JSC “IDGC of Centre”

Interim Consolidated Financial Statements for the six months ended 30 June 2011 (unaudited)

Contents

Thousands of Russian Roubles, unless otherwise stated

	Note	Six months ended 30 June 2011	Six months ed 30 June 2010
Revenue	7	35,215,286	29,536,936
Operating expenses	8	(29,884,961)	(26,262,429)
Other income		454,779	262,239
Results from operating activities		**5,785,104**	**3,536,746**
Finance income	10	37,805	75,129
Finance costs	10	(848,400)	(888,413)
Net finance costs		**(810,595)**	**(813,284)**
Profit before income tax		**4,974,509**	**2,723,462**
Income tax expense	11	(1,137,916)	(380,213)
Profit and total comprehensive income for the period		**3,836,593**	**2,343,249**
Profit and total comprehensive income attributable to:			
Owners of the Company		3,833,537	2,342,598
Non-controlling interests		3,056	651
Profit and total comprehensive income for the period		**3,836,593**	**2,343,249**
Earnings per share – basic and diluted (in Russian Roubles)	21	0.091	0.055

These consolidated financial statements were approved on 29 August 2011:

General Director

D.O. Gudzhoyan

Chief Accountant -
Head of Financial and Tax
Accounting and Reporting
Department

S. U. Puzenko

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 – 41.

Thousands of Russian Roubles, unless otherwise stated

	Note	30 June 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	12	53,512,003	51,778,672
Intangible assets	13	1,015,970	1,111,530
Investments and financial assets	15	577,897	614,380
Other non-current assets	16	154,312	134,198
Total non-current assets		**55,260,182**	**53,638,780**
Current assets			
Cash and cash equivalents	17	2,798,381	258,889
Trade and other receivables	18	7,161,542	7,197,565
Income tax receivable		49,845	478,380
Inventories	19	1,710,295	1,350,425
Other current assets		39,295	48,039
Total current assets		**11,759,358**	**9,333,298**
Total assets		**67,019,540**	**62,972,078**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		4,221,794	4,221,794
Additional paid-in capital		88,660	88,660
Retained earnings		32,558,708	29,336,103
Total equity attributable to equity holders of the Company		**36,869,162**	**33,646,557**
Non-controlling interests		10,956	7,900
Total equity		**36,880,118**	**33,654,457**
Non-current liabilities			
Loans and borrowings	22	12,997,273	13,770,000
Finance lease liability	23	628,551	866,735
Employee benefits	24	2,129,982	1,828,754
Deferred tax liabilities	14	2,974,280	3,076,995
Other non-current liabilities		413,576	231,631
Total non-current liabilities		**19,143,662**	**19,774,115**
Current liabilities			
Loans and borrowings	22	1,194,519	1,166,003
Finance lease liability	23	489,110	580,984
Trade and other payables	26	7,258,048	6,807,445
Employee payables	25	978,906	827,267
Income tax payable		98,469	498
Other taxes payable	27	976,708	161,309
Total current liabilities		**10,995,760**	**9,543,506**
Total liabilities		**30,139,422**	**29,317,621**
Total equity and liabilities		**67,019,540**	**62,972,078**

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 – 41.

Thousands of Russian Roubles, unless otherwise stated

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Six months ended 30 June 2011	Six months ended 30 June 2010
Profit before income tax		**4,974,509**	**2,723,462**
Adjustments for:			
Depreciation and amortization	8	3,026,736	2,439,706
Allowance for impairment of accounts receivable	8	78,576	23,880
Net finance costs	10	810,595	813,284
Provision for inventory obsolescence		98,224	(51,099)
Loss on disposal of property, plant and equipment		65,640	31,347
Bad debts written-off	8	926	1,869
Adjustment for other non-cash transactions		45,461	(58,367)
Cash flows from operating activities before changes in working capital		**9,100,667**	**5,924,082**
Change in trade and other receivables		(43,815)	(1,450,229)
Change in inventories		(458,094)	(59,261)
Change in other assets		(8,507)	(177,951)
Change in trade and other payables		181,148	1,162,944
Change in employee payables		151,639	194,599
Change in employee benefits		219,888	66,794
Change in other liabilities		178,859	9,799
Change in other taxes payable		815,399	384,814
Cash flows from operations before income taxes and interest paid		**10,137,184**	**6,055,591**
Interest paid		(728,308)	(823,985)
Income tax paid		(755,408)	(343,515)
Cash flows from operating activities		**8,653,468**	**4,888,091**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(5,083,224)	(2,982,878)
Proceeds from disposal of property, plant and equipment		11,601	20,435
Acquisition of subsidiaries, net of cash acquired	5	(100)	-
Interest received		37,805	13,547
Cash flows used in investing activities		**(5,033,918)**	**(2,948,896)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		149,647	5,258,996
Repayment of loans and borrowings		(899,647)	(5,147,791)
Repayment of finance lease liabilities		(330,058)	(401,978)
Cash flows from financing activities		**(1,080,058)**	**(290,773)**
Net (decrease)/increase in cash and cash equivalents		**2,539,492**	**1,648,422**
Cash and cash equivalents at beginning of period		258,889	368,171
Cash and cash equivalents at end of period		**2,798,381**	**2,016,593**

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 – 41.

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 2010	**4,221,794**	**88,660**	**24,238,902**	**28,549,356**	**3,824**	**28,553,180**
Profit for the period	-	-	2,342,598	2,342,598	651	2,343,249
Total comprehensive income	-	-	2,342,598	2,342,598	651	2,343,249
At 30 June 2010	**4,221,794**	**88,660**	**26,581,500**	**30,891,954**	**4,475**	**30,896,429**
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
Dividends declared	-	-	(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**

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 – 41.

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 4/2, Glukharev Lane, Moscow, 129090, Russia.

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

The Group consists of the Company and four subsidiaries – OJSC “Energetic”, OJCS “Yaroslavskaya Setevaya Company”, OJSC “Yargorelectroset” and OJSC “Energy Service Company”.

The reorganisation of the Company was completed on 31 March 2008 as a result of the merger of the following entities with the Company: OJSC “Belgorodenergo”; OJSC “Bryanskenergo”;OJSC “Voronezhenergo”; OJSC “Kostromaenergo”; OJSC “Kurskenergo”; OJSC “Lipetskenergo”; OJSC “Orelenergo”; OJSC “Smolenskenergo”; OJSC “Tambovenergo”; OJSC “Tverenergo”; OJSC “Yarenergo”.

The merger was effected through the conversion of shares issued by the Company in exchange for shares in the merged entities. As a result of the merger, the above-mentioned companies ceased to exist as separate legal entities and the Company became their legal successor.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred the shares of the Company to JSC IDGC Holding, a newly formed state-controlled entity.

As at 30 June 2011, the Government of the Russian Federation owned 55.95% shares of JSC IDGC Holding (at 31 December 2010 – 54.99%), 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 judgements, estimates and assumptions

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.

(e) Changes in accounting policies and presentation

With effect from 1 January 2010, the Group changed its accounting policies in the following areas:

- accounting for business combinations;
- accounting for acquisitions of non-controlling interests;
- accounting for leases of land.

(i) Accounting for business combinations

From 1 January 2010 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share.

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.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, 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.

Costs related to the acquisition, 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.

(ii) Accounting for acquisitions of non-controlling interests

From 1 January 2010 the Group has applied IAS 27 *Consolidated and Separate Financial Statements* (2008) in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and has had no impact on earnings per share.

Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(iii) Accounting for leases of land

The amendment to IAS 17 *Leases* regarding the leases of land became effective from 1 January 2010. The amendment removed the earlier exemption which allowed leases of land to be classified as operating leases regardless of the length of the lease term. The amended guidance requires all existing leases of land to be reassessed and reclassified if necessary as finance leases if the finance lease classification criteria are met.

At 1 January 2010, the Group reassessed all existing land lease contracts and as a result it was assessed that existing land lease contracts do not qualify as finance leases and therefore, the classification was not changed (refer to Note 29).

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 involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination, and that control is not transitory.

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 instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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 has the following non-derivative financial assets: 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. Upon initial recognition 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 comprise the following classes of assets: trade and other receivables as presented in Note 16 and Note 18, and 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.

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. 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.

The 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.

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognized in the Group's consolidated 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 2 (e) (i).

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.

The recoverable amount of an asset or cash-generating unit 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 cash generating unit. 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 groups of assets (the "cash-generating unit").

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

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) 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 the consolidated statement of comprehensive income 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. Income tax expense is 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.

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.

Actuarial gain and losses and past benefit costs that are measured because of introduction of new or changes in existing social programs, 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 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 2011, 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.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. 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.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis.

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.

(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.

Thousands of Russian Roubles, unless otherwise stated

(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 2011 Ownership/voting, %	31 December 2010 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	-

(b) Acquisition of subsidiary

In the fourth quarter of 2010 the Group obtained control of OJSC "Yargorelectroset" by acquiring 100 % of the shares in the company from Committee for the Management of Municipal Property of Yaroslavl city. The acquisition is not considered as acquisition under common control.

The purpose of the acquisition was to benefit from the synergies of the combination in order to optimise the Group's transmission process through access to territorial grids.

From the date of acquisition to 31 December 2010 OJSC "Yargorelectroset" contributed revenue of RUB 208,025 thousand and loss of RUB 3,623 thousand. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been RUB 61,000,853 thousand, and consolidated profit for the year would have been RUB 5,141,753 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

(i) Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and the liabilities assumed were as follows:

	Recognised fair value on at acquisition
Non-current assets	
Intangible assets	395
Property, plant and equipment	1,709,987
Deferred tax assets	12,935
Other non-current assets	273,729
Total non-current assets	**1,997,046**
Current assets	
Inventories	45,772
Income tax receivable	10,054
Other taxes receivable	348

Thousands of Russian Roubles, unless otherwise stated

	Recognised fair value on at acquisition
Trade and other receivables	149,110
Cash and cash equivalents	24,883
Other current assets	513
Total current assets	**230,680**
Non-current liabilities	
Deferred tax liabilities	88,487
Other non-current liabilities	377,920
Total non-current liabilities	**466,407**
Current liabilities	
Trade and other payables	197,060
Employee payables	4,813
Taxes payable	10,925
Total current liabilities	**212,798**
Net identifiable assets and liabilities	**1,548,521**

The trade and other receivables comprise gross contractual amounts due of RUB 186,326 thousand, of which RUB 37,216 thousand was expected to be uncollectable at the acquisition date.

(ii) Goodwill

Goodwill (negative goodwill) was recognised as a result of the acquisition as follows:

Total consideration transferred (settled in cash)	1,100,000
Fair value of identifiable net assets	1,548,521
Gain on bargain purchase	**(448,521)**

As OJSC "Yargorelectroset" was acquired at auction where the selling price was determined by the forces of demand, the transaction resulted in a gain. The gain of RUB 448,521 thousand was recognised within other income in the consolidated statement of comprehensive income.

(c) Establishment of subsidiary

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".

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 six months ended 30 June 2011 or in 2010.

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.

Thousands of Russian Roubles, unless otherwise stated

(i) Information about reportable segments

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	403,051	**34,036,305**
Revenue from connection services	19,653	19,283	124,157	19,383	533,598	16,623	5,485	5,857	6,320	159,634	149,851	180,360	**1,240,204**
Other revenue	105,680	17,324	30,206	12,479	9,880	17,856	13,091	108,114	15,254	12,201	17,484	56,257	**415,826**
Total external 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 30 June 2011:

	Belgorod-energo	Bryansk-energo	Voronezh-energo	Kostroma-energo	Kurskenergo	Lipetsk-energo	Orelenergo	Smolensk-energo	Tambov-energo	Tverenergo	Yarenergo	Others	Total
Reportable segment assets	**16,060,376**	**4,093,068**	**6,915,672**	**3,344,264**	**6,452,200**	**10,434,732**	**2,601,911**	**4,226,533**	**3,513,871**	**7,863,240**	**5,835,188**	**6,023,834**	77,364,889
Property, plant and equipment	14,648,873	3,681,050	5,659,675	2,616,349	4,856,027	7,780,443	2,023,041	3,051,680	2,582,030	4,096,208	4,064,172	7,214,294	**62,273,842**
Reportable segment liabilities	**1,777,201**	**491,574**	**1,150,075**	**368,890**	**954,664**	**913,859**	**378,040**	**706,108**	**520,883**	**2,116,348**	**1,089,954**	**16,018,204**	26,485,800

Thousands of Russian Roubles, unless otherwise stated

For the six months ended 30 June 2010:

	Belgorod-energo	**Bryansk-energo**	**Voronezh-energo**	**Kostroma-energo**	**Kurskenergo**	**Lipetsk-energo**	**Orelenergo**	**Smolensk-energo**	**Tambov-energo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	4,662,944	2,342,545	3,413,988	1,571,683	2,486,543	3,573,041	1,329,182	1,959,624	1,431,151	3,240,569	2,594,248	56,969	**28,662,487**
Revenue from connection services	32,711	86,399	69,202	21,389	21,381	17,309	4,801	5,533	3,063	102,741	182,472	10	**547,011**
Other revenue	65,781	14,955	29,121	8,385	7,401	9,172	4,560	95,687	7,571	11,863	7,220	19,385	**281,101**
Total external revenues	**4,761,436**	**2,443,899**	**3,512,311**	**1,601,457**	**2,515,325**	**3,599,522**	**1,338,543**	**2,060,844**	**1,441,785**	**3,355,173**	**2,783,940**	**76,364**	**29,490,599**
Results from operating activities	**842,624**	**490,358**	**233,189**	**265,792**	**(53,863)**	**733,161**	**14,167**	**54,103**	**(51,925)**	**511,881**	**394,648**	**(11,155)**	**3,422,980**
Finance income	26			104	296			1			11	13,109	**13,547**
Finance costs	(108,692)	(12,803)	(26,126)	(50,443)	(36,514)	(35,788)	(43,724)	(58,119)	(52,169)	(93,980)	(26,296)		**(544,654)**
Reportable segment profit/(loss) before income tax	**733,958**	**477,555**	**207,063**	**215,453**	**(90,081)**	**697,373**	**(29,557)**	**(4,015)**	**(104,094)**	**417,901**	**368,363**	**1,954**	**2,891,873**
Depreciation and amortization	(562,282)	(93,939)	(182,584)	(111,134)	(217,744)	(270,624)	(81,488)	(184,272)	(97,894)	(170,634)	(164,494)	**(5,458)**	**(2,142,547)**
Capital expenditure	981,401	68,311	218,276	84,059	173,766	234,660	122,022	128,457	35,989	277,598	344,550	6,824	**2,675,913**

As at 30 June 2011:

Reportable segment assets	**15,366,630**	**4,068,434**	**6,889,075**	**3,298,969**	**6,337,531**	**9,705,393**	**2,584,246**	**4,071,055**	**3,008,469**	**8,055,018**	**5,516,936**	**4,106,558**	**73,008,314**
Property, plant and equipment	14,465,129	2,766,793	5,736,632	2,700,315	4,964,015	7,832,785	2,064,423	3,122,690	2,632,047	4,157,777	4,044,484	1,099,249	**55,586,339**
Reportable segment liabilities	**1,616,115**	**320,828**	**1,102,305**	**335,762**	**1,268,529**	**1,108,503**	**264,071**	**619,211**	**346,984**	**2,269,721**	**1,205,656**	**15,312,272**	**25,769,957**

Thousands of Russian Roubles, unless otherwise stated

(ii) Major customer

For the six months ended 30 June 2011 revenue from one customer of the Group's segment (Belgorodenergo) represented approximately 13% (RUB 4,605,770 thousand) of the Group's total revenue (for the six months ended 30 June 2010 - RUB 4,023,836 thousand or 14% 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 2011**	**Six months ended 30 June 2010**
Total revenue for reportable segments	35,692,335	29,490,599
Elimination of inter-segment revenue	(513,962)	(59,339)
Reclassification	36,913	105,676
Consolidated revenue	**35,215,286**	**29,536,936**

Profit before income tax	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
Total profit before income tax for reportable segments	5,689,040	2,891,873
Adjustments for depreciation of property, plant and equipment	(156,821)	(184,250)
Recognition of financial assets related to employee benefit fund	(3,520)	(229,679)
Unused vacation and annual bonus provision	(279,375)	(26,044)
Recognition of employee benefit obligations	(301,228)	(141,495)
Adjustment for finance lease	243,879	426,981
Adjustment for allowance for impairment of account receivables	(130,729)	(55,409)
Provision for inventory obsolescence	(98,224)	51,099
Other adjustments	11,487	(9,614)
Consolidated profit before income tax	**4,974,509**	**2,723,462**

Assets	**30 June 2011**	**31 December 2010**
Total assets for reportable segments	77,364,889	73,008,314
Elimination of investments in subsidiaries	(1,116,395)	(1,116,295)
Elimination of other inter-segment assets	(163,734)	(274,135)
Adjustments for deemed cost of property, plant and equipment	(11,077,848)	(11,137,976)
Adjustments for property, plant and equipment under finance lease	2,303,584	2,601,091
Recognition of financial assets related to employee benefit fund	381,214	384,734
Adjustment for allowance for impairment of account receivables	(181,793)	(51,064)
Provision for inventory obsolescence	(292,772)	(194,548)
Adjustment for deferred tax	(159,057)	(215,385)
Other adjustments	(38,548)	(32,658)
Consolidated total assets	**67,019,540**	**62,972,078**

Thousands of Russian Roubles, unless otherwise stated

Liabilities	**30 June 2011**	**31 December 2010**
Total liabilities for reportable segments	26,485,800	25,769,957
Elimination of inter-segment liabilities	(163,734)	(274,135)
Adjustment for finance lease	1,114,577	1,444,635
Unused vacation and annual bonus provision	283,773	4,398
Recognition of employee benefit obligations	2,129,982	1,828,754
Adjustment for deferred tax	331,344	573,243
Other adjustments	(42,320)	(29,231)
Consolidated total liabilities	**30,139,422**	**29,317,621**

7 REVENUE

	Six months ended 30June 2011	**Six months ended 30 June 2010**
Electricity transmission	33,633,254	28,605,518
Connection services	1,130,222	547,011
Rent	33,702	100,307
Repairs and maintenance	88,815	17,021
Other	329,293	267,079
	35,215,286	**29,536,936**

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 2011	**Six months ended 30 June 2010**
Electricity transmission	9,088,737	8,385,852
Purchased electricity	7,851,697	6,239,353
Personnel costs (Note 9)	6,696,246	5,641,076
Depreciation and amortization	3,026,736	2,439,706
Raw materials and supplies	843,901	689,059
Electricity for own needs	275,248	256,512
Rent	245,032	226,084
Transportation costs	216,606	187,674
Taxes other than income tax	169,258	151,869
Repairs, maintenance and installation services	144,921	179,285
Security	119,297	104,405
Provision for inventory obsolescence	98,224	(51,099)
Allowance for impairment of accounts receivable	78,576	23,880
Insurance	80,278	86,195
Information services	52,162	-
Telecommunication services	25,153	57,195
Consulting, legal and audit services	23,157	145,614
Membership fee	19,162	4,451
Bad debt written-off	926	1,869

Thousands of Russian Roubles, unless otherwise stated

	Six months ended 30 June 2011	**Six months ended 30 June 2010**
Outsourcing services	-	512,672
Other	829,644	980,777
	29,884,961	**26,262,429**

9 PERSONNEL COSTS

	Six months ended 30 June 2011	**Six months ended 30 June 2010**
Salaries and wages	4,442,495	3,913,198
Contribution to the state pension fund	1,171,818	751,034
Recognized actuarial loss	239,553	117,089
Insurance contributions	305,783	224,429
Finance aid to employees and pensioners	214,495	114,144
Current service cost	50,879	44,801
Unused vacation provision	69,223	26,044
Past service cost	47,664	47,664
Other personnel costs	154,336	402,673
	6,696,246	**5,641,076**

The average number of employees (including production and non production staff) was 31,165 for the six months ended 30 June 2011 (for the six months ended 30 June 2010: 28,321 employees).

10 FINANCE INCOME AND COSTS

Finance income	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
Net change in fair value of financial investments at fair value through profit and loss	-	61,582
Interest income	37,805	13,547
	37,805	**75,129**
Finance costs		
Interest expense	554,600	544,654
Interest on finance lease liabilities	179,497	269,058
Net change in fair value of financial investments at fair value through profit and loss	32,963	-
Interest expense on employee benefits obligation	81,340	74,701
	848,400	**888,413**

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 2011	Six months ended 30June 2010
Current tax expense		
Current period	(1,263,275)	(263,174)
Adjustment for prior periods	22,644	-
	(1,240,631)	(263,174)
Deferred tax expense		
Origination and reversal of temporary differences	95,865	(117,039)
Change in tax the base of property, plant and equipment	6,850	-
	102,715	(117,039)
	(1,137,916)	**(380,213)**

Reconciliation of effective tax rate:

	Six months ended 30 June 2011	%	Six months ended 30 June 2010	%
Profit before income tax	4,974,509	100.0	2,723,462	100
Income tax expense at applicable tax rate	(994,902)	(20.0)	(544,692)	(20)
Adjustment for prior periods	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	(172,508)	(3.5)	164,479	6
Welfare, social and discretionary payments to employees	*(69,904)*	(1.4)	*(58,959)*	(2)
Allowance for impairment of accounts receivable	*(78,769)*	(1.6)	*117,033*	4
Other	*(23,835)*	(0.5)	*106,405*	*4*
	(1,137,916)	(22.9)	(380,213)	(14)

Thousands of Russian Roubles, unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
Deemed cost						
At 1 January 2010	9,970,247	24,033,924	11,789,709	5,334,943	2,726,748	53,855,571
Additions	16,986	32,665	10,716	-	2,904,515	2,964,882
Transfers	431,522	590,266	539,060	399,537	(1,960,385)	-
Disposals	(4,910)	(8,095)	(3,649)	(57,656)	(10,286)	(84,596)
Balance as at 30 June 2010	**10,413,845**	**24,648,760**	**12,335,836**	**5,676,824**	**3,660,592**	**56,735,857**
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**
Accumulated depreciation						
At 1 January 2010	(1,276,191)	(5,510,651)	(2,180,908)	(1,492,716)	-	(10,460,466)
Depreciation for the period	(301,541)	(1,141,123)	(428,736)	(389,154)	-	(2,260,554)
Disposals	745	4,835	1,731	26,032	-	33,343
At 30 June 2010	**(1,576,987)**	**(6,646,939)**	**(2,607,913)**	**(1,855,838)**	**-**	**(12,687,677)**
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)
Net book value						
At 1 January 2010	**8,694,056**	**18,523,273**	**9,608,801**	**3,842,227**	**2,726,748**	**43,395,105**
At 30 June 2010	**8,836,858**	**18,001,821**	**9,727,923**	**3,820,986**	**3,660,592**	**44,048,180**
At 1January 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**

As at 30 June 2011 construction in progress includes advance payments for property, plant and equipment of RUB 51,760 thousand (as at 30 June 2010: RUB 262,208 thousand).

The amount of capitalized interest for the six months ended 30 June 2011 was RUB 13,151 thousand (for the six months ended 30 June 2010: RUB 62,840 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.

Thousands of Russian Roubles, unless otherwise stated

As at 30 June 2011 and 31 December 2010 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	84,704	363,915	2,533,484	313,440	3,295,543
Accumulated depreciation	(14,538)	(52,356)	(425,557)	(81,006)	(573,457)
Net book value at 31 December 2010	**70,166**	**311,559**	**2,107,927**	**232,434**	**2,722,086**
Cost	79,460	306,944	2,374,077	271,157	3,031,638
Accumulated depreciation	(16,929)	(50,823)	(476,747)	(77,550)	(622,049)
Net book value at 30 June 2011	**62,531**	**256,121**	**1,897,330**	**193,607**	**2,409,589**

13 INTANGIBLE ASSETS

	Software	**Licenses**	**Other intangible assets**	**Total**
Cost				
At 1 January 2010	424,637	158,033	1,075,544	1,658,214
Reclassification	(158,645)	-	158,645	-
Additions	52,745	804	22,873	76,422
Disposals	(173)	(6,621)	-	(6,794)
At 30 June 2010	**318,564**	**152,216**	**1,257,062**	**1,727,842**
At 1 January 2011	483,091	117,013	1,169,870	1,769,974
Acquisitions through business combinations	(158,401)	1	158,400	-
Additions	92,440	142	19,220	111,802
Disposals	(71,775)	(39,338)	(11,712)	(122,825)
At 31 June 2011	**345,355**	**77,818**	**1,335,778**	**1,758,951**
Accumulated amortization				
At 1 January 2010	(97,655)	(121,028)	(176,846)	(395,529)
Reclassification	32,130	-	(32,130)	-
Amortization for the period	(39,404)	(12,640)	(125,658)	(177,702)
Disposals	173	6,091	-	6,264
At 31 June 2010	**(104,756)**	**(127,577)**	**(334,634)**	**(566,967)**
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)**
Net book value				
At 1 January 2010	**326,982**	**37,005**	**898,698**	**1,262,685**
At 30 June 2010	**213,808**	**24,639**	**922,428**	**1,160,875**
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**

Thousands of Russian Roubles, unless otherwise stated

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 2011	**31 December 2010**	**30 June 2011**	**31 December 2010**	**30 June 2011**	**31 December 2010**
Property, plant and equipment	15,963	18,350	(3,530,995)	(3,541,618)	(3,515,032)	(3,523,268)
Other non-current assets	264	719	-		264	719
Inventories	58,697	39,052	-	-	58,697	39,052
Trade and other receivables	43,238	15,460	(39,999)	(122,218)	3,239	(106,758)
Finance lease liabilities	222,915	288,927	-	-	222,915	288,927
Post employment benefit liability	221,670	186,083	-	-	221,670	186,083
Employee payables	108,910	110,972	-	-	108,910	110,972
Other	877	3,802	(75,820)	(76,524)	(74,943)	(72,722)
Deferred tax assets/(liabilities)	**672,534**	**663,365**	**(3,646,814)**	**(3,740,360)**	**(2,974,280)**	**(3,076,995)**

(b) Movements in temporary differences during the period

	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)**

Thousands of Russian Roubles, unless otherwise stated

	1 January 2010	Recognised in profit or loss	30 June 2010
Property, plant and equipment	(2,727,905)	12,152	(2,715,753)
Other non-current assets	1,158	(504)	654
Inventories	55,171	(10,016)	45,155
Trade and other receivables	270,852	(109,004)	161,848
Other current assets	66	(66)	-
Finance lease liabilities	441,879	(80,395)	361,484
Post employment benefit liability	155,172	19,095	174,267
Employee payables	39,541	(774)	38,767
Other	(124,237)	52,473	(71,764)
	(1,888,303)	**(117,039)**	**(2,005,342)**

15 INVESTMENTS AND FINANCIAL ASSETS

	30 June 2011	31 December 2010
Financial assets related to the employee benefit fund	381,214	384,734
Investments designated at fair value through profit and loss	194,749	227,712
Available-for-sale financial assets	1,934	1,934
	577,897	**614,380**

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 and Level 2 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 contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

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 2011	31 December 2010
Non-current advances receivable	1,538	1,538
Other accounts receivable	45,582	47,693
Other accounts receivable impairment allowance	(1,322)	(1,658)
Other assets	99,608	76,665
Trade accounts receivable	8,906	9,960
	154,312	**134,198**

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents mainly represent cash in bank accounts amounted to RUB 2,798,381 thousand denominated in roubles (31 December 2010: RUB 258,889 thousand).

Thousands of Russian Roubles, unless otherwise stated

18 TRADE AND OTHER RECEIVABLES

	30 June 2011	31 December 2010
Trade receivables	7,480,530	7,363,454
Trade receivables impairment allowance	(1,755,325)	(1,712,608)
Advances issued	447,729	487,994
Advances issued impairment allowance	(49,115)	(17,210)
VAT recoverable	386,998	468,095
Taxes receivable	10,853	137,875
Other receivables	662,281	488,134
Other receivables impairment allowance	(22,409)	(18,169)
	7,161,542	**7,197,565**

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 2011	31 December 2010
Materials and supplies	2,002,711	1,543,857
Inventory for resale	356	1,116
Total inventories	**2,003,067**	**1,544,973**
Less: provision for inventory obsolescence	(292,772)	(194,548)
Total	**1,710,295**	**1,350,425**

At 30 June 2011 and at 31 December 2010 no inventories were pledged as collateral for bank loans (refer to Note 22).

20 EQUITY

(a) Share capital

	Ordinary shares	
	30 June 2011	31 December 2010
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. As at 30 June 2011 the Company had retained earnings, including profit for the current period, of RUB 11,826,514 thousand (31 December 2009: RUB 8,281,725 thousand).

At the annual shareholders meeting held on 22 June 2010 the decision was made not to declare dividends for the year 2009.

At the annual shareholders meeting held on 17 June 2011 the decision was made to pay dividends for the year 2010 in the amount of RUB 610,932 thousand in cash.

Thousands of Russian Roubles, unless otherwise stated

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 30 June 2011**	**Ordinary shares 30 June 2010**
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	**3,833,537**	**2,342,598**
Earning per share (in RUB): basic and diluted	**0.091**	**0.055**

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 2011**	**Effective interest rate 31 December 2010**	**Maturity**	**30 June 2011**	**31 December 2010**
Finance department of Belgorodskaya oblast	Secured	-	9.45%	2011	-	345,738
OJSC “Alfa-Bank”	Unsecured	7.65-7.8%	7.65-7.8%	2017	2,471,578	2,472,103
OJSC “Gazprombank”	Unsecured	8.00%	8.00%	2012	1,052,521	1,052,751
OJSC “Ogresbank” (OJSC “Nordeabank”)	Unsecured	-	8.00%	2011	-	410,000
OJSC “Rosbank”	Unsecured	8.00%	8.00%	2012	3,800,000	3,800,000
OJSC “Sberbank”	Unsecured	7.5-8.4%	7.5-8.4%	2014	6,867,665	6,855,411
					14,191,764	**14,936,003**
Less: current portion						
Finance department of Belgorodskaya oblast	Secured	-	9.45%	2011	-	345,738
OJSC “Alfa-Bank”	Unsecured	7.65-7.8%	7.65-7.8%	2011	1,578	2,103
OJSC “Gazprombank”	Unsecured	8.00%	8.00%	2011	402,521	402,751
OJSC “Ogresbank” (OJSC “Nordeabank”)	Unsecured	-	8.00%	2011	-	410,000
OJSC “Sberbank”	Unsecured	7.5-8.4%	7.5-8.4%	2011	790,392	5,411
					1,194,491	**1,166,003**
Total long-term borrowings					**12,997,273**	**13,770,000**

Thousands of Russian Roubles, unless otherwise stated

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.

Current borrowings and current portion of long-term borrowings

Name of lender		Effective interest rate 30 June 2011	Effective interest rate 31 December 2010	30 June 2011	31 December 2010
Finance department of Belgorodskaya oblast	Secured	-	9.45%	-	345,738
OJSC “Alfa-Bank”	Unsecured	7.65-7.8%	7.65-7.8%	1,578	2,103
OJSC “Gazprombank”	Unsecured	8.00%	8.00%	402,521	402,751
OJSC “Ogresbank”(OJSC “Nordeabank”)	Unsecured	-	8.00%	-	410,000
OJSC “Sberbank”	Unsecured	7.5-8.4%	7.5-8.4%	790,392	5,411
Joint-Stock Bank “Severgazbank”	Unsecured	12.00%	-	28	-
				1,194,519	**1,166,003**

As at 30 June 2011 no bank loans are secured over bank guarantees received (31 December 2010: RUB 345,738 thousand).

As at 30 June 2011 and at 31 December 2010 no bank loans are secured over inventories (refer to Note 19).

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 2011		
	Minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	740,495	489,110	251,385
Between one and five years	776,742	628,551	148,191
	1,517,237	**1,117,661**	**399,576**

	At 31 December 2010		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	902,489	580,984	321,505
Between one and five years	1,124,304	866,735	257,569
	2,026,793	**1,447,719**	**579,074**

Thousands of Russian Roubles, unless otherwise stated

24 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the periods ended 30 June 2011 and 30 June 2010.

The defined benefits obligations arise from unfunded plans. Other benefits include jubilee benefits and funeral compensations in the case of death in the employee's immediate family.

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

	30 June 2011	31 December 2010
Present value of defined benefit obligation	2,354,389	2,100,824
Unrecognized past service cost	(224,407)	(272,070)
	2,129,982	**1,828,754**

(b) Amounts recognized in profit or loss

	Six months ended 30 June 2011	Six months ended 30 June 2010
Current service cost	50,879	44,801
Interest expense	81,340	74,701
Past service cost	47,664	47,664
Recognized actuarial losses	239,553	117,089
Net expense	**419,436**	**284,255**

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

	30 June 2011	30 June 2010
Present value of defined benefit obligation at 1 January	2,100,824	1,815,215
Current service cost	50,879	44,801
Interest expense	81,340	74,701
Actuarial losses	239,553	117,089
Benefits paid	(118,207)	(142,760)
Present value of defined benefit obligation at 30 June	**2,354,389**	**1,909,046**

(d) Actuarial assumptions

Principal actuarial assumptions are as follows:

	30 June 2011	31 December 2010
Discount rate, annual	8.00%	8.00%
Future salary increase, per year	6.50%	5.00%
Inflation rate, per year	6.50%	5.00%

(e) Expense recognised in profit or loss

	Six months ended 30 June 2011	Six months ended 30 June 2010
Operating expenses	338,096	209,554
Finance costs	81,340	74,701
	419,436	**284,255**

Thousands of Russian Roubles, unless otherwise stated

25 EMPLOYEE PAYABLES

	30 June 2011	31 December 2010
Salaries and wages payable	434,354	272,408
Unused vacation provision	311,137	241,914
Annual bonus provision	233,415	312,945
	978,906	**827,267**

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

26 TRADE AND OTHER PAYABLES

	30 June 2011	31 December 2010
Trade accounts payable	4,455,489	3,934,567
Advances received	2,060,281	2,391,391
Other payables and accrued expenses	742,278	481,487
	7,258,048	**6,807,445**

27 OTHER TAXES PAYABLE

	30 June 2011	31 December 2010
Value added tax	596,784	27,851
Employee taxes	229,833	15,489
Property tax	51,863	50,339
Other taxes	98,228	67,630
	976,708	**161,309**

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.

The Group’s principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Thousands of Russian Roubles, unless otherwise stated

(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.

(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 2011	**31 December 2010**
Trade and other receivables	6,418,243	6,176,806
Investments and financial assets	577,897	614,380
Cash and cash equivalents	2,798,381	258,889
	9,794,521	**7,050,075**

Financial guarantees are disclosed in Note 31.

The Group's two most significant customers, regional distribution entities, account for RUB 2,582,326 thousand of the trade receivables carrying amount at 30 June 2011 (31 December 2010: RUB 3,031,388 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 2011	**Carrying amount at 31 December 2010**
Electricity transmission customers	5,437,126	5,350,827
Connection services customers	168,517	187,268
Other customers	128,468	122,711
	5,734,111	**5,660,806**

Thousands of Russian Roubles, unless otherwise stated

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 2011		At 31 December 2010	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	1,612,779	(24)	2,207,375	(11,801)
Past due 0-3 months	629,298	(32)	533,928	(797)
Past due 3-6 months	649,487	(13)	3,211,085	(273)
Past due 6-12 months	3,344,856	(245)	216,037	(87,989)
Past due more than 12 months	1,960,879	(1,778,742)	1,740,816	(1,631,575)
	8,197,299	**(1,779,056)**	**7,909,241**	**(1,732,435)**

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 2011	Six months ended 30 June 2010
Balance at 1 January	1,732,435	1,437,231
Increase during the period	196,462	106,216
Amounts written-off against receivables	(50)	(10,420)
Decrease due to reversal	(149,791)	(106,687)
Balance at 30 June	**1,779,056**	**1,426,340**

(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 2011 the Group's unused portion of long-term and short-term credit line facilities amounted to RUB 8,500,000 thousand (31 December 2010: RUB 8,800,000 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 2011					
Long-term bank loans including current portion	14,191,792	18,870,328	2,288,693	12,644,517	3,937,118
Finance lease liabilities	1,117,661	1,517,237	740,495	776,742	-
Trade and other payables	4,586,507	4,586,507	4,578,028	-	8,479
	19,895,960	**24,974,072**	**7,607,216**	**13,421,259**	**3,945,597**
Financial guarantees	**959,951**	**959,951**	**959,951**	**-**	**-**

Thousands of Russian Roubles, unless otherwise stated

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2010					
Long-term municipal loans	345,738	352,221	352,221	-	-
Long-term bank loans including current portion	14,590,265	19,851,345	1,960,666	13,834,547	4,056,132
Finance lease liabilities	1,447,719	2,026,793	902,489	1,124,304	-
Trade and other payables	4,192,865	4,192,865	4,183,739	647	8,479
	20,576,587	**26,423,224**	**7,399,115**	**14,959,498**	**4,064,611**
Financial guarantees	**1,203,717**	**1,203,717**	**1,203,717**	**-**	**-**

(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 2011	Carrying amount 31 December 2010
Financial liabilities	15,309,453	16,383,722

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.

Thousands of Russian Roubles, unless otherwise stated

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.

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 5 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 2011	**31 December 2010**
Less than one year	408,363	512,581
Between one year and five years	1,100,850	1,210,693
More than five years	2,794,552	3,139,098
	4,303,765	**4,862,372**

The amount of lease expense under operating leases recognized in profit or loss for the six months ended 30 June 2011 was RUB 245,032 thousand (for the six months ended 30 June 2010: RUB 226,084 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 2,676,048 thousand as at 30 June 2011 (net of VAT) (as at 31 December 2010: RUB 1,865,776 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.

Thousands of Russian Roubles, unless otherwise stated

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.

(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.

(e) Guarantees

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

	Amount on contract 30 June 2011	**Amount on contract 31 December 2010**
OJSC "Rosbank"	845,551	1,009,201
Belgorodskoe OSB №8582	114,400	194,516
	959,951	**1,203,717**

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 30 June 2011 and 31 December 2010 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.

(b) Transactions with management and close family members

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

(i) Management compensation

Total remuneration paid to the members of the Board of Directors and the Management Board for the six months ended 30 June 2011 was RUB 35,194 thousand (for the six months ended 30 June 2010: RUB 99,144 thousand).

Thousands of Russian Roubles, unless otherwise stated

(c) Transactions with other related parties

(i) Revenue

	Transaction value Six months 2011	Outstanding balance 30 June 2011	Transaction value Six months 2010	Outstanding balance 31 December 2010
Electricity transmission:				
Entities under common control of the parent	-	-	-	-
Other state controlled entities	1,040,171	89,472	877,099	159,824
Other revenue:				
Entities under common control of the parent	62,299	-	-	-
Other state controlled entities	28,097	7,245	53,242	18,658
	1,130,567	**96,717**	**930,341**	**178,482**

Related party revenue for electricity transmission is based on the tariffs determined by the government.

(ii) Expenses

	Transaction value Six months 2011	Outstanding balance 30 June 2011	Transaction value Six months 2010	Outstanding balance 31 December 2010
Electricity transmission:				
Entities under common control of the parent	-	-	-	-
Other state controlled entities	6,457,819	634,962	5,469,863	71,795
Other expenses:				
Entities under common control of the parent	25,175	12,839	3	8,977
Parent company	187,387	22,112	220,500	26,019
Other state controlled entities	210,906	28,447	228,821	17,918
Related party lessors	42,480	6,864	1	1,050
	6,923,767	**705,224**	**5,919,188**	**125,759**

(iii) Advances received

	Outstanding balance 30 June 2011	Outstanding balance 31 December 2010
Other state controlled entities	149,788	109,963
	149,788	**109,963**

Thousands of Russian Roubles, unless otherwise stated

(iv) Advances issued

	Outstanding balance 30 June 2011	Outstanding balance 31 December 2010
Entities under common control of the parent	1,171	514
Other state controlled entities	112,887	103,421
	114,058	**103,935**

All outstanding balances with related parties are to be settled in cash within a year from the reporting date. None of the balances are secured.

(v) Loans and borrowings

	Amount loaned Six months 2011	Outstanding balance 30 June 2011	Amount loaned Six months 2010	Outstanding balance 31 December 2010
Loans received:				
State controlled entities	-	6,867,665	-	7,201,149
	-	6,867,665	**-**	**7,201,149**

Loans are received at market interest rates (refer to Note 28).