Service Company”. The authorized capital of the subsidiary consists of 1,000 ordinary shares, par value RUB 100 per share. The Group is the sole shareholder of OJSC “Energy Service Company”.

(ii) CJSC “IEEC”

On 10 August 2011 the Group established a joint stock company “Innovation and energy efficiency center”. The authorized capital of the subsidiary consists of 10,000 ordinary shares, par value RUB 100 per share. The Group is 51% shareholder of CJSC “IEEC”.

6 OPERATING SEGMENTS

The Group has eleven reportable segments representing branches of the Company, as described below. These are the Group’s strategic business units. The strategic business units offer similar services representing transmission of electric power and connection services, and are managed separately. For each of the strategic business units, the Board of Experts, the Group’s operating decision making body, reviews internal management reports on at least a quarterly basis.

“Others” include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in the six months ended 30 June 2012 or 2011.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Experts.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. The reconciliation of items measured as reported to the Board of Experts with similar items in these Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

Thousands of Russian Roubles, unless otherwise stated

(i) Information about reportable segments

As at and for the six months ended 30 June 2012:

	Belgorod-energo	**Bryansk-energo**	**Voronezh-energo**	**Kostroma-energo**	**Kurskenergo**	**Lipetsk-energo**	**Orelenergo**	**Smolensk-energo**	**Tambov-energo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	5,876,523	2,568,037	3,841,986	1,733,907	2,760,996	4,175,215	1,545,117	2,324,920	1,806,965	3,569,586	3,069,374	-	**33,272,626**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	497,276	**497,276**
Revenue from connection services	51,145	19,461	24,920	14,178	31,664	19,717	8,714	16,426	2,810	36,735	38,540	95,516	**359,826**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	21,014	-	**21,014**
Other revenue	94,828	11,480	30,205	15,906	7,572	10,813	5,813	104,113	8,381	14,842	13,229	148,453	**465,635**
Inter-segment revenue	-	-	-	-	-	--	-	-	-	-	716	197,611	**198,327**
Total revenues	**6,022,496**	**2,598,978**	**3,897,111**	**1,763,991**	**2,800,232**	**4,205,745**	**1,559,644**	**2,445,459**	**1,818,156**	**3,621,163**	**3,142,873**	**938,856**	**34,814,704**
Results from operating activities	**1,551,951**	**345,074**	**319,218**	**360,749**	**458,224**	**717,744**	**248,334**	**417,228**	**198,046**	**1,119,628**	**481,416**	**81,135**	**6,298,747**
Finance income	283	-	-	56	-	-	117	1	70	-	45	88,757	**89,329**
Finance costs	(178,755)	(9,989)	(19,134)	(36,673)	(45,743)	(45,480)	(60,662)	(64,155)	(86,422)	(132,468)	(90,129)	(6,365)	**(775,975)**
Reportable segment profit/(loss) before income tax	**1,373,479**	**335,085**	**300,084**	**324,132**	**412,481**	**672,264**	**187,789**	**353,074**	**111,694**	**987,160**	**391,332**	**163,527**	**5,612,101**
Depreciation and amortization	966,743	140,586	260,963	173,386	274,426	331,432	119,619	206,376	127,804	213,960	237,892	59,880	**3,113,067**
Capital expenditure	1,263,816	110,017	474,324	240,895	194,562	751,168	153,050	438,053	125,494	243,866	529,707	45,376	**4,570,328**
As at 30 June 2012													
Reportable segment assets	**17,473,368**	**5,553,660**	**9,155,032**	**4,155,558**	**6,636,636**	**12,999,251**	**3,097,297**	**5,546,722**	**4,087,767**	**9,750,679**	**7,056,998**	**8,552,150**	**94,065,118**
Property, plant and equipment	17,352,932	4,056,401	7,635,061	3,716,220	5,764,546	11,058,253	2,524,304	4,670,295	3,522,513	5,430,909	5,818,468	1,686,648	**73,236,550**
Reportable segment liabilities	**5,309,454**	**1,432,734**	**4,516,071**	**1,644,657**	**2,140,789**	**2,945,568**	**2,524,304**	**2,860,105**	**2,634,781**	**5,526,729**	**3,244,249**	**3,417,657**	**38,197,098**

Thousands of Russian Roubles, unless otherwise stated

As at and for the six months ended 30 June 2011:

	Belgorod-energo	**Bryansk-energo**	**Voronezh-energo**	**Kostroma-energo**	**Kurskenergo**	**Lipetsk-energo**	**Orelenergo**	**Smolensk-energo**	**Tambov-energo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	5,711,336	2,509,226	4,179,185	1,830,115	2,918,649	4,312,243	1,526,323	2,321,331	1,587,423	3,461,361	3,276,062	-	**33,633,254**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	403,051	**403,051**
Revenue from connection services	19,653	19,283	124,157	19,383	533,598	16,623	5,485	5,857	6,320	159,634	39,869	180,360	**1,130,222**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	109,982	-	**109,982**
Other revenue	105,680	17,324	30,206	12,479	9,880	17,814	13,091	108,114	15,195	12,187	17,484	55,443	**414,897**
Inter-segment revenue	-	-	-	-	-	42	-	-	59	14	-	814	**929**
Total revenues	**5,836,669**	**2,545,833**	**4,333,548**	**1,861,977**	**3,462,127**	**4,346,722**	**1,544,899**	**2,435,302**	**1,608,997**	**3,633,196**	**3,443,397**	**639,668**	**35,692,335**
Results from operating activities	**1,428,741**	**316,842**	**398,925**	**457,596**	**832,565**	**989,290**	**226,722**	**364,630**	**(18,193)**	**343,405**	**780,722**	**84,257**	**6,205,502**
Finance income	78	-	-	67	-	-	75	3,109	6	-	40	34,766	**38,141**
Finance costs	(114,135)	(1,890)	(23,324)	(24,261)	(36,012)	(21,276)	(48,423)	(48,852)	(47,963)	(124,603)	(22,771)	(41,093)	**(554,603)**
Reportable segment profit/(loss) before income tax	**1,314,684**	**314,952**	**375,601**	**433,402**	**796,553**	**968,014**	**178,374**	**318,887**	**(66,150)**	**218,802**	**757,991**	**77,930**	**5,689,040**
Depreciation and amortization	823,539	111,058	210,587	126,715	252,375	296,343	88,578	167,719	103,772	310,741	187,944	50,752	**2,730,123**
Capital expenditure	1,263,607	119,730	307,116	106,716	213,107	446,124	81,198	273,007	527,357	154,492	331,599	180,538	**4,004,591**
As at 31 December 2011													
Reportable segment assets	**17,474,557**	**4,428,924**	**8,291,771**	**4,153,302**	**6,838,435**	**12,261,628**	**2,895,812**	**5,016,102**	**3,742,331**	**8,705,332**	**6,270,997**	**7,365,657**	**87,444,848**
Property, plant and equipment	16,860,202	4,061,604	7,393,074	3,628,480	5,822,035	10,611,278	2,479,488	4,470,387	3,508,166	5,325,078	5,486,583	1,680,329	**71,326,704**
Reportable segment liabilities	**1,748,545**	**579,289**	**1,420,383**	**750,245**	**1,372,024**	**1,075,325**	**466,375**	**1,032,153**	**508,769**	**2,657,121**	**1,131,454**	**22,748,126**	**35,489,809**

Thousands of Russian Roubles, unless otherwise stated

(ii) Major customer

For the six months ended 30 June 2012 revenue from one customer of the Group’s segment (Belgorodenergo) represented approximately 13% (RUB 4,375,201 thousand) of the Group’s total revenue (for the six months ended 2011 - RUB 4,605,770 thousand or 13% of the Group’s total revenue).

(iii) Reconciliations of reportable segment revenues, profit or loss and assets and liabilities

Reconciliation of key segment items measured as reported to the Board of Experts with similar items in these Financial Statements is presented in the tables below.

Revenues	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Total revenue for reportable segments	34,814,704	35,692,335
Elimination of inter-segment revenue	(716,617)	(513,962)
Reclassification	54,873	36,913
Consolidated revenue	**34,152,960**	**35,215,286**

Profit before income tax	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Total profit before income tax for reportable segments	5,612,101	5,689,040
Adjustments for of property, plant and equipment	(436,897)	(156,821)
Recognition of financial assets related to employee benefit fund	(31,671)	(3,520)
Unused vacation and annual bonus provision	(395,859)	(279,375)
Recognition of employee benefit obligations	35,972	(301,228)
Adjustment for finance lease	166,511	243,879
Adjustment for allowance for impairment of account receivables	(192,989)	(130,729)
Provision for inventory obsolescence	21,789	(98,224)
Other adjustments	(257,046)	11,487
Consolidated profit before income tax	**4,521,911**	**4,974,509**

Assets	**30 June 2012**	**31 December 2011**
Total assets for reportable segments	94,065,118	87,444,848
Elimination of investments in subsidiaries	(1,116,395)	(1,116,395)
Elimination of other inter-segment assets	(635,219)	(365,787)
Adjustments for deemed cost of property, plant and equipment	(11,443,819)	(10,988,302)
Adjustments for property, plant and equipment under finance lease	1,775,425	1,852,934
Recognition of financial assets related to employee benefit fund	336,383	368,054
Adjustment for allowance for impairment of account receivables	120,555	7,596
Provision for inventory obsolescence	(145,769)	(167,558)
Adjustment for deferred tax	(89,450)	(194,469)
Other adjustments	(99,743)	(24,126)
Consolidated total assets	**82,767,086**	**76,816,795**

Thousands of Russian Roubles, unless otherwise stated

Liabilities	**30 June 2012**	**31 December 2011**
Total liabilities for reportable segments	38,197,098	35,489,809
Elimination of inter-segment liabilities	(632,017)	(362,553)
Adjustment for finance lease	628,517	863,652
Unused vacation and annual bonus provision	397,944	2,085
Recognition of employee benefit obligations	2,047,149	2,083,121
Adjustment for deferred tax	177,548	156,742
Other adjustments	339,304	6,211
Consolidated total liabilities	**41,155,543**	**38,239,067**

7 REVENUE

	Six months ended 30 June 2012	**Six months ended 30 June 2011**
Electricity transmission	33,272,626	33,633,254
Connection services	359,826	1,130,222
Rent	31,421	33,702
Repairs and maintenance	47,921	88,815
Other	441,166	329,293
	34,152,960	**35,215,286**

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

8 OPERATING EXPENSES

	Six months ended 30 June 2012	**Six months ended 30 June 2011**
Electricity transmission	8,429,455	9,088,737
Purchased electricity	7,241,147	7,851,697
Personnel costs (Note 9)	6,831,843	6,696,246
Depreciation and amortization	3,794,845	3,026,736
Raw materials and supplies	979,461	843,901
Rent	266,243	245,032
Electricity for own needs	238,750	275,248
Repairs, maintenance and installation services	201,768	144,921
Taxes other than income tax	176,837	169,258
Security	138,892	119,297
Information services	117,278	52,162
Consulting, legal and audit services	68,717	23,157
Insurance	61,853	80,278
Transportation costs	32,113	216,606
Telecommunication services	24,142	25,153
Membership fee	998	19,162
Bad debt written-off	81	926
Provision for inventory obsolescence	-	98,224
Allowance for impairment of accounts receivable	-	78,576
Other	1,091,794	829,644
	29,696,217	**29,884,961**

Thousands of Russian Roubles, unless otherwise stated

9 PERSONNEL COSTS

	Six months ended 30 June 2012	Six months ended 30 June 2011
Salaries and wages	4,629,236	4,442,495
Contribution to the state pension fund	1,119,665	1,171,818
Recognized actuarial (gain)/ loss	(4,671)	239,553
Compulsory social security contributions	246,478	305,783
Finance aid to employees and pensioners	227,006	214,495
Current service cost	36,641	50,879
Unused vacation provision	406,081	69,223
Past service cost	(39,886)	47,664
Other personnel costs	211,293	154,336
	6,831,843	**6,696,246**

The average number of employees (including production and non production staff) was 31,619 for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 31,165 employees).

10 FINANCE INCOME AND COSTS

Finance income	Six months ended 30 June 2012	Six months ended 30 June 2011
Net change in fair value of financial investments at fair value through profit and loss	12,259	-
Interest income	81,296	37,805
	93,555	**37,805**
Finance costs		
Interest expense	776,681	554,600
Interest on finance lease liabilities	109,377	179,497
Net change in fair value of financial investments at fair value through profit and loss	-	32,963
Interest expense on employee benefits obligation	75,785	81,340
	961,843	**848,400**

Thousands of Russian Roubles, unless otherwise stated

11 INCOME TAX EXPENSE

The Group’s applicable tax rate is the income tax rate of 20%.

	Six months ended 30 June 2012	Six months ended 30 June 2011
Current tax expense		
Current period	(662,255)	(1,263,275)
Adjustment for prior periods	(384)	22,644
	(662,639)	**(1,240,631)**
Deferred tax expense		
Origination and reversal of temporary differences	(403,278)	95,865
Change in tax the base of property, plant and equipment	-	6,850
	(403,278)	102,715
	(1,065,917)	**(1,137,916)**

Reconciliation of effective tax rate:

	Six months ended 30 June 2012	%	Six months ended 30 June 2011	%
Profit before income tax	4,521,911	100	4,974,509	100.0
Income tax expense at applicable tax rate	(904,382)	(20)	(994,902)	(20.0)
Adjustment for prior periods	(384)	(0)	22,644	0.5
Change in tax base of property, plant and equipment	-	-	6,850	0.1
Net effect of other items which are not deductible/not taxable for taxation purposes	(161,151)	(4)	(172,508)	(3.5)
	(1,065,917)	**(24)**	**(1,137,916)**	**(22.9)**

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
Deemed cost						
At 1 January 2011	12,924,300	27,484,495	15,119,039	6,804,782	4,479,093	66,811,709
Additions	6,612	884	621	-	4,621,828	4,629,945
Transfers	442,945	969,098	598,112	358 853	(2,369,008)	-
Disposals	(17,792)	(13,503)	(16,736)	(13 255)	(23,964)	(85,250)
Balance as at 30 June 2011	**13,356,065**	**28,440,974**	**15,701,036**	**7,150,380**	**6,707,949**	**71,356,404**
At 1 January 2012	16,878,448	31,635,289	18,128,142	9,048,838	7,338,340	83,029,057
Additions	149	1,179	3,228	-	5,098,596	5,103,152
Transfers	412,643	1,914,792	706,847	865,155	(3,899,437)	-
Disposals	(17,213)	(26,879)	(7,659)	(25,810)	(29,769)	(107,330)
Balance as at 30 June 2012	**17,274,027**	**33,524,381**	**18,830,558**	**9,888,183**	**8,507,730**	**88,024,879**

Thousands of Russian Roubles, unless otherwise stated

Accumulated depreciation						
At 1 January 2011	(1,907,520)	(7,836,166)	(3,050,241)	(2,239,110)	-	(15,033,037)
Depreciation for the period	(475,599)	(1,323,199)	(516,613)	(520,121)	-	(2,835,532)
Disposals	3,099	7,096	5,798	8,175	-	24,168
At 30 June 2011	**(2,380,020)**	**(9,152,269)**	**(3,561,056)**	**(2,751,056)**	**-**	**(17,844,401)**
At 1 January 2012	(2,888,299)	(10,562,117)	(4,091,907)	(3,290,743)	-	(20,833,066)
Depreciation for the period	(556,660)	(1,719,296)	(597,833)	(741,821)	-	(3,615,610)
Disposals	4,653	14,250	3,142	18,710	-	40,755
At 30 June 2012	**(3,440,306)**	**(12,267,163)**	**(4,686,598)**	**(4,013,854)**	**-**	**(24,407,921)**
Net book value						
At 1 January 2011	**11,016,780**	**19,648,329**	**12,068,798**	**4,565,672**	**4,479,093**	**51,778,672**
At 30 June 2011	**10,976,045**	**19,288,705**	**12,139,980**	**4,399,324**	**6,707,949**	**53,512,003**
At 1 January 2012	**13,990,149**	**21,073,172**	**14,036,235**	**5,758,095**	**7,338,340**	**62,195,991**
At 30 June 2012	**13,833,721**	**21,257,218**	**14,143,960**	**5,874,329**	**8,507,730**	**63,616,958**

As at 30 June 2012 construction in progress includes advance payments for property, plant and equipment of RUB 22,739 thousand (as at 30 June 2011: RUB 51,760 thousand).

The amount of capitalized interest for the six months 2012 was RUB 123,039 thousand (for the six months ended 30 June 2011 was RUB 13,151 thousand).

Leased property, plant and equipment

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Title to the leased assets transfers to the Group at the end of each lease.

As at 30 June 2012 and 31 December 2011 the net book value of leased property, plant and equipment, accounted for as part of the Group's property, plant and equipment, was as follows:

	Land and Buildings	Transmission networks	Equipment for electricity transformation	Other	Total
Cost	51,306	65,204	2,109,135	242,352	2,467,997
Accumulated depreciation	(9,203)	(16,129)	(493,800)	(77,046)	(596,178)
Net book value at 31 December 2011	**42,103**	**49,075**	**1,615,335**	**165,306**	**1,871,819**
Cost	50,244	65,204	2,107,908	234,784	2,458,140
Accumulated depreciation	(10,254)	(18,267)	(557,112)	(85,142)	(670,775)
Net book value at 30 June 2012	**39,990**	**46,937**	**1,550,796**	**149,642**	**1,787,365**

13 INTANGIBLE ASSETS

	Software	Licenses	Other intangible assets	Total
Cost				
At 1 January 2011	483,091	117,013	1,169,870	1,769,974
Reclassification	(158,401)	1	158,400	-
Additions	92,440	142	19,220	111,802
Disposals	(71,775)	(39,338)	(11,712)	(122,825)
At 30 June 2011	**345,355**	**77,818**	**1,335,778**	**1,758,951**

Thousands of Russian Roubles, unless otherwise stated

At 1 January 2012	376,316	284	1,396,028	1,772,628
Additions	4,543	116	230	4,889
Disposals	(3,456)	-	(121)	(3,577)
At 30 June 2012	**377,403**	**400**	**1,396,137**	**1,773,940**
Accumulated amortization				
At 1 January 2011	(160,548)	(91,543)	(406,353)	(658,444)
Reclassification	32,083	(1)	(32,082)	-
Amortization for the period	(63,452)	(4,936)	(122,816)	(191,204)
Disposals	55,912	39,043	11,712	106,667
At 30 June 2011	**(136,005)**	**(57,437)**	**(549,539)**	**(742,981)**
At 1 January 2012	(152,483)	(41)	(674,995)	(827,519)
Amortization for the period	(55,546)	(256)	(123,433)	(179,235)
Disposals	3,456	-	121	3,577
At 30 June 2012	**(204,573)**	**(297)**	**(798,307)**	**(1,003,177)**
Net book value				
At 1 January 2011	**322,543**	**25,470**	**763,517**	**1,111,530**
At 30 June 2011	**209,350**	**20,381**	**786,239**	**1,015,970**
At 1 January 2012	**223,833**	**243**	**721,033**	**945,109**
At 30 June 2012	**172,830**	**103**	**597,830**	**770,763**

14 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
	30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**	**30 June 2012**	**31 December 2011**
Property, plant and equipment	12,810	14,061	(4,505,580)	(4,396,589)	(4,492,770)	(4,382,528)
Other non-current assets	296	424	-	-	296	424
Inventories	29,154	33,512	-	-	29,154	33,512
Trade and other receivables	18,230	147	(340,381)	(92,489)	(322,151)	(92,342)
Finance lease liabilities	125,704	172,730	-	-	125,704	172,730
Post employment benefit liability	212,162	210,799	-	-	212,162	210,799
Employee payables	92,538	122,598	-	-	92,538	122,598
Other	11,891	1,243	(66,854)	(73,188)	(54,963)	(71,945)
Deferred tax assets/(liabilities)	**502,785**	**555,514**	**(4,912,815)**	**(4,562,266)**	**(4,410,030)**	**(4,006,752)**

Thousands of Russian Roubles, unless otherwise stated

(b) Movements in temporary differences during the period

	1 January 2012	Recognised in profit or loss	30 June 2012
Property, plant and equipment	(4,382,528)	(110,242)	(4,492,770)
Other non-current assets	424	(128)	296
Inventories	33,512	(4,358)	29,154
Trade and other receivables	(92,342)	(229,809)	(322,151)
Finance lease liabilities	172,730	(47,026)	125,704
Post employment benefit liability	210,799	1,363	212,162
Employee payables	122,598	(30,060)	92,538
Other	(71,945)	16,982	(54,963)
	(4,006,752)	**(403,278)**	**(4,410,030)**

	1 January 2011	Recognised in profit or loss	30 June 2011
Property, plant and equipment	(3,523,268)	8,236	(3,515,032)
Other non-current assets	719	(455)	264
Inventories	39,052	19,645	58,697
Trade and other receivables	(106,758)	109,997	3,239
Finance lease liabilities	288,927	(66,012)	222,915
Post employment benefit liability	186,083	35,587	221,670
Employee payables	110,972	(2,062)	108,910
Other	(72,722)	(2,221)	(74,943)
	(3,076,995)	**102,715**	**(2,974,280)**

15 INVESTMENTS AND FINANCIAL ASSETS

	30 June 2012	31 December 2011
Financial assets related to the employee benefit fund	336,383	368,054
Investments designated at fair value through profit and loss	176,247	163,988
Available-for-sale financial assets	1,934	1,934
	514,564	**533,976**

Investments designated at fair value through profit and loss represent investments in shares of JSC OGC-4 and other securities, which are listed on MICEX and RTS, recorded at fair market value (belong to Level 1 in the fair value hierarchy).

Financial assets related to employee benefit fund

Financial assets related to the employee benefit fund relate to the Group's contributions accumulated in the solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Thousands of Russian Roubles, unless otherwise stated

The Group's exposure related to credit risks and impairment losses related to other investments and financial assets is disclosed in Note 28.

16 OTHER NON-CURRENT ASSETS

	30 June 2012	31 December 2011
Trade accounts receivable	101,312	99,353
Non-current prepayments	8,343	3,562
Other accounts receivable	39,071	36,289
Other accounts receivable impairment allowance	(1,480)	(2,123)
Other assets	43,634	36,708
	190,880	**173,789**

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash in bank accounts and bank deposits with maturities at initial recognition of less than three months from the origination date amounted to RUB 3,322,346 thousand denominated in roubles (31 December 2011: RUB 2,646,152 thousand).

18 TRADE AND OTHER RECEIVABLES

	30 June 2012	31 December 2011
Trade receivables	11,868,109	8,382,808
Trade receivables impairment allowance	(686,636)	(1,619,217)
Prepayments	182,327	294,764
Prepayments impairment allowance	(6,485)	(6,646)
VAT recoverable	517,311	447,442
Taxes receivable	15,624	449,281
Other receivables	655,747	624,986
Other receivables impairment allowance	(158,235)	(163,551)
	12,387,762	**8,409,867**

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 28.

19 INVENTORIES

	30 June 2012	31 December 2011
Materials and supplies	2,022,977	1,607,195
Inventory for resale	274	6,083
Total inventories	**2,023,251**	**1,613,278**
Less: provision for inventory obsolescence	(145,769)	(167,558)
Total	**1,877,482**	**1,445,720**

At 30 June 2012 and 31 December 2011 no inventories were pledged as collateral for bank loans (refer to Note 22).

Thousands of Russian Roubles, unless otherwise stated

20 EQUITY

(a) Share capital

	Ordinary shares	
	30 June 2012	**31 December 2011**
Issued shares, fully paid	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10

(b) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles.

At the annual shareholders meeting held on 17 June 2011 the decision was made to distribute the Company’s profit for the year 2010 to dividends in the amount of RUB 610,932 thousand and to pay dividends for the year 2010 in the amount of RUB 0.01447 per ordinary share of the Company in cash.

At the annual shareholders meeting held on 15 June 2012 the decision was made to distribute the Company’s profit for the year 2011 to dividends in the amount of RUB 422,179 thousand and to pay dividends for the year 2011 in the amount of RUB 0.01 per ordinary share of the Company in cash.

21 EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	**Ordinary shares**	**Ordinary shares**
	30 June 2012	**30 June 2011**
Authorized shares	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10
Weighted average number of shares	42,217,941,468	42,217,941,468
Profit for the period attributable to shareholders	**3,446,747**	**3,833,537**
Earning per share (in RUB): basic and diluted	**0.082**	**0.091**

Thousands of Russian Roubles, unless otherwise stated

22 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate risk, refer to Note 28.

Long-term loans and borrowings

Name of lender		Effective interest rate 30 June 2012	Effective interest rate 31 December 2011	Maturity	30 June 2012	31 December 2011
OJSC "Alfa-Bank"	Unsecured	7.8-9.5%	7.8-9.5%	2012-2017	2,002,596	2,472,748
OJSC "Bank VTB"	Unsecured	9.92%	9.96%	2018	3,921,062	3,921,070
OJSC "Gazprombank"	Unsecured	-	8.0-9.6%	-	-	652,447
OJSC "Rosbank"	Unsecured	8.00%	8.00%	2015	3,800,831	3,800,833
OJSC "Sberbank"	Unsecured	7.524-9.6%	7.524-8.4%	2014-2025	10,398,529	10,389,015
CJSC "Transcapitalbank"	Unsecured	13.50%	-	2015	137,447	-
					20,260,465	**2, 236,113**
Less: current portion						
OJSC "Alfa-Bank"	Unsecured	7.8-9.5%	7.8-9.5%	2012-2017	2,596	472,748
OJSC "Bank VTB"	Unsecured	9.92%	9.96%	2018	1,062	1,070
OJSC "Gazprombank"	Unsecured	-	8.0-9.6%	-	-	652,447
OJSC "Rosbank"	Unsecured	8.00%	8.00%	2015	831	833
OJSC "Sberbank"	Unsecured	7.524-9.6%	7.524-8.4%	2014-2025	48,529	39,015
CJSC "Transcapitalbank"	Unsecured	13.50%	-	2015	43,660	-
					96,678	**1,166,113**
Total long-term borrowings					**20,163,787**	**20,070,000**

All the Group's borrowings are denominated in RUB and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of borrowings approximates their fair value.

Thousands of Russian Roubles, unless otherwise stated

Current borrowings and current portion of long-term borrowings

Name of lender		Effective interest rate	Effective interest rate	30 June 2012	31 December 2011
OJSC “Alfa-Bank”	Unsecured	7.8-9.5%	7.8-9.5%	473,204	472,748
OJSC “Bank VTB”	Unsecured	9.92%	9.96%	1,062	1,070
OJSC “Gazprombank”	Unsecured	8.5-9.6%	8.0-9.6%	652,492	652,447
OJSC “Rosbank”	Unsecured	8.00%	8.00%	831	833
OJSC “Sberbank”	Unsecured	7.524-9.6%	7.524-8.4%	48,529	39,015
Joint-Stock Bank “Severgazbank”	Unsecured	10.00%	10-12%	1	1,207
CJSC “Karma”	Unsecured	0.20%	-	3,098	-
CJSC “Transcapitalbank”	Unsecured	13.50%	-	43,660	-
				1,222,877	**1,167,320**

As at 30 June 2012 and at 31 December 2011 no bank loans are secured over bank guarantees received.

As at 30 June 2012 and at 31 December 2011 no bank loans are secured over inventories.

23 FINANCE LEASE

The finance lease liabilities are secured by the leased assets.

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	At 30 June 2012		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	541,152	415,697	125,455
Between one and five years	235,590	212,853	22,737
	776,742	**628,550**	**148,192**

	At 31 December 2011		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	653,506	466,376	187,130
Between one and five years	470,798	400,360	70,438
	1,124,304	**866,736**	**257,568**

24 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the six months ended 30 June 2012 and 30 June 2011.

The defined benefits obligations arise from unfunded plans.

Thousands of Russian Roubles, unless otherwise stated

(a) Movements in net liability of the defined benefit obligations

	30 June 2012	31 December 2011
Present value of defined benefit obligation	1,854,689	1,909,094
Unrecognized past service negative cost/(cost)	192,460	174,027
Net liability in the Statement of financial position	**2,047,149**	**2,083,121**

(b) Amounts recognized in profit or loss

	Six months ended 30 June 2012	Six months ended 30 June 2011
Current service cost	36,641	50,879
Interest expense	75,785	81,340
Past service cost	(39,886)	47,664
Recognized actuarial loss	(4,671)	239,553
Net expense	**67,869**	**419,436**

(c) Movements in the present value of the defined benefit obligations

	30 June 2012	30 June 2011
Present value of defined benefit obligation at 1 January	1,909,094	2,100,824
Current service cost	36,641	50,879
Interest expense	75,785	81,340
Actuarial (gain)/ loss	(4,671)	239,553
Benefits paid	(103,841)	(118,207)
Past service negative cost	(58,319)	-
Present value of defined benefit obligation at 30 June	**1,854,689**	**2,354,389**

(d) Actuarial assumptions

Principal actuarial assumptions are as follows:

	30 June 2012	31 December 2011
Discount rate, annual	8.20%	8.50%
Future salary increase, per year	5.10%	5.50%
Inflation rate, per year	5.10%	5.50%

(e) Expense recognised in profit or loss

	Six months ended 30 June 2012	Six months ended 30 June 2011
Operating expenses	(7,916)	338,096
Finance costs	75,785	81,340
	67,869	**419,436**

Thousands of Russian Roubles, unless otherwise stated

25 EMPLOYEE PAYABLES

	30 June 2012	**31 December 2011**
Salaries and wages payable	435,521	333,421
Unused vacation provision	404,747	321,724
Annual bonus provision	57,944	291,268
	898,212	**946,413**

Provision for annual bonuses includes bonuses and other similar payments accrued (including compulsory social security contributions) based on employees’ performance.

26 TRADE AND OTHER PAYABLES

	30 June 2012	**31 December 2011**
Trade accounts payable	5,016,851	4,868,386
Advances received	2,683,534	1,947,872
Other payables and accrued expenses	2,152,313	1,668,423
	9,852,698	**8,484,681**

27 OTHER TAXES AND CONTRIBITIONS PAYABLE

	30 June 2012	**31 December 2011**
Value added tax	948,605	15,896
Compulsory social security contributions	230,559	120,067
Property tax	59,816	14,027
Other taxes	101,545	109,920
	1,340,525	**259,910**

28 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

The Group does not have any significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Company, which is the Russian Rouble.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and investment securities.

Thousands of Russian Roubles, unless otherwise stated

(i) Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer.

To manage credit risk the Group attempts, to the fullest extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set in a contract and depends on the amount of capacity to be connected.

The customer base for electricity transmission services is limited to several distribution companies and a small number of large manufacturing/extraction enterprises. Payments are tracked weekly and electricity transmission customers are advised of any failures to submit timely payments. For quick collection and complete control of accounts receivable collection a working team was formed to reduce the Company’s finance losses, caused by non-fulfilment or insufficient fulfilment by some contractors of their contractual obligations.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

(ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	30 June 2012	**31 December 2011**
Trade and other receivables	11,817,888	7,358,545
Investments and financial assets	514,564	533,976
Cash and cash equivalents	3,322,346	2,646,152
	15,654,798	**10,538,673**

Financial guarantees are disclosed in Note 31.

The Group’s two most significant customers, regional distribution entities, account for RUB 4,514,623 thousand of the trade receivables carrying amount at 30 June 2012 (31 December 2011: RUB 2,227,664 thousand).

The maximum exposure to credit risk for trade receivables (excluding other receivables) at the reporting date by type of customer was:

	Carrying amount at 30 June 2012	**Carrying amount at 31 December 2011**
Electricity transmission customers	10,872,887	6,457,536
Connection services customers	72,253	119,838
Other customers	337,645	285,570
	11,282,785	**6,862,944**

Impairment losses

The tables below analyze the Group’s trade and other receivables into relevant groups based on the past due periods:

	At 30 June 2012		**At 31 December 2011**	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	6,646,645	(1,212)	3,179,262	(3,620)
Past due 0-3 months	697,403	(21,030)	2,049,914	(19,214)
Past due 3-6 months	1,258,973	(5,541)	1,322,700	(215,397)
Past due 6-12 months	912,610	(46,236)	1,522,458	(632,632)
Past due more than 12 months	3,148,608	(772,332)	1,069,102	(914,028)
	12,664,239	**(846,351)**	**9,143,436**	**(1,784,891)**

Thousands of Russian Roubles, unless otherwise stated

The movements in the allowance for impairment in respect of trade and other receivables during the period were as follows:

	Six months ended 30 June 2012	**Six months ended 30 June 2011**
Balance at 1 January	1,784,891	1,732,435
Increase during the period	152,569	196,462
Amounts written-off against receivables	(271,352)	(50)
Decrease due to reversal	(819,757)	(149,791)
Balance at 30 June	**846,351**	**1,779,056**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

To manage the liquidity risk, the Group has negotiated long-term and short-term credit lines with a pool of commercial banks, designated as highly rated banks.

As at 30 June 2012 the Group's unused portion of long-term and short-term credit line facilities amounted to RUB 8,500,000 thousand (31 December 2011: RUB 5,500,000 thousand).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	**Contractual cash flows**	**12 months or less**	**Between 1 and 5 years**	**More than 5 years**
Liabilities as at 30 June 2012					
Long-term bank loans including current portion	21,386,664	30,657,441	2,943,625	18,134,267	9,579,549
Finance lease liabilities	628,550	776,742	541,152	235,590	-
Trade and other payables	5,457,730	5,457,730	5,449,251	-	8,479
	27,472,944	**36,891,913**	**8,934,028**	**18,369,857**	**9,588,028**
Financial guarantees	**-**	**561,592**	**561,592**	**-**	**-**

	Carrying amount	**Contractual cash flows**	**12 months or less**	**Between 1 and 5 years**	**More than 5 years**
Liabilities as at 31 December 2011					
Long-term bank loans including current portion	21,237,320	31,332,061	2,929,879	16,439,980	11,962,202
Finance lease liabilities	866,736	1,124,304	653,506	470,798	-
Trade and other payables	5,359,092	5,359,092	5,350,613	-	8,479
	27,463,148	**37,815,457**	**8,933,998**	**16,910,778**	**11,970,681**
Financial guarantees	**-**	**755,334**	**755,334**	**-**	**-**

On 31 May 2012 the Company's Board of Directors made the decision to approve the issue of securities of JSC "IDGC of Centre"- certificated interest payable to bearer unconvertible commercial papers of series BO-01 with obligatory centralized storage in number of 4,000,000 (Four million) pieces, the face-value of 1,000 (One thousand)

roubles each with the repayment term in 1,092 (One thousand ninety second) day from start date of placing of commercial papers, with possibility of advanced repayment on request of owners and at the discretion of the Issuer, placed by public offering.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Group’s income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Interest rate risk

The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was:

Fixed rate instruments	**Carrying amount 30 June 2012**	**Carrying amount 31 December 2011**
Financial liabilities	22,015,214	22,104,056

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values

Management believes that at the reporting date the fair value of the Group’s financial assets and liabilities approximates their carrying amounts.

(f) Capital management

Management’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders’ equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group’s approach to capital management during the period.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

29 OPERATING LEASES

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Thousands of Russian Roubles, unless otherwise stated

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Operating lease rentals under non-cancellable leases are payable as follows:

	30 June 2012	**31 December 2011**
Less than one year	496,136	540,954
Between one year and five years	1,049,584	1,442,487
More than five years	2,755,739	3,577,175
	4,301,459	**5,560,616**

The amount of lease expense under operating leases recognized in profit or loss for the six months ended 30 June 2012 was RUB 266,243 thousand (for the six months ended 30 June 2011: RUB 245,032 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 5,615,247 thousand as at 30 June 2012 (net of VAT) (as at 31 December 2011: RUB 3,613,416 thousand).

31 CONTINGENCIES

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full insurance coverage for its production facilities and third party liability in respect of property, health and environmental damage arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption.

(b) Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. Management does not believe than these matters will have a material adverse effect on the Group's financial position and operating results.

(c) Taxation contingencies

The taxation system in the Russian Federation is continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these Financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Thousands of Russian Roubles, unless otherwise stated

(d) Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Management periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

The Group did not recognize any provision for those claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place.

(e) Guarantees

The Group issued financial guarantees for loans received by a lessor of the Group.

	Amount on contract 30 June 2012	Amount on contract 31 December 2011
OJSC “Rosbank”	518,251	681,901
Belgorodskoe OSB №8582	43,341	73,433
	561,592	**755,334**

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company’s parent as at 30 June 2012 and 31 December 2011 was JSC IDGC Holding. The party with the ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of JSC IDGC Holding.

At the annual shareholders meeting of JSC IDGC Holding held on 30 June 2012 the decision was made to transfer the powers of the sole executive body of the Company to the management company – Joint-Stock Company “Federal Grid Company of Unified Energy System” (JSC “FGC UES”).

(b) Transactions with parent

Management fee accounted for the six months ended 30 June 2012: RUB 187,387 thousand (for the six months ended 30 June 2011: RUB 187,387 thousand).

(c) Management compensation

There are no transactions or balances with key management and their close family members except for remuneration in the form of salary and bonuses.

Total remuneration paid to key management, Board of Directors and Management Board members included into personnel costs was:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Salary and bonuses	185,657	35,194

Thousands of Russian Roubles, unless otherwise stated

(d) Transactions with government-related entities

In the course of business, the Group makes a significant number of transactions with companies that are government-related. These operations are carried out under the regulated tariffs, or in accordance with market prices.

Revenues from government-related entities accounts for 3% of total revenue for the six months ended 30 June 2012, (for the six months ended 30 June 2011: 3%) including 3%of the proceeds from the transfer of electricity (for the six months ended 30 June 2011: 3%).

Costs of electricity transmission for government-related entities account for 80% of the total cost of the electricity transmission for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 71%).

(e) Loans and borrowings received from government-related entities

	Addition of loans and borrowings	The balance of transactions	Addition of loans and borrowings	The balance of transactions
	Six months 2012	**30 June 2012**	**Six months 2011**	**31 December 2011**
Loans and borrowings received from:				
Government-related entities	-	14,972,083	-	14,962,532
	-	**14,972,083**	**-**	**14,962,532**

Loans and borrowings are drawn at the market interest rate (Note 28).

(f) Pricing policy

Transactions with related parties for the transmission of electricity are carried out at the tariffs set by the state.