



# **Interregional Distribution Grid (IDG) Company of North-West**

**Consolidated Interim Condensed Financial Statements  
for the six months ended 30 June 2012  
(Unaudited)**



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# OJSC "IDGC of North-West"



	Notes	Six months ended	Six months ended
		30 June 2012	30 June 2011
<b>Revenue:</b>			
Power transmitting		13,158,438	13,998,175
Sale of electricity		2,577,138	2,859,909
Connection to power network		499,863	157,959
Other revenue		194,266	190,446
<b>Total revenue</b>		<b>16,429,705</b>	<b>17,206,489</b>
Government subsidies received		46	-
<b>Expenses:</b>			
Power transmitting services		(4,532,536)	(4,837,440)
Salaries and other personnel expenses		(4,381,688)	(4,509,339)
Electric power to cover losses		(1,541,119)	(1,744,977)
Depreciation and amortization of non-current assets		(1,520,946)	(1,369,461)
Electric purchases for resale		(1,215,570)	(1,349,950)
Raw materials used		(681,326)	(675,350)
Network and equipment repair services		(219,793)	(219,909)
Taxes other than income tax		(79,540)	(78,750)
Other services		(684,747)	(526,740)
Other operating expenses		(834,220)	(749,881)
<b>Operating result</b>		<b>738,266</b>	<b>1,144,692</b>
Other non-operating income, net		125,225	92,315
Finance costs, net		(162,276)	(115,643)
<b>Profit before income tax</b>		<b>701,215</b>	<b>1,121,364</b>

The accompanying notes on pages 11 to 23 are an integral part of these consolidated interim condensed financial statements.

# OJSC "IDGC of North-West"



	Notes	Six months ended	Six months ended
		30 June 2012	30 June 2011
<b>Income tax expense</b>		(231,659)	(288,107)
<b>Profit for the period</b>		<b>469,556</b>	<b>833,257</b>
<b>Other comprehensive income</b>			
Changes in fair value of available-for-sale investments		(3,249)	(7,796)
Income tax on other comprehensive income		491	1,559
<b>Other comprehensive income for the period, net of income tax</b>		<b>(2,758)</b>	<b>(6,237)</b>
<b>Total comprehensive income for the period</b>		<b>466,798</b>	<b>827,020</b>
<b>Profit attributable to:</b>			
Equity holders of the Company		469,549	833,218
Non-controlling interests		7	39
		<b>469,556</b>	<b>833,257</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		466,791	826,981
Non-controlling interests		7	39
		<b>466,798</b>	<b>827,020</b>
<b>Earnings per share based on weighted average number of ordinary shares in issue</b>			
Basic and diluted earnings per share (expressed in RUB)		0.0049	0.0087
Weighted average number of ordinary shares in issue	7	<b>95,785,923,138</b>	<b>95,785,923,138</b>

General Director

Chief Accountant

29 August 2012

Titov S.G.

Maksimova T. V.

# OJSC "IDGC of North-West"



	Notes	30 June 2012	31 December 2011
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	29,712,522	29,522,724
Intangible assets		44,033	36,882
Deferred tax assets		1,882	2,135
Investment in securities and other financial assets		176,044	121,221
Other non-current assets		653,698	633,766
<b>TOTAL NON-CURRENT ASSETS</b>		<b>30,588,179</b>	<b>30,316,728</b>
<b>CURRENT ASSETS</b>			
Accounts receivable and prepayments		4,497,411	4,313,488
Income tax receivable		158,939	234,612
Inventories		1,044,736	702,820
Other current assets		350,915	439,806
Assets classified as held for sale		-	-
Cash and cash equivalents		732,995	1,534,694
<b>TOTAL CURRENT ASSETS</b>		<b>6,784,996</b>	<b>7,225,420</b>
<b>TOTAL ASSETS</b>		<b>37,373,175</b>	<b>37,542,148</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	7	9,578,592	9,578,592
Retained earnings		2,023,212	1,553,642
Merger reserve	7	10,457,284	10,457,284
Other reserves		881	3,683
<b>EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY</b>		<b>22,059,969</b>	<b>21,593,201</b>
Non – controlling interests		267	260
<b>TOTAL EQUITY</b>		<b>22,060,236</b>	<b>21,593,461</b>

The accompanying notes on pages 11 to 23 are an integral part of these consolidated interim condensed financial statements.



# OJSC "IDGC of North-West"



	Notes	30,June,2012	31,December,2011
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans and borrowings	8	5,743,001	6,148,294
Retirement benefit obligations		1,352,533	1,352,999
Deferred tax liabilities		1,865,279	1,874,578
Other non-current liabilities		358,517	268,445
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>9 319 330</b>	<b>9,644,316</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and advances received		4,988,430	5,626,414
Current taxes payable		653,604	410,740
Income tax payable		91,574	395
Current loans and borrowings	8	7,937	80,190
Current provisions		252,064	186,632
Liabilities directly associated with assets classified as held for sale			-
<b>TOTAL CURRENT LIABILITIES</b>		<b>5 993 609</b>	<b>6,304,371</b>
<b>TOTAL LIABILITIES</b>		<b>15,312,939</b>	<b>15,948,687</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>37,373,175</b>	<b>37,542,148</b>

General Director

Titov S.G.

Chief Accountant

Maksimova T. V.

29 August 2012



## Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2012 (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 2011	9,578,592	751,502	10,457,284	16,488	20,803,866	727	20,804,593
Total comprehensive income for the period							
Profit for the period	-	833,218	-	-	833,218	39	833,257
Other comprehensive income for the period	-	-	-	(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



**Consolidated Interim Condensed Statement of Changes in Equity**  
**for the six months ended 30 June 2012 (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 2012	9,578,592	1,553,664	10,457,284	3,638	21,593,178	260	21,593,438
Total comprehensive income for the period							
Profit for the period	-	469,549	-	-	469,549	7	469,556
Other comprehensive income	-	-	-	(2,758)	(2,758)	-	(2,758)
Total comprehensive income for the period	-	469,549	-	(2,758)	466,791	7	466,798
Transactions with owners recognized directly in equity							
Disposal of non-controlling interest in subsidiaries							
Balance at 30 June 2012	9,578,592	2,023,213	10,457,284	880	22,059,969	267	22,060,236

General Director

Titov S.G.

Chief Accountant

Maksimova T. V.

29 August 2012





## Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2012 (Unaudited)

(in thousands of Russian roubles)

	Six months ended 30 June 2012	Six months ended 30 June 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>Profit for the period</b>	<b>469,556</b>	<b>833,257</b>
<i>Adjustments for non-cash transactions:</i>		
Income tax expense recognised in profit or loss	231,659	288,107
Net finance costs	162,276	115,643
Depreciation and amortisation of non-current assets	1,520,946	1,369,461
(Profit)/loss from disposal of PPE	(10,737)	(23,249)
Provision for inventory obsolescence	393	-
Other non-cash (profits)/losses	-	(2,762)
<b>Operating cash flows before changes in working capital and provisions</b>	<b>2,374,093</b>	<b>2,580,457</b>
<i>Working capital changes</i>		
Increase in accounts receivable and prepayments	(266,769)	(37,498)
Increase in inventories	(342,308)	(207,058)
Increase in other current assets	86,889	(224,571)
Changes in retirement benefit obligations and related assets	10,623	41,048
Increase in accounts payable, advances received and provisions	150,013	1,057,135
<b>Cash generated by operations</b>	<b>2,012,541</b>	<b>3,209,513</b>
Interest paid	(209,658)	(182,980)
Income tax (paid)/recovered	(73,383)	(807,995)
<b>Net cash generated by operating activities</b>	<b>1,729,500</b>	<b>2,218,538</b>



## Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2012 (Unaudited)

(in thousands of Russian roubles)

	Six months ended 30 June 2012	Six months ended 30 June 2011
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of property, plant and equipment	31,869	14,623
Proceeds from disposal of subsidiaries	-	307
Purchase of property, plant and equipment and other non-current assets	(2,102,270)	(1,732,583)
Interest received	15,213	11,509
<b>Net cash used in investing activities</b>	<b>(2,055,188)</b>	<b>(1,706,144)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from loans and borrowings	695,706	1,223,636
Repayments of loans and borrowings	(1,171,716)	(2,437,114)
Repayments of finance leases	-	-
Dividends paid	-	-
<b>Net cash used in financing activities</b>	<b>(476,010)</b>	<b>(1,213,478)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(801,698)</b>	<b>(701,084)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,534,693</b>	<b>1,154,604</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>732,995</b>	<b>453,520</b>

General Director

Titov S.G.

Chief Accountant

Maksimova T. V.

29 August 2012



## **Notes to the Consolidated Interim Condensed Financial Statements**

**for the six months ended 30 June 2012 (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 Constitution Square, building 3 "A", Saint Petersburg, 196247, 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 statements 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 2011.

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 2011.

## 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 2012, %	Ownership as at 31 December 2011, %
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

On 22 March 2012 the Group subsidiary Pskovenergoavto was liquidated. Disposal 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.

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 2012 are presented below:

	Transmission										Energy Retail	Other Segments	Unallocated	Total	
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda								
<b>Revenues</b>															
Power transmitting	1,733,612	2,983,040	1,786,956	2,119,430	3,076,183	1,422,230	35,492	-	-	-	-	-	-	-	13,156,943
Connection to power network	9,657	314,163	3,209	139,467	18,262	1,851	13,253	-	-	-	-	-	-	-	499,863
Sale of electricity	-	-	-	-	-	-	-	-	-	-	-	2,577,138	-	-	2,577,138
Other revenue	98,839	24,571	4,493	13,286	29,847	16,124	4,943	959	1,386	-	-	-	-	-	194,447
Intersegment revenue	-	-	3	-	-	-	1,463,650	179,661	172,016	-	-	-	-	-	1,815,330
<b>Total revenues</b>	<b>1,842,108</b>	<b>3,321,774</b>	<b>1,794,662</b>	<b>2,272,183</b>	<b>3,124,292</b>	<b>1,440,205</b>	<b>1,517,338</b>	<b>2,757,758</b>	<b>173,402</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,243,720</b>
<b>As at 30 June 2012:</b>															
<b>Total assets</b>	<b>4,495,180</b>	<b>8,220,040</b>	<b>4,199,200</b>	<b>4,012,055</b>	<b>9,319,105</b>	<b>5,448,839</b>	<b>4,228,423</b>	<b>380,065</b>	<b>154,874</b>	<b>1,067,648</b>	<b>41,525,429</b>	<b>154,874</b>	<b>1,067,648</b>	<b>41,525,429</b>	
<i>Including property, plant and equipment</i>	3,405,066	7,019,659	2,925,582	3,051,641	8,277,505	4,978,082	3,823,063	499	5,991	36,135	33,523,222	5,991	36,135	33,523,222	

# OJSC "IDGC of North-West"



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

Revenues	Transmission										Total
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	Energy Retail	Other Segments	Unallocated	
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
<b>Total revenues</b>	<b>2,507,850</b>	<b>2,004,068</b>	<b>3,140,056</b>	<b>2,473,715</b>	<b>1,387,742</b>	<b>1,557,272</b>	<b>3,008,109</b>	<b>3,074,635</b>	<b>132,766</b>	<b>-</b>	<b>19,286,213</b>

As at 31 December 2011:

<b>Total assets</b>	<b>4,510,357</b>	<b>3,933,688</b>	<b>9,204,861</b>	<b>4,054,755</b>	<b>5,171,051</b>	<b>4,085,798</b>	<b>8,235,304</b>	<b>411,651</b>	<b>115,681</b>	<b>1,861,766</b>	<b>41,584,912</b>
<i>Including property, plant and equipment</i>	<i>3,504,913</i>	<i>2,856,617</i>	<i>8,153,838</i>	<i>3,134,279</i>	<i>4,862,884</i>	<i>3,743,555</i>	<i>7,050,261</i>	<i>618</i>	<i>12,087</i>	<i>47,882</i>	<i>33,366,934</i>



## OJSC "IDGC of North-West"

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 2012	Six months ended 30 June 2011
<b>Segment results - profit/(loss) before income tax</b>	<b>758,971</b>	<b>1,842,778</b>
Accrued salaries and wages	(15,001)	278,099
Adjustment for depreciation of property, plant and equipment	(27,167)	5,376
Adjustments for financial costs	30,632	29,053
Bad debt allowance adjustment	(5,645)	(378,740)
Elimination of rent expenses on finance lease arrangements	-	-
Intragroup dividends	-	-
Other adjustments	(40,575)	(655,202)
<b>Profit before income tax per Statement of Comprehensive Income</b>	<b>701,215</b>	<b>1,121,364</b>

## 6. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost/Deemed cost</i>						
<b>Opening balance as at 1 January 2011</b>	<b>4,446,538</b>	<b>19,190,575</b>	<b>8,170,687</b>	<b>2,832,707</b>	<b>1,233,771</b>	<b>35,874,278</b>
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)
<b>Closing balance as at 30 June 2011</b>	<b>4,500,997</b>	<b>19,736,200</b>	<b>8,367,513</b>	<b>2,986,003</b>	<b>1,982,241</b>	<b>37,572,954</b>
<i>Accumulated depreciation and impairment</i>						
<b>Opening balance as at 1 January 2011</b>	<b>(842,767)</b>	<b>(4,793,040)</b>	<b>(1,863,746)</b>	<b>(1,151,486)</b>	-	<b>(8,651,039)</b>
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
<b>Closing balance as at 30 June 2011</b>	<b>(979,151)</b>	<b>(5,493,250)</b>	<b>(2,153,873)</b>	<b>(1,359,781)</b>	-	<b>(9,986,055)</b>



	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
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
	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 2012	4,876,664	20,961,647	9,756,543	3,720,356	1,655,527	40,970,737
Additions and Transfers	29,205	488,918	210,750	107,484	880,846	1,717,203
Disposals	(24,142)	(2,773)	(1,582)	(13,304)	(299)	(42,100)
Closing balance as at 30 June 2012	4,881,727	21,447,792	9,965,711	3,814,536	2,536,074	42,645,840
	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 2012	(1,111,963)	(6,289,803)	(2,467,301)	(1,557,168)	(21,778)	(11,448,013)
Charge for the period	(133,763)	(788,944)	(345,875)	(237,731)	-	(1,506,313)
Disposals	9,062	1,258	1,230	9,458	-	21,008
Closing balance as at 30 June 2012	(1,236,664)	(7,077,489)	(2,811,946)	(1,785,441)	(21,778)	(12,933,318)
Net book value as at 1 January 2012	3,764,701	14,671,844	7,289,242	2,163,188	1,633,749	29,522,724
Net book value as at 30 June 2012	3,645,063	14,370,303	7,153,765	2,029,095	2,514,296	29,712,522





## 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 2012 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2011: 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 2012 the Company had retained earnings, including the profit for the current period, of RUB 470,703 thousand (31 December 2011: RUB 36,163 thousand).

No profits were distributed based on results for the year ended 31 December 2011. The decision was approved by annual shareholders meeting in June 2012. 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 2012	31 December 2011
<i>Non-current liabilities</i>		
Unsecured bank loans	5,743,001	6,148,294
	<b>5,743,001</b>	<b>6,148,294</b>
<i>Current liabilities</i>		
Current portion of secured loans from related parties		-
Current portion of unsecured loans		70,716
Unsecured bank loans	7,937	9,474
	<b>7,937</b>	<b>80,190</b>

The Group raised the following bank loans during the six months ended 30 June 2012:

Amount	Interest rate	Maturity
180,000*	7.44%	2012
1,000	8.00%	2012
113,591*	10.20%	2015
49,003*	7.52%	2015
26,747*	7.48% - 7.98%	2015
38,310*	7.66% - 7.91%	2016
23,512*	7.73% - 7.98%	2016
200,000*	7.49%	2016
2,713*	7.50%	2016
57,645*	7.54%	2016

The Group repaid the following significant bank facilities during the six months ended 30 June 2012:

	Amount
Loans*	1 150 716
Loans	21 000

\*- Loans from state-controlled entities.





## 9. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

### Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 30 June 2012 the Group was controlled by JSC Interregional Distribution Grid Company Holding, a state controlled entity.

### Transactions with state-controlled entities

In the course of its operating activities the Group is also engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are based on regulated tariffs where applicable, in other cases revenues and purchases are made at normal market prices.

Revenue from state-controlled entities for the six months ended 30 June 2012 constitute 9.0% (six months ended 30 June 2011: 9.2%) of total Group revenue, including 7.1% (six months ended 30 June 2011: 7.3%) of electricity transmission revenues.

Electricity transmission cost due to for state-controlled entities for the six months ended 30 June 2012 constitute 69.4 % (six months ended 30 June 2011: 70.8%) of total transmission costs.

Significant loans from state controlled entities are disclosed in Note 8.

### Pricing policies

Related party revenue for electricity transmission is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commissions.

## 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 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 2012 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 2,351,881 thousand (as at 31 December 2011: RUB 1,697,860 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 2012 the Group has insured its industrial assets for the amount of RUB 41,959,335 thousand (as at 31 December 2011: RUB 41,950,451 thousand). Also, as at 30 June 2012 the Group has





insured vehicles below 10 years of age for the amount of RUB 432,047 thousand (as at 31 December 2011: RUB 305,891 thousand).

### II. 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 2011, and applied the same approach to financial risk management that was applied during the year ended 31 December 2011.