



Interregional Distribution Grid (IDG) Company of North-West

**Consolidated Interim Condensed Financial Statements
for the six months ended 30 June 2011
(Unaudited)**





Contents

CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	3
CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	7
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS	9
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS	11
1. THE GROUP AND ITS OPERATIONS	12
2. BASIS OF PREPARATION	12
3. SIGNIFICANT ACCOUNTING POLICIES	13
4. GROUP SUBSIDIARIES	13
5. OPERATING SEGMENTS	14
6. PROPERTY, PLANT AND EQUIPMENT	18
7. EQUITY	20
8. LOANS AND BORROWINGS	21
9. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES	21
10. COMMITMENTS AND CONTINGENCIES	23
11. FINANCIAL RISK MANAGEMENT	25
12. EVENTS AFTER THE REPORTING PERIOD	25



Consolidated Interim Condensed Statement of Comprehensive Income for the six months ended 30 June 2011 (Unaudited)

(in thousands of Russian roubles, except share and per share data)

	Notes	Six months ended	Six months ended
		30 June 2011	30 June 2010
Revenue:			
Power transmitting		13,998,175	11,658,087
Sale of electricity		2,859,909	2,324,961
Connection to power network		157,959	159,663
Other revenue		190,446	380,515
Total revenue		17,206,489	14,523,226
Government subsidies received		-	85
Expenses:			
Power transmitting services		(4,837,440)	(4,184,421)
Salaries and other personnel expenses		(4,509,339)	(3,463,843)
Electric power to cover losses		(1,744,977)	(1,872,890)
Depreciation and amortization of non-current assets		(1,369,461)	(1,245,255)
Electric purchases for resale		(1,349,950)	(1,161,084)
Raw materials used		(675,350)	(668,769)
Network and equipment repair services		(219,909)	(175,768)
Taxes other than income tax		(78,750)	(79,942)
Other industrial services		(26,325)	(19,165)
Other services		(526,740)	(507,663)
Other operating expenses		(723,556)	(494,910)
Operating result		1,144,692	649,601
Other non-operating income, net		92,315	(34,743)
Finance costs, net		(115,643)	(228,653)
Profit before income tax		1,121,364	386,205

The accompanying notes on pages 11 to 25 are an integral part of these consolidated interim condensed financial statements.



Consolidated Interim Condensed Statement of Comprehensive Income for the six months ended 30 June 2011 (Unaudited)

(in thousands of Russian roubles, except share and per share data)

	Notes	Six months ended	Six months ended
		30 June 2011	30 June 2010
Income tax expense		(288,107)	(119,743)
Profit for the period		833,257	266,462
Other comprehensive income			
Changes in fair value of available-for-sale investments		(7,796)	3,127
Income tax on other comprehensive income		1,559	(625)
Other comprehensive income for the period, net of income tax		(6,237)	2,502
Total comprehensive income for the period		827,020	268,964
Profit attributable to:			
Equity holders of the Company		833,218	266,458
Non-controlling interests		39	4
		833,257	266,462
Total comprehensive income attributable to:			
Equity holders of the Company		826,981	268,960
Non-controlling interests		39	4
		827,020	268,964
Earnings per share based on weighted average number of ordinary shares in issue			
Basic and diluted earnings per share (expressed in RUB)		0.0087	0.0028
Weighted average number of ordinary shares in issue	7	95,785,923,138	95,785,923,138

General Director

Kukhmay A.M.

Deputy General Director for economy and finances

Makarova O. V.

Chief Accountant

Maksimova T. V.

28 September 2011



Consolidated Interim Condensed Statement of Financial Position as at 30 June 2011 (Unaudited)

(in thousands of Russian roubles)

	Notes	30 June 2011	31 December 2010
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	27,586,899	27,223,239
Intangible assets		49,506	57,163
Deferred tax assets		1,599	3,626
Investment in securities and other financial assets		148,073	161,507
Other non-current assets		665,027	700,627
TOTAL NON-CURRENT ASSETS		28,451,104	28,146,162
CURRENT ASSETS			
Accounts receivable and prepayments		4,331,362	4,191,680
Income tax receivable		346,076	66,802
Inventories		896,521	689,151
Other current assets		478,303	252,752
Assets classified as held for sale		-	980
Cash and cash equivalents		453,520	1,154,604
TOTAL CURRENT ASSETS		6,505,782	6,355,969
TOTAL ASSETS		34,956,886	34,502,131
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	7	9,578,592	9,578,592
Retained earnings		1,584,720	751,502
Merger reserve	7	10,457,284	10,457,284
Other reserves		10,251	16,488
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		21,630,847	20,803,866
Non – controlling interests		254	727
TOTAL EQUITY		21,631,101	20,804,593

The accompanying notes on pages 11 to 25 are an integral part of these consolidated interim condensed financial statements.



**Consolidated Interim Condensed
Statement of Financial Position
as at 30 June 2011 (Unaudited)**

(in thousands of Russian roubles)

	Notes	30 June 2011	31 December 2010
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	8	3,224,514	4,372,530
Retirement benefit obligations		1,339,386	1,313,833
Deferred tax liabilities		1,658,921	1,824,985
Other non-current liabilities		430,496	812,861
TOTAL NON-CURRENT LIABILITIES		6,653,317	8,324,209
CURRENT LIABILITIES			
Accounts payable and advances received		5,447,537	4,345,352
Current taxes payable		673,928	497,814
Income tax payable		76,030	154,161
Current loans and borrowings	8	242,002	308,069
Current provisions		232,971	64,758
Liabilities directly associated with assets classified as held for sale		-	3,175
TOTAL CURRENT LIABILITIES		6,672,468	5,373,329
TOTAL LIABILITIES		13,325,785	13,697,538
TOTAL EQUITY AND LIABILITIES		34,956,886	34,502,131

General Director

Kukhmay A.M.

Deputy General Director for economy and finances

Makarova O. V.

Chief Accountant

Maksimova T. V.

28 September 2011



Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2011 (Unaudited)

(in thousands of Russian roubles)

	Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Retained earnings	Merger reserve	Other reserves	Total		
Balance at 01 January 2010	9,578,592	1,064,227	10,457,284	12,123	21,112,226	733	21,112,959
Total comprehensive income for the period							
<i>Profit for the period</i>	-	266,458	-	-	266,458	4	266,462
<i>Other comprehensive income for the period</i>	-	-	-	2,502	2,502	-	2,502
Total comprehensive income for the period	-	266,458	-	2,502	268,960	4	268,964
Balance at 30 June 2010	9,578,592	1,330,685	10,457,284	14,625	21,381,186	737	21,381,923



Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2011 (Unaudited)

(in thousands of Russian roubles)

Attributable to equity holders of the Company

	Share capital	Retained earnings	Merger reserve	Other reserves	Total	Non-controlling interests	Total equity
Balance at 01 January 2011	9,578,592	751,502	10,457,284	16,488	20,803,866	727	20,804,593
Total comprehensive income for the period							
<i>Profit for the period</i>	-	833,218	-	-	833,218	39	833,257
<i>Other comprehensive income</i>	-	-	-	(6,237)	(6,237)	-	(6,237)
Total comprehensive income for the period	-	833,218	-	(6,237)	826,981	39	827,020
Transactions with owners recognized directly in equity							
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	(512)	(512)
Balance at 30 June 2011	9,578,592	1,584,720	10,457,284	10,251	21,630,847	254	21,631,101

General Director

Deputy General Director for economy and finances

Chief Accountant

28 September 2011

Kukhmay A.M.

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OJSC "IDGC of North-West"

Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2011 (Unaudited)

(in thousands of Russian roubles)

	Six months ended 30 June 2011	Six months ended 30 June 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	833,257	266,462
<i>Adjustments for non-cash transactions:</i>		
Income tax expense recognised in profit or loss	288,107	119,743
Net finance costs	115,643	228,653
Depreciation and amortisation of non-current assets	1,369,461	1,245,255
(Profit)/loss from disposal of PPE	(23,249)	20,271
Other non-cash (profits)/losses	(2,762)	12,736
Operating cash flows before changes in working capital and provisions	2,580,457	1,893,120
<i>Working capital changes</i>		
Increase in accounts receivable and prepayments	(37,498)	(760,771)
Increase in inventories	(207,058)	(266,957)
Increase in other current assets	(224,571)	(178,240)
Changes in retirement benefit obligations and related assets	41,048	(56,182)
Increase in accounts payable, advances received and provisions	1,057,135	1,074,753
Cash generated by operations	3,209,513	1,705,723
Interest paid	(182,980)	(298,097)
Income tax (paid)/recovered	(807,995)	71,557
Net cash generated by operating activities	2,218,538	1,479,183

The accompanying notes on pages 11 to 25 are an integral part of these consolidated interim condensed financial statements.

OJSC "IDGC of North-West"

Consolidated Interim Condensed Statement of Cash Flows

for the six months ended 30 June 2011 (Unaudited)

(in thousands of Russian roubles)

	Six months ended 30 June 2011	Six months ended 30 June 2010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant and equipment	14,623	818
Proceeds from disposal of subsidiaries net of cash and cash equivalents disposed	307	-
Purchase of property, plant and equipment and other non-current assets	(1,732,583)	(1,484,988)
Interest received	11,509	5,289
Net cash used in investing activities	(1,706,144)	(1,478,881)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans and borrowings	1,223,636	4,671,890
Repayments of loans and borrowings	(2,437,114)	(4,673,999)
Repayments of finance leases	-	(31,803)
Dividends paid	-	(92)
Net cash used in financing activities	(1,213,478)	(34,004)
Net decrease in cash and cash equivalents	(701,084)	(33,702)
Cash and cash equivalents at the beginning of the period	1,154,604	569,207
Cash and cash equivalents at the end of the period	453,520	535,505

General Director

Kukhmay A.M.

Deputy General Director for economy and finances

Makarova O. V.

Chief Accountant

Maksimova T. V.

28 September 2011



Notes to the Consolidated Interim Condensed Financial Statements

for the six months ended 30 June 2011 (Unaudited)

(in thousands of Russian roubles unless otherwise stated)





1. THE GROUP AND ITS OPERATIONS

Background

Open Joint Stock Company Interregional Distribution Grid Company of North-West ("IDGC of North-West" or the "Company") was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of JSC "RAO UES of Russia" ("RAO UES") as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningradskaya oblast, 188300, the Russian Federation. The Company's main offices are at Voronezhskaya str. 5, building "A", Saint Petersburg, 191119, the Russian Federation.

Relations with the state and current regulations

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations through state tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise the capital required to maintain and expand current capacity.

Russian business environment

The Group's operations are 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 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

Statement of compliance

These consolidated interim condensed financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting*. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2010.

The Group companies maintain their accounting records in Russian Roubles ("RUB") in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting



principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated interim condensed financial statements, which have been prepared using the Group's statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as of 1 January 2007 by an independent appraiser to determine deemed cost as part of the adoption of IFRSs.

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

Use of estimates

In the application of the Group's accounting policies management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2010.

4. GROUP SUBSIDIARIES

The Group's consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

Subsidiary	Principal activity	Ownership as at 30 June 2011, %	Ownership as at 31 December 2010, %
CHOP Energia	Security services	-	80
Energoservice North-West	Electricity metering services	100	-
Lesnaya skazka	Recreation	98	98
Pskovenergoagent	Collection services	100	100
Pskovenergosbyt	Sale of electricity	100	100
Pskovenergoavto	Transportation services	100	100



During six month ended 30 June 2011 the Group subsidiary CHOP Energia was sold for cash consideration of RUB 610 thousand. Profit on disposal in the amount of RUB 356 thousand was included in other non-operating income in consolidated interim condensed statement of comprehensive income. Disposal of the subsidiary is not expected to have any material effect on the Group operations and financial performance.

The 100% - subsidiary of The Group JSC "Energoservice North-West" with share capital RUB 2,000 thousand was registered at 28 January 2011. The primary activity of Energoservice North-West is electricity metering services. Spin-off of the subsidiary is not expected to have any material effect on the Group operations and financial performance.

5. OPERATING SEGMENTS

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of IDGC North-West) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyzes financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

In accordance with the requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to Management Board, the following reportable segments were identified:

- Transmission Segments - Arkhangelsk, Karelia, Komi, Murmansk, Novgorod, Pskov and Vologda – branches of IDGC North-West;
- Energy Retail Segment – Pskovenergosbyt;
- Other Segments – other Group companies.

Unallocated balances comprise mainly of corporate assets (primarily the Group headquarters), including cash balances, obligations on loans, deferred income tax assets and liabilities.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for consolidated financial statements prepared under IFRSs.

The major differences relate to:

- difference in the measurement of property, plant and equipment;
- recognition of employee benefits obligations; and
- differences in accounting for deferred tax.

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Reconciliation of items measured as reported to the Management Board with similar items in these consolidated interim condensed financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Information regarding the results of each reportable segment is included below. Performance is primarily measured based on segment revenues and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Revenues and segment profit are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments between each other and relative to other entities that operate within those industries.



OJSC "IDGC of North-West"



Segment results for the six months ended 30 June 2011 are presented below:

	Transmission							Energy Retail	Other Segments	Unallocated	Total
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda				
Revenues											
Power transmitting	2,373,843	1,991,749	3,042,994	2,455,874	1,370,509	14,968	2,953,546	-	-	-	14,203,483
Connection to power network	41,316	3,254	70,581	3,953	2,542	5,196	31,117	-	-	-	157,959
Sale of electricity	77,750	-	-	-	-	-	-	2,859,909	-	-	2,937,659
Other revenue	14,941	9,062	26,481	13,888	14,691	24,523	23,180	1,274	3,661	-	131,701
Intersegment revenue	-	3	-	-	-	1,512,585	266	213,452	129,105	-	1,855,411
Total revenues	2,507,850	2,004,068	3,140,056	2,473,715	1,387,742	1,557,272	3,008,109	3,074,635	132,766	-	19,286,213
As at 30 June 2011:											
Total assets	4,151,683	4,176,691	9,112,828	4,261,509	4,923,648	3,621,437	7,959,224	410,696	70,906	775,055	39,463,677
<i>Including property, plant and equipment</i>	<i>2,937,756</i>	<i>2,747,845</i>	<i>7,954,637</i>	<i>2,987,509</i>	<i>4,570,273</i>	<i>3,210,340</i>	<i>6,646,724</i>	<i>737</i>	<i>18,611</i>	<i>37,412</i>	<i>31,111,844</i>

OJSC "IDGC of North-West"



Segment results for the six months ended 30 June 2010 are presented below:

	Transmission							Energy Retail	Other Segments	Unallocated	Total
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda				
Revenues											
Power transmitting	1,831,569	1,825,026	2,549,264	1,854,729	1,270,783	11,564	2,310,759	-	-	-	11,653,694
Connection to power network	11,703	21,079	31,699	1,322	45,248	13,379	35,233	-	-	-	159,663
Sale of electricity	83,455	-	156,957	-	-	-	-	2,324,961	-	-	2,565,373
Other revenue	19,055	6,116	56,592	12,775	15,573	4,766	21,238	1,272	7,109	-	144,496
Intersegment revenue	-	-	-	-	-	1,272,629	-	182,998	127,315	-	1,582,942
Total revenues	1,945,782	1,852,221	2,794,512	1,868,826	1,331,604	1,302,338	2,367,230	2,509,231	134,424	-	16,106,168
As at 31 December 2010:											
Total assets	4,075,619	3,929,353	9,043,776	3,970,043	4,845,071	3,464,621	7,712,103	305,253	70,175	1,285,693	38,701,707
<i>Including property, plant and equipment</i>	<i>3,014,260</i>	<i>2,739,129</i>	<i>7,865,370</i>	<i>3,064,203</i>	<i>4,511,153</i>	<i>3,130,853</i>	<i>6,462,542</i>	<i>811</i>	<i>20,106</i>	<i>39,179</i>	<i>30,847,606</i>



The reconciliation of profit before income tax measured as reported to the Management Board with similar item in these consolidated interim condensed financial statements is presented below:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Segment results - profit/(loss) before income tax	1,842,778	406,882
Accrued salaries and wages	278,099	117,801
Adjustment for depreciation of property, plant and equipment	5,376	62,474
Adjustments for financial costs	29,053	32,273
Bad debt allowance adjustment	(378,740)	(78,539)
Elimination of rent expenses on finance lease arrangements	-	16,937
Intragroup dividends	-	(2,359)
Other adjustments	(655,202)	(169,264)
Profit before income tax per Statement of Comprehensive Income	1,121,364	386,205

6. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost/Deemed cost</i>						
Opening balance as at 1 January 2010	4,182,863	18,286,805	7,074,353	2,629,487	1,072,536	33,246,044
Additions and transfers	52,987	226,516	286,034	81,673	158,165	805,375
Disposals	(8,822)	(44,466)	(2,084)	(23,701)	(6,822)	(85,895)
Closing balance as at 30 June 2010	4,227,028	18,468,855	7,358,303	2,687,459	1,223,879	33,965,524
<i>Accumulated depreciation and impairment</i>						
Opening balance as at 1 January 2010	(601,248)	(3,481,229)	(1,203,643)	(901,098)	-	(6,187,218)
Charge for the period	(113,243)	(658,344)	(298,864)	(134,504)	-	(1,204,955)
Disposals	1,688	10,628	629	7,474	-	20,419
Closing balance as at 30 June 2010	(712,803)	(4,128,945)	(1,501,878)	(1,028,128)	-	(7,371,754)



	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
Net book value as at 1 January 2010	3,581,615	14,805,576	5,870,710	1,728,389	1,072,536	27,058,826
Net book value as at 30 June 2010	3,514,225	14,339,910	5,856,425	1,659,331	1,223,879	26,593,770
	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost/Deemed cost</i>						
Opening balance as at 1 January 2011	4,446,538	19,190,575	8,170,687	2,832,707	1,233,771	35,874,278
Additions and Transfers	55,219	554,669	206,290	165,797	750,760	1,732,735
Disposals	(760)	(9,044)	(9,464)	(12,501)	(2,290)	(34,059)
Closing balance as at 30 June 2011	4,500,997	19,736,200	8,367,513	2,986,003	1,982,241	37,572,954
	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Accumulated depreciation and impairment</i>						
Opening balance as at 1 January 2011	(842,767)	(4,793,040)	(1,863,746)	(1,151,486)	-	(8,651,039)
Charge for the period	(136,663)	(703,499)	(294,657)	(215,293)	-	(1,350,112)
Disposals	279	3,289	4,530	6,998	-	15,096
Closing balance as at 30 June 2011	(979,151)	(5,493,250)	(2,153,873)	(1,359,781)	-	(9,986,055)
Net book value as at 1 January 2011	3,603,771	14,397,535	6,306,941	1,681,221	1,233,771	27,223,239
Net book value as at 30 June 2011	3,521,846	14,242,950	6,213,640	1,626,222	1,982,241	27,586,899



7. EQUITY

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognized for the group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

Authorised, issued and fully paid share capital

As at 30 June 2011 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2010: 95,785,923,138) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

Merger reserve

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Based on the application of predecessor accounting, the difference between the value of the share capital issued and the IFRS carrying values of the contributed assets and non-controlling interests was recorded as a merger reserve within equity.

Retained earnings and dividends

The Company's statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company's profit in the statutory accounts can differ significantly from that reported in the consolidated interim condensed financial statements prepared under IFRS.

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of 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 the profit for the current period, of RUB 882,787 thousand (31 December 2010: RUB 61,612 thousand).

No profits were distributed based on results for the year ended 31 December 2010. The decision was approved by annual shareholders meeting in June 2011. No other decisions on profit distribution were made at the date these consolidated interim condensed financial statements were authorized for issue.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

Earnings per share

Earnings per share were calculated using the weighted average number of ordinary shares. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share.



8. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	30 June 2011	31 December 2010
<i>Non-current liabilities</i>		
Unsecured bank loans	3,224,514	4,372,530
	3,224,514	4,372,530
<i>Current liabilities</i>		
Current portion of secured loans from related parties	1,625	3,250
Current portion of unsecured loans	141,430	141,428
Unsecured bank loans	98,947	163,391
	242,002	308,069

During six months ended 30 June 2011 the Group raised or repaid the following significant borrowings:

The Group raised bank loans* in the amount of RUB 140,000 thousand at interest rate of 7.52%. The loans are to be repaid in October 2015.

The Group raised bank loans* in the amount of RUB 82,700 thousand at interest rate of 7.66-7.73%. The loans are to be repaid in April 2016.

The Group raised bank loans* in the amount of RUB 885,935 thousand at interest rate of 5.90-6.30%. The loans are to be repaid in June 2011.

The Group raised bank loans* in the amount of RUB 45,000 thousand at interest rate of 5.50-6.00%. The loans are to be repaid in July 2011.

The Group raised bank loans* in the amount of RUB 70,000 thousand at interest rate of 5.60%. The loans are to be repaid in July 2011.

The Group repaid bank loans* in the amount of RUB 1,118,314 thousand.

The Group repaid bank loans in the amount of RUB 1,318,800 thousand.

*- Loans from state-controlled entities.

9. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel.

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. As at 30 June 2011 and 31 December 2010 the



Group was controlled by JSC IDGC Holding, a state-controlled entity (Note 1). In the normal course of business the Group enters into transactions with other entities under common government control including the Federal Grid Company, Russian railways, state-controlled banks and various governmental bodies. Prices for electricity and heat are based on tariffs set by federal and regional tariff regulatory bodies. The Group purchase prices for goods and services received from state monopolies are subject to government regulations. Other sales and purchases are based on market prices.

Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

During the six months ended 30 June 2011 and 30 June 2010, Group entered into the following transactions with related parties:

Transactions with related parties

	Sales of goods and services		Purchase of goods and services	
	Six months ended	Six months ended	Six months ended	Six months ended
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Companies under common control				
Electricity transportation and connection to power network	1,354,294	963,535	4,719,840	3,984,494
Electricity sales	934,081	748,049	1,225,993	1,142,844
Capital expenditures and repairs	24,803	48,835	138,176	149,041
Contributions to NSPF	-	-	26,391	35,450
Interest expensed and capitalized	-	-	92,437	242,643
Other	46,906	50,677	292,004	200,892
The Owners				
Services provided by the parent	-	-	118,959	139,980
Total	2,360,084	1,811,096	6,613,800	5,895,344

Balances with related parties

	Amounts owed to the Group		Amounts owed by the Group	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
	Companies under common control			
Loans and borrowings	-	-	1,851,570	2,869,113
Electricity transportation and connection to power network	513,733	314,305	1,785,442	1,798,333
Electricity sales	189,446	131,096	-	-
Capital expenditures and repairs	83,512	100,851	43,408	25,103
Other	211,594	115,545	187,716	162,318



The Owners

Settlement on services	-	-	14,037	16,518
Total	998,285	661,797	3,882,173	4,871,385

The outstanding amounts of accounts receivable and accounts payable are unsecured and will be settled in cash within next 12 months.

Compensation of key management personnel

The remuneration of key management personnel of the Group is represented by contractual salary and discretionary bonuses and amounted to:

	Six months ended 30 June 2011	Six months ended 30 June 2011
Key management personnel		
Amounts owed by the Group	7,012	8,565
Salaries and related expenses	25,668	24,177

In addition to the above key management is entitled to benefits under defined benefit plans. The related defined benefit obligations primarily relate to benefits upon retirement or discontinuance of the labour contracts of the key managers. These obligations amount to RUB 58,164 thousand as at 30 June 2011 (RUB 49,619 thousand as at 31 December 2010).

10. COMMITMENTS AND CONTINGENCIES

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Taxation contingencies in Russian Federation

The taxation system in the Russian Federation 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 and substance-based position in their interpretation and enforcement of tax legislation.

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



financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Other contingencies

The Group is a defendant in several lawsuits with counterparties, where the Group management believes that the outcome in favour of the plaintiff is possible. Possible contingencies as at 30 June 2011 amount to RUB 5,088 thousand (as at 31 December 2010: RUB 29,077 thousand). Management has not provided any amounts in respect of such obligations in the consolidated financial statements as it believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim has individual legal circumstances and respective estimation should be based on variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

Capital expenditure commitments

As at 30 June 2011 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 2,178,617 thousand (as at 31 December 2010: RUB 1,117,681 thousand).

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group entities periodically evaluate their 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.

Insurance policies

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.



The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with dangerous production units.

As at 30 June 2011 the Group has insured its industrial assets for the amount of RUB 41,950,451 thousand (as at 31 December 2010: RUB 41,859,502 thousand). Also, as at 30 June 2011 the Group has insured vehicles below 10 years of age for the amount of RUB 305,891 thousand (as at 31 December 2010: RUB 280,426 thousand).

11. FINANCIAL RISK MANAGEMENT

During the period the Group had been exposed to the same risks as those which existed during the year ended 31 December 2010, and applied the same approach to financial risk management that was applied during the year ended 31 December 2010.

12. EVENTS AFTER THE REPORTING PERIOD

New financing facilities

In August 2011 the Group entered the agreements on future credit facilities from OJSC "AB Rossiya" and OJSC "Sberbank Rossii" in the amount of RUB 3,100,000 thousand.

Changes in Group structure

On 26th August 2011 The Management Board of the Company decided to liquidate the subsidiary Pskovenergoavto. Liquidation of the subsidiary is not expected to have any material effect on the Group operations and financial performance.

