JSC "IDGC of Centre"

Interim Consolidated Financial Statements for the six months ended 30 June 2013 (unaudited)

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Thousands of Russian Roubles, unless otherwise stated

	Note	Six months ended 30 June 2013	Six months ended 30 June 2012
Revenue	7	41,898,316	34,152,960
Operating expenses	8	(40,237,188)	(29,673,526)
Other income		393,717	933,456
Results from operating activities		**2,054,845**	**5,412,890**
Finance income	10	56,750	93,555
Finance costs	10	(1,202,850)	(965,861)
Net finance costs		**(1,146,100)**	**(872,306)**
Profit before income tax		**908,745**	**4,540,584**
Income tax expense	11	(305,937)	(1,069,697)
Profit for the period		**602,808**	**3,470,887**
Other comprehensive income			
Remeasurements of the net defined benefit liability (asset)		87,202	3,725
Income tax on other comprehensive income		(3,056)	93
Other comprehensive income for the period, net of income tax		**84,146**	**3,818**
Total comprehensive income for the period		**686,954**	**3,474,705**
Profit for the period attributable to:			
Owners of the Company		592,874	3,461,640
Non-controlling interests		9,934	9,247
Total comprehensive income attributable to:			
Owners of the Company		677,020	3,465,458
Non-controlling interests		9,934	9,247
Earnings per share – basic and diluted (in Russian Roubles)	21	0.014	0.082

These interim consolidated financial statements were approved on 28 August 2013:

General Director

O.Y. Isaev

Chief Accountant

L.A. Sklyarova

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

Thousands of Russian Roubles, unless otherwise stated

	Note	30 June 2013	31 December 2012	1 January 2012
ASSETS				
Non-current assets				
Property, plant and equipment	12	71,350,506	71,360,324	62,195,991
Intangible assets	13	572,974	696,842	945,109
Investments and financial assets	15	530,253	543,015	533,976
Other non-current assets	16	146,678	161,954	173,789
Total non-current assets		**72,600,411**	**72,762,135**	**63,848,865**
Current assets				
Cash and cash equivalents	17	1,432,954	971,592	2,646,152
Trade and other receivables	18	13,387,826	13,472,357	8,409,867
Income tax receivable		410,776	841,517	456,905
Inventories	19	2,269,960	1,520,647	1,445,720
Other current assets		2,943	2,810	9,286
Total current assets		**17,504,459**	**16,808,923**	**12,967,930**
Total assets		**90,104,870**	**89,571,058**	**76,816,795**
EQUITY AND LIABILITIES				
Equity	20			
Share capital		4,221,794	4,221,794	4,221,794
Additional paid-in capital		88,660	88,660	88,660
Reserve of remeasurements of defined benefit plans		(272,228)	(356,374)	(194,287)
Retained earnings		38,383,372	38,653,433	34,486,672
Total equity attributable to equity holders of the Company		**42,421,598**	**42,607,513**	**38,602,839**
Non-controlling interests		43,959	34,025	10,570
Total equity		**42,465,557**	**42,641,538**	**38,613,409**
Non-current liabilities				
Loans and borrowings	22	27,107,814	26,295,744	20,070,000
Finance lease liability	23	29,300	141,392	400,360
Employee benefits	24	2,084,530	2,148,822	2,012,635
Deferred tax liabilities	14	4,137,288	4,342,821	4,041,557
Other non-current liabilities		671,158	441,277	353,592
Total non-current liabilities		**34,030,090**	**33,370,056**	**26,878,144**
Current liabilities				
Loans and borrowings	22	227,402	207,002	1,167,320
Finance lease liability	23	334,181	400,243	466,376
Trade and other payables	26	10,449,708	11,144,889	8,484,681
Employee payables	25	1,229,202	1,054,997	946,413
Income tax payable		1,547	-	542
Other taxes and contributions payable	27	1,367,183	752,333	259,910
Total current liabilities		**13,609,223**	**13,559,464**	**11,325,242**
Total liabilities		**47,639,313**	**46,929,520**	**38,203,386**
Total equity and liabilities		**90,104,870**	**89,571,058**	**76,816,795**

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

Thousands of Russian Roubles, unless otherwise stated

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Six months ended 30 June 2013	Six months ended 30 June 2012
Profit before income tax		**908,745**	**4,540,584**
Adjustments for:			
Depreciation and amortisation	8	3,899,616	3,794,845
Allowance for impairment of accounts receivable	8	4,007,309	(667,348)
Net finance costs	10	1,146,100	872,306
Provision for inventory obsolescence		(36,536)	(21,789)
Loss on disposal of property, plant and equipment and intangible assets		3,305	23,793
Bad debts written-off	8	2,028	81
Adjustment for other non-cash transactions		32,618	24,951
Cash flows from operating activities before changes in working capital		**9,963,185**	**8,567,423**
Change in trade and other receivables		(3,924,849)	(3,311,271)
Change in inventories		(149,726)	(409,973)
Change in other assets		4,626	20,631
Change in trade and other payables		63,091	1,791,743
Change in employee payables		174,205	(48,201)
Change in employee benefits		(51,546)	(134,448)
Change in other liabilities		202,903	203,959
Change in other taxes payable		614,850	1,080,615
Cash flows from operations before income taxes and interest paid		**6,896,739**	**7,760,478**
Interest paid		(1,225,965)	(999,076)
Income tax paid		(88,957)	(280,123)
Cash flows from operating activities		**5,581,817**	**6,481,279**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(5,822,873)	(5,828,430)
Proceeds from disposal of property, plant and equipment and intangible assets		9,046	42,780
Interest received	10	56,750	81,296
Cash flows used in investing activities		**(5,757,077)**	**(5,704,354)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		838,843	163,808
Repayment of loans and borrowings		(23,625)	(24,485)
Dividends paid		(442)	(1,868)
Repayment of finance lease liabilities		(178,154)	(238,186)
Cash flows from financing activities		**636,622**	**(100,731)**
Net (decrease)/increase in cash and cash equivalents		**461,362**	**676,194**
Cash and cash equivalents at beginning of period		971,592	2,646,152
Cash and cash equivalents at end of period	17	**1,432,954**	**3,322,346**

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

Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Company						
	Ordinary share capital	**Additional paid in capital**	**Reserve of remeasurements of defined benefit plans**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2012	**4,221,794**	**88,660**	**(194,287)**	**34,486,672**	**38,602,839**	**10,570**	**38,613,409**
Profit for the period	-	-	-	3,461,640	3,461,640	9,247	3,470,887
Remeasurements of the net defined benefit liability (asset)	-	-	3,725	-	3,725	-	3,725
Income tax on other comprehensive income	-	-	93	-	93	-	93
Total comprehensive income for the period	**-**	**-**	**3,818**	**3,461,640**	**3,465,458**	**9,247**	**3,474,705**
Transactions with owners, recorded directly in equity			-				
Dividends declared	-	-	-	(422,179)	(422,179)	-	(422,179)
Total transactions with owners, recorded directly in equity	-	-	-	**(422,179)**	**(422,179)**	-	**(422,179)**
At 30 June 2012	**4,221,794**	**88,660**	**(190,469)**	**37,526,133**	**41,646,118**	**19,817**	**41,665,935**
At 1 January 2013	**4,221,794**	**88,660**	**(356,374)**	**38,653,433**	**42,607,513**	**34,025**	**42,641,538**
Profit for the period	-	-	-	592,874	592,874	9,934	602,808
Remeasurements of the net defined benefit liability (asset)	-	-	87,202	-	87,202	-	87,202
Income tax on other comprehensive income	-	-	(3,056)	-	(3,056)	-	(3,056)
Total comprehensive income for the period	**-**	**-**	**84,146**	**592,874**	**677,020**	**9,934**	**686,954**
Transactions with owners, recorded directly in equity							
Dividends declared	-	-	-	(862,935)	(862,935)	-	(862,935)
Total transactions with owners, recorded directly in equity	-	-	-	**(862,935)**	**(862,935)**	-	**(862,935)**
At 30 June 2013	**4,221,794**	**88,660**	**(272,228)**	**38,383,372**	**42,421,598**	**43,959**	**42,465,557**

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

1 BACKGROUND

(a) The Group and its operations

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

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

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

The Group’s principal activity is the transmission of electricity and the connection of customers to the electricity grid, and, pursuant to Orders № 25, 26, 28 of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier", of 24 January 2013, the Company performs the functions of electricity supplier in Bryansk, Oryol, Kursk and Tver regions. The period within which the functions of electricity supplier are to be performed is established prior to the effective date of the decision to provide the tender winner with the electricity supplier status in the abovementioned operating areas, but not more than 12 months.

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

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding changes and additions were made to the Charter of JSC “IDGC Holding”, under which the Parent Company was renamed JSC “Russian Grids”.

As at 30 June 2013, the Government of the Russian Federation owned 61.70% shares of JSC Russian Grids (at 31 December 2012 – 54.52%), 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 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

(a) Statement of compliance

These 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.

Thousands of Russian Roubles, unless otherwise stated

(d) Use of estimates and judgements

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

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

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

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

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

- Note 31 – contingencies.

(e) Changes in accounting policies and data presentation

In June 2011, Amendments to IAS 19 *Employee Benefits* were published, mandatory to be applied for annual periods beginning on or after 1 January 2013.

The revisited version of IAS 19 has changed its approach to the recognition of costs related to employee benefits and their reflection in the reporting.

Under the terms of the new rules are applied retrospectively. For this reason, the beginning balance on 1 January 2012, as well as other comparative information, has been adjusted.

Information below shows the impact on the beginning balance and other comparative information:

Consolidated Statement of Financial Position:

1 January 2012	*As previously reported*	*Effect of changes in accounting policies*	*As restated*
Reserve of remeasurements of defined benefit plans	-	(194,287)	(194,287)
Retained earnings	34,256,704	229,968	34,486,672
Total equity:	**38,577,728**	**35,681**	**38,613,409**
Employee benefits	2,083,121	(70,486)	2,012,635
Deferred tax liabilities	4,006,752	34,805	4,041,557
Total liabilities:	**38,239,067**	**(35,681)**	**38,203,386**

30 June 2012	*As previously reported*	*Effect of changes in accounting policies*	*As restated*
Reserve of remeasurements of defined benefit plans	-	(190,469)	(190,469)
Retained earnings	37,281,272	244,861	37,526,133
Total equity:	**41,611,543**	**54,392**	**41,665,935**
Employee benefits	2,047,149	(92,884)	1,954,265
Deferred tax liabilities	4,410,030	38,492	4,448,522
Total liabilities:	**41,155,543**	**(54,392)**	**41,101,151**

Thousands of Russian Roubles, unless otherwise stated

31 December 2012	*As previously reported*	*Effect of changes in accounting policies*	*As restated*
Reserve of remeasurements of defined benefit plans	-	(356,374)	(356,374)
Retained earnings	38,239,326	414,107	38,653,433
Total equity:	**42,583,805**	**57,733**	**42,641,538**
Employee benefits	2,248,559	(99,737)	2,148,822
Deferred tax liabilities	4,300,817	42,004	4,342,821
Total liabilities:	**46,987,253**	**(57,733)**	**46,929,520**

Consolidated Statement of Comprehensive Income:

For the six months ended 30 June 2012	*As previously reported*	*Effect of changes in accounting policies*	*As restated*
Operating expenses	(29,696,217)	22,691	(29,673,526)
Finance costs	(961,843)	(4,018)	(965,861)
Income tax expense	(1,065,917)	(3,780)	(1,069,697)
Profit for the period	**3,455,994**	**14,893**	**3,470,887**
Remeasurements of the net defined benefit liability (asset)	-	3,725	3,725
Income tax on other comprehensive income	-	93	93
Other comprehensive income for the period, net of income tax	-	**3,818**	**3,818**
Total comprehensive income	**3,455,994**	**18,711**	**3,474,705**

For the year of 2012	*As previously reported*	*Effect of changes in accounting policies*	*As restated*
Operating expenses	(63,297,658)	224,848	(63,072,810)
Finance costs	(1,984,548)	(8,030)	(1,992,578)
Income tax expense	(1,315,863)	(32,679)	(1,348,542)
Profit for the period	**4,428,256**	**184,139**	**4,612,395**
Remeasurements of the net defined benefit liability (asset)	-	(187,567)	(187,567)
Income tax on other comprehensive income	-	25,480	25,480
Other comprehensive income for the period, net of income tax	**-**	**(162,087)**	**(162,087)**
Total comprehensive income	**4,428,256**	**22,052**	**4,450,308**

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.

Certain comparative amounts have been reclassified to conform with the current year presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

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

(iii) Business combinations

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

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus,
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

(iv) Business combinations involving entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised 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 recognised as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

(b) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Loans and receivables category comprise the following classes of financial 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 from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

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

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

(ii) Non-derivative financial liabilities

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

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

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

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

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

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment 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 capitalised as part of that equipment.

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value.

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

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

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

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

(iv) Leased assets

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

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

(d) Intangible assets

(i) Goodwill

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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.

Amortisation 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 realisable value.

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. The cost of inventories is determined using the weighted average cost method.

Net realisable 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, adverse changes in the payment status of borrowers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

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

(ii) Non-financial assets

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

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

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

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

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

(g) Provisions

A provision is recognised 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 recognised in profit or loss based on an act of services rendered containing the physical volume of electricity transmitted. 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 recognised 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 recognised 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 recognised when the significant risks and rewards of ownership of the goods have passed to the buyer or when the services are provided.

(i) Finance income and costs

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

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

(j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised 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 recognised 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.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

A deferred tax asset is recognised 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 utilised. 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 realised.

(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.

Remeasurements of the net defined benefit liability (asset) are recognised in other comprehensive income. Current service cost, past service cost and finance cost are recognised in profit or loss in the period in which they occur.

(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 recognised as finance costs in profit or loss.

Any actuarial gain or losses and past benefit costs are recognised 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 recognised 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.

Segment results that are reported to the Board of Experts, the Group’s operating decision making body, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(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 2013, and have not been applied in preparing Financial Statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective and has not yet determined the potential effect of the amendments..

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. 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. The Standard has not yet been endorsed in the Russian Federation.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 July 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 DETERMINATION OF FAIR VALUES

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

(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.

Thousands of Russian Roubles, unless otherwise stated

(b) Investments in equity

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

(c) Trade and other receivables

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

(d) Inventories

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

(e) Non-derivative financial liabilities

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

5 SUBSIDIARIES

(a) List of subsidiaries

	Country of incorporation	30 June 2013 Ownership/voting, %	31 December 2012 Ownership/voting, %
OJSC "Energetic"	Russian Federation	100	100
OJCS "Yaroslavskaya Setevaya Company"	Russian Federation	51	51
OJSC "Yargorelectroset"	Russian Federation	100	100
OJSC "Energy Service Company"	Russian Federation	100	100
CJSC "Innovation and energy efficiency center"	Russian Federation	51	51

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 and are the Company's branches. The strategic business units offer similar services representing transmission of electric power and connection services, except 4 branches (Bryanskenergo, Kurskenergo, Orelenergo, Tverenergo), that in addition perform the functions of electricity supplier, and are managed separately. For each of the strategic business units, the Company Management, the Group's operating decision making body, reviews internal management reports on at least a quarterly basis.

"Others" include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in the six months ended 30 June 2013 or 2012.

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 Company Management with similar items in these Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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

Thousands of Russian Roubles, unless otherwise stated

(i) Information about reportable segments

As at and for the six months ended 30 June 2013:

	Belgorod-energo	**Bryansk-energo**	**Voronezh-energo**	**Kostroma-energo**	**Kurskenergo**	**Lipetsk-energo**	**Orelenergo**	**Smolensk-energo**	**Tambov-energo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	6,433,811	1,019,267	4,333,830	1,829,349	1,563,078	3,829,497	1,117,315	2,626,254	1,740,193	3,115,123	3,673,551	-	**31,281,268**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	440,186	**440,186**
Revenue from connection services	27,159	26,257	25,561	16,661	33,308	20,301	3,754	40,132	10,641	32,741	34,968	37,496	**308,979**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	312	-	**312**
Revenue from the resale of electricity and capacity	-	3,694,191	-	-	2,999,151	-	1,406,693	-	-	1,746,376	-	-	**9,846,411**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	96,223	14,802	47,903	14,946	11,821	13,638	7,553	120,801	10,637	10,699	16,431	37,712	**403,166**
Inter-segment revenue	-	-	-	148	-	-	-	-	-	-	30	115,872	**116,050**
Total revenues	**6,557,193**	**4,754,517**	**4,407,294**	**1,861,104**	**4,607,358**	**3,863,436**	**2,535,315**	**2,787,187**	**1,761,471**	**4,904,939**	**3,725,292**	**631,266**	**42,396,372**
Results from operating activities	**1,789,436**	**(384,654)**	**(346,870)**	**255,055**	**14,531**	**1,987,838**	**323,601**	**(103,659)**	**(73,357)**	**821,710**	**(293,419)**	**(973,755)**	**3,016,457**
Finance income	449	-	-	61	21	-	234	641	119	-	61	66,010	**67,596**
Finance costs	(241,352)	(32,310)	(20,505)	(51,641)	(64,034)	(92,763)	(65,286)	(95,630)	(108,601)	(130,689)	(71,991)	(70,214)	**(1,045,016)**
Reportable segment profit/(loss) before income tax	**1,548,533**	**(416,964)**	**(367,375)**	**203,475**	**(49,482)**	**1,895,075**	**258,549**	**(198,648)**	**(181,839)**	**691,021**	**(365,349)**	**(977,959)**	**2,039,037**
Depreciation and amortisation	1,112,414	176,656	339,506	213,936	317,333	409,449	137,502	303,325	154,513	242,078	287,337	74,550	**3,768,599**
Capital expenditure	807,727	249,696	427,273	188,709	363,256	593,704	168,182	426,023	81,479	365,611	535,682	61,629	**4,268,971**
As at 30 June 2013													
Reportable segment assets	**20,988,595**	**5,669,606**	**9,377,583**	**4,756,665**	**7,626,229**	**13,094,979**	**3,345,199**	**6,911,141**	**4,227,595**	**12,373,733**	**7,924,748**	**5,621,371**	**101,917,444**
Property, plant and equipment	19,254,410	4,336,106	8,892,347	4,276,949	6,309,772	11,929,657	2,757,252	5,247,200	3,539,412	5,991,484	6,601,339	1,801,004	**80,936,932**
Reportable segment liabilities	**2,204,309**	**1,289,580**	**1,745,876**	**680,191**	**1,377,155**	**1,192,862**	**603,617**	**977,544**	**498,458**	**2,725,786**	**1,245,001**	**32,081,270**	**46,621,649**

Thousands of Russian Roubles, unless otherwise stated

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

	Belgorod-energo	**Bryansk-energo**	**Voronezh-energo**	**Kostroma-energo**	**Kurskenergo**	**Lipetsk-energo**	**Orelenergo**	**Smolensk-energo**	**Tambov-energo**	**Tverenergo**	**Yarenergo**	**Others**	**Total**
Revenue from electricity transmission	5,876,523	2,568,037	3,841,986	1,733,907	2,760,996	4,175,215	1,545,117	2,324,920	1,806,965	3,569,586	3,069,374	-	**33,272,626**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	497,276	**497,276**
Revenue from connection services	51,145	19,461	24,920	14,178	31,664	19,717	8,714	16,426	2,810	36,735	38,540	95,516	**359,826**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	21,014	-	**21,014**
Other revenue	94,828	11,480	30,205	15,906	7,572	10,813	5,813	104,113	8,381	14,842	13,229	148,453	**465,635**
Inter-segment revenue	-	-	-	-	-	--	-	-	-	-	716	197,611	**198,327**
Total revenues	**6,022,496**	**2,598,978**	**3,897,111**	**1,763,991**	**2,800,232**	**4,205,745**	**1,559,644**	**2,445,459**	**1,818,156**	**3,621,163**	**3,142,873**	**938,856**	**34,814,704**
Results from operating activities	**1,551,951**	**345,074**	**319,218**	**360,749**	**458,224**	**717,744**	**248,334**	**417,228**	**198,046**	**1,119,628**	**481,416**	**81,135**	**6,298,747**
Finance income	283	-	-	56	-	-	117	1	70	-	45	88,757	**89,329**
Finance costs	(178,755)	(9,989)	(19,134)	(36,673)	(45,743)	(45,480)	(60,662)	(64,155)	(86,422)	(132,468)	(90,129)	(6,365)	**(775,975)**
Reportable segment profit/(loss) before income tax	**1,373,479**	**335,085**	**300,084**	**324,132**	**412,481**	**672,264**	**187,789**	**353,074**	**111,694**	**987,160**	**391,332**	**163,527**	**5,612,101**
Depreciation and amortisation	966,743	140,586	260,963	173,386	274,426	331,432	119,619	206,376	127,804	213,960	237,892	59,880	**3,113,067**
Capital expenditure	1,263,816	110,017	474,324	240,895	194,562	751,168	153,050	438,053	125,494	243,866	529,707	45,376	**4,570,328**
As at 31 December 2012													
Reportable segment assets	**21,121,299**	**5,592,672**	**10,304,058**	**4,882,904**	**7,190,207**	**13,433,256**	**3,274,558**	**6,160,369**	**4,171,254**	**10,438,052**	**9,042,487**	**5,996,355**	**101,607,471**
Property, plant and equipment	19,653,272	4,263,208	8,887,451	4,309,573	6,269,496	11,903,659	2,756,068	5,207,582	3,648,410	5,845,746	6,456,375	1,807,720	**81,008,560**
Reportable segment liabilities	**2,566,862**	**1,200,211**	**2,960,234**	**884,313**	**1,179,448**	**2,620,489**	**572,840**	**803,580**	**529,760**	**2,095,744**	**2,127,388**	**29,054,532**	**46,595,401**

Thousands of Russian Roubles, unless otherwise stated

(ii) Major customer

For the six months ended 30 June 2013 revenue from one customer of the Group’s segment (Belgorodenergo) represented approximately 12% (RUB 5,178,066 thousand) of the Group’s total revenue (for the six months ended 30 June 2012 - RUB 4,375,201 thousand or 13% of the Group’s total revenue).

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

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

Revenues	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Total revenue for reportable segments	42,396,372	34,814,704
Elimination of inter-segment revenue	(556,548)	(716,617)
Reclassification	58,492	54,873
Consolidated revenue	**41,898,316**	**34,152,960**

Profit before income tax	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Total profit before income tax for reportable segments	2,039,037	5,612,101
Adjustments for of property, plant and equipment	116,920	(436,897)
Recognition of financial assets related to employee benefit fund	10,554	(31,671)
Unused vacation and annual bonus provision	-	(395,859)
Recognition of employee benefit obligations	(22,910)	54,645
Adjustment for finance lease	124,563	166,511
Adjustment for allowance for impairment of account receivables	(200)	(192,989)
Provision for inventory obsolescence	(3,838)	21,789
Adjustment for litigation provision	(1,357,262)	-
Other adjustments	1,881	(257,046)
Consolidated profit before income tax	**908,745**	**4,540,584**

Assets	**30 June 2013**	**31 December 2012**
Total assets for reportable segments	101,917,444	101,607,471
Elimination of cost of investments in subsidiaries	(1,117,395)	(1,117,395)
Elimination of other inter-segment assets	(446,941)	(554,165)
Adjustments for net book value of property, plant and equipment	(9,585,791)	(9,633,559)
Recognition of financial assets related to employee benefit fund	353,903	343,349
Adjustment for allowance for impairment of account receivables	12,611	12,811
Provision for inventory obsolescence	(3,838)	-
Adjustment for deferred tax	(1,019,134)	(1,058,877)
Other adjustments	(5,989)	(28,577)
Consolidated total assets	**90,104,870**	**89,571,058**

Thousands of Russian Roubles, unless otherwise stated

Liabilities	**30 June 2013**	**31 December 2012**
Total liabilities for reportable segments	46,621,649	46,595,401
Elimination of inter-segment liabilities	(445,048)	(552,088)
Adjustment for finance lease	353,221	529,872
Recognition of employee benefit obligations	2,084,530	2,148,822
Adjustment for deferred tax	(983,642)	(443,711)
Adjustment for litigation provision	-	(1,357,262)
Other adjustments	8,603	8,486
Consolidated total liabilities	**47,639,313**	**46,929,520**

7 REVENUE

	Six months ended 30 June 2013	**Six months ended 30 June 2012**
Electricity transmission	31,281,268	33,272,626
Revenue from the resale of electricity and capacity	9,846,411	-
Connection services	308,979	359,826
Repairs and maintenance	197,104	47,921
Rent	26,513	31,421
Other	238,041	441,166
	41,898,316	**34,152,960**

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 2013	**Six months ended 30 June 2012**
Electricity transmission	12,535,554	11,436,856
Personnel costs (Note 9)	7,389,330	6,809,152
Purchased electricity	4,549,050	4,233,746
Electricity for resale	4,539,520	-
Allowance for impairment of accounts receivable	4,007,309	-
Depreciation and amortisation	3,899,616	3,794,845
Raw materials and supplies	1,033,595	979,461
Rent	314,437	266,243
Taxes other than income tax	309,764	176,837
Repairs, maintenance and installation services	238,894	201,768
Electricity for own needs	200,550	238,750
Security	145,490	138,892
Information services	112,082	117,278
Insurance	64,889	61,853
Telecommunication services	25,538	24,142
Consulting, legal and audit services	9,241	68,717
Transportation costs	3,594	32,113
Membership fee	2,332	998
Bad debt written-off	2,028	81
Other	854,375	1,091,794
	40,237,188	**29,673,526**

Thousands of Russian Roubles, unless otherwise stated

9 PERSONNEL COSTS

	Six months ended 30 June 2013	Six months ended 30 June 2012
Salaries and wages	4,982,706	4,629,236
Contribution to the state pension fund	1,200,125	1,119,665
Recognised actuarial loss	(49)	(8)
Compulsory social security contributions	283,978	246,478
Finance aid to employees and pensioners	25,542	224,531
Current service cost	44,399	39,775
Unused vacation provision	653,768	406,081
Past service cost	-	(67,899)
Other personnel costs	198,861	211,293
	7,389,330	**6,809,152**

The average number of employees (including production and non production staff) was 31,546 for the six months ended 30 June 2013 (for the six months ended 30 June 2012: 31,619 employees).

10 FINANCE INCOME AND COSTS

Finance income	Six months ended 30 June 2013	Six months ended 30 June 2012
Net change in fair value of financial investments at fair value through profit and loss	-	12,259
Interest income	56,750	81,296
	56,750	**93,555**
Finance costs		
Interest expense	1,033,311	776,681
Interest on finance lease liabilities	71,767	109,377
Net change in fair value of financial investments at fair value through profit and loss	23,316	-
Interest expense on employee benefits obligation	74,456	79,803
	1,202,850	**965,861**

11 INCOME TAX EXPENSE

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

	Six months ended 30 June 2013	Six months ended 30 June 2012
Current tax expense		
Current period	(514,772)	(662,255)
Adjustment for prior periods	246	(384)
	(514,526)	**(662,639)**
Deferred tax expense		
Origination and reversal of temporary differences	208,589	(407,058)
	208,589	(407,058)
	(305,937)	**(1,069,697)**

Thousands of Russian Roubles, unless otherwise stated

Income tax recognised in other comprehensive income

	Six months ended 30 June 2013			Six months ended 30 June 2012		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Reserve of remeasurements of defined benefit plans	87,202	(3,056)	84,146	3,725	93	3,818

Reconciliation of effective tax rate:

	Six months ended 30 June 2013	%	Six months ended 30 June 2012	%
Profit before income tax	908,745	100	4,540,584	100
Income tax expense at applicable tax rate	(181,749)	(20)	(908,117)	(20)
Adjustment for prior periods	246	-	(384)	-
Net effect of other items which are not deductible/not taxable for taxation purposes	(124,434)	(14)	(161,196)	(4)
	(305,937)	**(34)**	**(1,069,697)**	**(24)**

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
Deemed cost						
At 1 January 2012	16,829,947	31,637,035	18,174,897	9,048,838	7,338,340	83,029,057
Additions	149	1,179	3,228	-	5,098,596	5,103,152
Transfers	412,643	1,914,792	706,847	865,155	(3,899,437)	-
Disposals	(17,213)	(26,879)	(7,659)	(25,810)	(29,769)	(107,330)
Balance as at 30 June 2012	**17,225,526**	**33,526,127**	**18,877,313**	**9,888,183**	**8,507,730**	**88,024,879**
At 1 January 2013	19,913,660	38,405,697	21,902,107	12,497,684	6,424,031	99,143,179
Additions	5,168	11,530	4,853	-	4,326,016	4,347,567
Transfers	630,209	1,817,656	962,056	686,647	(4,096,568)	-
Disposals	(4,053)	(14,323)	(5,338)	(35,850)	(604,588)	(664,152)
Balance as at 30 June 2013	**20,544,984**	**40,220,560**	**22,863,678**	**13,148,481**	**6,048,891**	**102,826,594**
Accumulated depreciation						
At 1 January 2012	(2,879,469)	(10,562,296)	(4,100,558)	(3,290,743)	-	(20,833,066)
Depreciation for the period	(555,492)	(1,719,325)	(598,972)	(741,821)	-	(3,615,610)
Disposals	4,653	14,250	3,142	18,710	-	40,755
At 30 June 2012	**(3,430,308)**	**(12,267,371)**	**(4,696,388)**	**(4,013,854)**	**-**	**(24,407,921)**
At 1 January 2013	(3,889,748)	(13,709,273)	(5,376,048)	(4,807,786)	-	(27,782,855)
Depreciation for the period	(687,794)	(1,342,986)	(763,311)	(945,334)	-	(3,739,425)
Disposals	3,163	9,269	2,980	30,780	-	46,192
At 30 June 2013	**(4,574,379)**	**(15,042,990)**	**(6,136,379)**	**(5,722,340)**	**-**	**(31,476,088)**

Thousands of Russian Roubles, unless otherwise stated

Net book value						
At 1 January 2012	**13,950,478**	**21,074,739**	**14,074,339**	**5,758,095**	**7,338,340**	**62,195,991**
At 30 June 2012	**13,795,218**	**21,258,756**	**14,180,925**	**5,874,329**	**8,507,730**	**63,616,958**
At 1 January 2013	**16,023,912**	**24,696,424**	**16,526,059**	**7,689,898**	**6,424,031**	**71,360,324**
At 30 June 2013	**15,970,605**	**25,177,570**	**16,727,299**	**7,426,141**	**6,048,891**	**71,350,506**

As at 30 June 2013 construction in progress includes advance payments for property, plant and equipment of RUB 20,618 thousand (as at 30 June 2012: RUB 22,739 thousand).

Borrowing costs totalling RUB 138,139 thousand with a capitalisation rate of 7.524-10.44% for the six months ended 30 June 2013 (for the six months ended 30 June 2012: RUB 123,039 thousand with a capitalization rate of 7.524-9.96%) were included in the cost of property, plant and equipment and represent interest on loans.

Leased property, plant and equipment

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

As at 30 June 2013 and 31 December 2012 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:

	Buildings	**Transmission networks**	**Equipment for electricity transformation**	**Other**	**Total**
Cost	67	66,905	1,835,996	383,361	2,286,329
Accumulated depreciation	(14)	(20,635)	(466,949)	(107,376)	(594,974)
Net book value at 31 December 2012	**53**	**46,270**	**1,369,047**	**275,985**	**1,691,355**
Cost	67	18,833	1,524,490	351,239	1,894,629
Accumulated depreciation	(15)	(6,460)	(399,528)	(109,629)	(515,632)
Net book value at 30 June 2013	**52**	**12,373**	**1,124,962**	**241,610**	**1,378,997**

13 INTANGIBLE ASSETS

	Software	**Licenses**	**Other intangible assets**	**Total**
Cost				
At 1 January 2012	376,316	284	1,396,028	1,772,628
Additions	4,543	116	230	4,889
Disposals	(3,456)	-	(121)	(3,577)
At 30 June 2012	**377,403**	**400**	**1,396,137**	**1,773,940**
At 1 January 2013	362,473	-	1,395,212	1,757,685
Additions	8,918	-	27,405	36,323
Disposals	(5,069)	-	(155,398)	(160,467)
At 30 June 2013	**366,322**	**-**	**1,267,219**	**1,633,541**
Accumulated amortisation				
At 1 January 2012	(152,483)	(41)	(674,995)	(827,519)
Amortisation for the period	(55,546)	(256)	(123,433)	(179,235)
Disposals	3,456	-	121	3,577
At 30 June 2012	**(204,573)**	**(297)**	**(798,307)**	**(1,003,177)**

Thousands of Russian Roubles, unless otherwise stated

At 1 January 2013	(186,842)	-	(874,001)	(1,060,843)
Amortisation for the period	(54,911)	-	(105,280)	(160,191)
Disposals	5,069	-	155,398	160,467
At 30 June 2013	**(236,684)**	**-**	**(823,883)**	**(1,060,567)**
Net book value				
At 1 January 2012	**223,833**	**243**	**721,033**	**945,109**
At 30 June 2012	**172,830**	**103**	**597,830**	**770,763**
At 1 January 2013	**175,631**	**-**	**521,211**	**696,842**
At 30 June 2013	**129,638**	**-**	**443,336**	**572,974**

14 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

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

	Assets		**Liabilities**		**Net**	
	30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**	**30 June 2013**	**31 December 2012**
Property, plant and equipment	11,440	12,032	(5,180,151)	(4,966,787)	(5,168,711)	(4,954,755)
Other non-current assets	214	223	-	-	214	223
Inventories	7,840	15,147	-	-	7,840	15,147
Trade and other receivables	469,730	11,024	-	-	469,730	11,024
Finance lease liabilities	70,645	105,974	-	-	70,645	105,974
Post employment benefit liability	193,886	196,284	-	-	193,886	196,284
Employee payables	148,358	138,137	-	-	148,358	138,137
Other	211,108	213,392	(70,358)	(68,247)	140,750	145,145
Deferred tax assets/(liabilities)	**1,113,221**	**692,213**	**(5,250,509)**	**(5,035,034)**	**(4,137,288)**	**(4,342,821)**

(b) Movements in temporary differences during the period

	1 January 2013	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**30 June 2013**
Property, plant and equipment	(4,954,755)	(213,956)	-	(5,168,711)
Other non-current assets	223	(9)	-	214
Inventories	15,147	(7,307)	-	7,840
Trade and other receivables	11,024	458,706	-	469,730
Finance lease liabilities	105,974	(35,329)	-	70,645
Post employment benefit liability	196,284	658	(3,056)	193,886
Employee payables	138,137	10,221	-	148,358
Other	145,145	(4,395)	-	140,750
	(4,342,821)	**208,589**	**(3,056)**	**(4,137,288)**

Thousands of Russian Roubles, unless otherwise stated

	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	30 June 2012
Property, plant and equipment	(4,382,528)	(110,242)	-	(4,492,770)
Other non-current assets	424	(128)	-	296
Inventories	33,512	(4,358)	-	29,154
Trade and other receivables	(92,342)	(229,809)	-	(322,151)
Finance lease liabilities	172,730	(47,026)	-	125,704
Post employment benefit liability	175,994	(2,417)	93	173,670
Employee payables	122,598	(30,060)	-	92,538
Other	(71,945)	16,982	-	(54,963)
	(4,041,557)	**(407,058)**	**93**	**(4,448,522)**

15 INVESTMENTS AND FINANCIAL ASSETS

	30 June 2013	31 December 2012
Financial assets related to the employee benefit fund	353,903	343,349
Investments designated at fair value through profit and loss	174,416	197,732
Available-for-sale financial assets	1,934	1,934
	530,253	**543,015**

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 RTS, recorded at fair market value (belong to Level 1 in the fair value hierarchy).

Financial assets related to employee benefit fund

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

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 2013	31 December 2012
Trade accounts receivable	77,232	90,538
Non-current prepayments	5,401	5,656
Other accounts receivable	28,429	30,184
Other accounts receivable impairment allowance	(1,071)	(1,114)
Other assets	36,687	36,690
	146,678	**161,954**

Thousands of Russian Roubles, unless otherwise stated

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash in bank accounts and bank deposits with maturities at initial recognition of less than three months from the acquisition date amounted to RUB 1,432,954 thousand denominated in roubles (31 December 2012: RUB 971,592 thousand).

18 TRADE AND OTHER RECEIVABLES

	30 June 2013	31 December 2012
Trade receivables	18,087,770	13,959,355
Trade receivables impairment allowance	(5,981,011)	(2,108,327)
Prepayments	245,027	528,193
Prepayments impairment allowance	(35,702)	(1,601)
VAT recoverable	496,871	652,311
Taxes receivable	12,520	22,159
Other receivables	854,540	617,015
Other receivables impairment allowance	(292,189)	(196,748)
	13,387,826	**13,472,357**

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 2013	31 December 2012
Materials and supplies	2,308,866	1,576,823
Inventory for resale	294	19,560
Total inventories	**2,309,160**	**1,596,383**
Less: provision for inventory obsolescence	(39,200)	(75,736)
Total	**2,269,960**	**1,520,647**

20 EQUITY

(a) Share capital

	Ordinary shares	
	30 June 2013	31 December 2012
Issued shares, fully paid	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10

Thousands of Russian Roubles, unless otherwise stated

(b) Dividends

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

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

At the annual shareholders meeting held on 14 June 2013 the decision was made to distribute the Company's profit for the year 2012 to dividends in the amount of RUB 862,935 thousand and to pay dividends for the year 2013 in the amount of RUB 0.02044 per ordinary share of the Company in cash.

21 EARNINGS PER SHARE

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

Number of shares unless otherwise stated	**Ordinary shares 30 June 2013**	**Ordinary shares 30 June 2012**
Authorised 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	**592,874**	**3,461,640**
Earning per share (in RUB): basic and diluted	**0.014**	**0.082**

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 2013**	**Effective interest rate 31 December 2012**	**Maturity**	**30 June 2013**	**31 December 2012**
OJSC "Alfa-Bank"	Unsecured	7.8-9.5%	7.8-9.5%	2017	2,002,603	2,003,115
OJSC "Bank VTB"	Unsecured	9.75-10.17%	10.17%	2018	3,922,101	3,922,179
OJSC "Rosbank"	Unsecured	8.00%	8.00%	2015	3,801,666	3,801,661
OJSC "Sberbank"	Unsecured	7.524-10.44%	7.524-10.44%	2014-2025	13,452,721	12,601,526
CJSC "Transcapitalbank"	Unsecured	13.50%	13.50%	2015	93,786	111,978
Unsecured bond issues	Unsecured	9.044%	9.044%	2015	4,062,339	4,061,797
					27,335,216	**26,502,256**

Thousands of Russian Roubles, unless otherwise stated

Name of lender		Effective interest rate 30 June 2013	Effective interest rate 31 December 2012	Maturity	30 June 2013	31 December 2012
Less: current portion						
OJSC "Alfa-Bank"	Unsecured	7.8-9.5%	7.8-9.5%	2017	2,603	3,115
OJSC "Bank VTB"	Unsecured	10.17%	10.17%	2018	2,101	2,179
OJSC "Rosbank"	Unsecured	8.00%	8.00%	2015	1,666	1,661
OJSC "Sberbank"	Unsecured	7.524-10.44%	7.524-10.44%	2014-2025	102,721	85,426
CJSC "Transcapitalbank"	Unsecured	13.50%	13.50%	2015	43,660	40,022
Unsecured bond issues	Unsecured	9.044%	9.044%	2015	74,651	74,109
					227,402	**206,512**
Total long-term borrowings					**27,107,814**	**26,295,744**

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	Effective interest rate	30 June 2013	31 December 2012
OJSC "Alfa-Bank"	Unsecured	7.8-9.5%	7.8-9.5%	2,603	3,115
OJSC "Bank VTB"	Unsecured	10.17%	10.17%	2,101	2,179
OJSC "Rosbank"	Unsecured	8.00%	8.00%	1,666	1,661
OJSC "Sberbank"	Unsecured	7.524-10.44%	7.524-10.44%	102,721	85,426
OJSC "SGB"	Unsecured	10.00%	10.00%	-	490
CJSC "Transcapitalbank"	Unsecured	13.50%	13.50%	43,660	40,022
Unsecured bond issues	Unsecured	9.044%	9.044%	74,651	74,109
				227,402	**207,002**

As at 30 June 2013 no bank loans are secured over bank guarantees received.

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 2013		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	385,903	334,181	51,722
Between one and five years	35,036	29,300	5,736
	420,939	**363,481**	**57,458**

Thousands of Russian Roubles, unless otherwise stated

	At 31 December 2012		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	513,498	400,243	113,255
Between one and five years	157,361	141,392	15,969
	670,859	**541,635**	**129,224**

24 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the periods ended 30 June 2013 and 31 December 2012.

(a) Net liability in Statement of Financial Position

	30 June 2013	31 December 2012
Recognised defined benefit liability in Statement of Financial Position	2,082,130	2,146,316
Recognised other long term liability in Statement of Financial Position	2,400	2,506
Total recognised liability in Statement of Financial Position	**2,084,530**	**2,148,822**

(b) Movements in the defined benefit liability

	Six months ended 30 June 2013	Six months ended 30 June 2012
Net liability at the beginning of period	2,146,316	1,967,976
Current service cost	44,325	39,715
Past service cost	-	(24,864)
Finance cost	74,371	79,742
Remeasurements:		
(Gain)/Loss on changes in financial assumptions	(94,936)	21,875
Experience (Gain)/Loss on changes in financial assumptions	7,734	(25,600)
Benefits paid	(95,680)	(106,154)
Net liability at the end of period	**2,082,130**	**1,952,690**

(c) Movements in the other long term liability

	Six months ended 30 June 2013	Six months ended 30 June 2012
Net liability at the beginning of period	2,506	44,659
Current service cost	74	60
Past service cost	-	(43,035)
Finance cost	85	61
Remeasurements:		
(Gain)/Loss on changes in financial assumptions	(121)	17
Experience (Gain)/Loss on changes in financial assumptions	72	(25)
Benefits paid	(216)	(162)
Net liability at the end of period	**2,400**	**1,575**

Thousands of Russian Roubles, unless otherwise stated

(d) Actuarial assumptions

Principal actuarial assumptions are as follows:

	30 June 2013	31 December 2012
Discount rate, annual	7.80%	7.10%
Future salary increase, per year	5.00%	5.00%
Inflation rate, per year	5.00%	5.00%

(e) Expense recognised in profit or loss

	Six months ended 30 June 2013	Six months ended 30 June 2012
Service cost in respect to post employment benefits	44,325	14,851
Service cost in respect to other long term benefits	74	(42,975)
Financial cost	74,456	79,803
Remeasurements in respect to other long term benefits	(49)	(8)
	118,806	**51,671**

(f) Expense recognised in other comprehensive income

	Six months ended 30 June 2013	Six months ended 30 June 2012
(Gain)/Loss on changes in actuarial assumptions	(94,936)	21,875
Experience (Gain)/Loss	7,734	(25,600)
	(87,202)	**(3,725)**

25 EMPLOYEE PAYABLES

	30 June 2013	31 December 2012
Salaries and wages payable	487,414	364,313
Unused vacation provision	516,991	357,847
Annual bonus provision	224,797	332,837
	1,229,202	**1,054,997**

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

26 TRADE AND OTHER PAYABLES

	30 June 2013	31 December 2012
Trade accounts payable	5,095,441	5,637,331
Advances received	2,558,659	3,791,171
Other payables and accrued expenses	2,795,608	1,716,387
	10,449,708	**11,144,889**

Thousands of Russian Roubles, unless otherwise stated

27 OTHER TAXES AND CONTRIBUTIONS PAYABLE

	30 June 2013	31 December 2012
Value added tax	863,916	325,675
Compulsory social security contributions	266,947	245,014
Property tax	126,007	63,666
Other taxes	110,313	117,978
	1,367,183	**752,333**

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.

(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.

Thousands of Russian Roubles, unless otherwise stated

(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 2013	**31 December 2012**
Trade and other receivables	12,773,700	12,390,903
Investments and financial assets	530,253	543,015
Cash and cash equivalents	1,432,954	971,592
	14,736,907	**13,905,510**

The Group’s two most significant customers, regional distribution entities, account for RUB 5,130,350 thousand of the trade receivables carrying amount at 30 June 2013 (31 December 2012: RUB 4,520,030 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 2013	**Carrying amount at 31 December 2012**
Electricity transmission customers	8,880,406	11,591,240
Customers of electricity and capacity	2,948,557	-
Connection services customers	91,698	107,640
Other customers	263,330	242,686
	12,183,991	**11,941,566**

Impairment losses

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

	at 30 June 2013		**At 31 December 2012**	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	4,910,228	(1,854)	6,594,313	(119,680)
Past due 0-3 months	4,536,260	(612,862)	3,603,571	(329,873)
Past due 3-6 months	4,072,123	(1,806,689)	1,966,473	(415,478)
Past due 6-12 months	3,413,210	(2,231,477)	1,388,214	(573,198)
Past due more than 12 months	2,116,150	(1,621,389)	1,144,521	(867,960)
	19,047,971	**(6,274,271)**	**14,697,092**	**(2,306,189)**

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 2013	**Six months ended 30 June 2012**
Balance at 1 January	2,306,189	1,784,891
Increase during the period	4,239,548	152,569
Amounts written-off against receivables	(5,061)	(271,352)
Decrease due to reversal	(266,405)	(819,757)
Balance at 30 June	**6,274,271**	**846,351**

Thousands of Russian Roubles, unless otherwise stated

(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 analyse 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 2013 the Group's unused portion of long-term and short-term credit line facilities amounted to RUB 5,200,000 thousand (31 December 2012: RUB 8,033,900 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 2013					
Short-term and long-term bank loans including current portion	23,272,877	32,185,982	2,147,058	21,102,521	8,936,403
Unsecured bond issues	4,062,339	4,892,600	357,040	4,535,560	-
Finance lease liabilities	363,481	420,939	385,903	35,036	-
Trade and other payables	5,762,263	5,762,263	5,755,581	-	6,682
	33,460,960	**43,261,784**	**8,645,582**	**25,673,117**	**8,943,085**
Financial guarantees	-	-	-	-	-

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2012					
Short-term and long-term bank loans including current portion	22,440,949	31,935,267	2,046,825	20,623,743	9,264,699
Unsecured bond issues	4,061,797	5,071,120	357,040	4,714,080	-
Finance lease liabilities	541,635	670,859	513,498	157,361	-
Trade and other payables	5,985,685	5,985,685	5,972,692	6,173	6,820
	33,030,066	**43,662,931**	**8,890,055**	**25,501,357**	**9,271,519**
Financial guarantees	**-**	**8,234**	**8,234**	**-**	**-**

(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 optimising 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.

Thousands of Russian Roubles, unless otherwise stated

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 2013	Carrying amount 31 December 2012
Financial liabilities	27,698,697	27,044,381

Fair value sensitivity analysis for fixed rate instruments

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

(e) Fair values

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

(f) Capital management

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

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

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

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

29 OPERATING LEASES

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

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

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

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

	30 June 2013	31 December 2012
Less than one year	478,057	477,190
Between one year and five years	849,671	863,099
More than five years	3,433,483	3,538,313
	4,761,211	**4,878,602**

The amount of lease expense under operating leases recognised in profit or loss for the six months ended 30 June 2013 was RUB 314,437 thousand (for the six months ended 30 June 2012: RUB 266,243 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 5,040,947 thousand as at 30 June 2013 (net of VAT) (as at 31 December 2012: RUB 4,640,503 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 continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

(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) Other contingencies

The Group believes that the electricity services provided are in compliance with the Russian legislation regulating electric power transmission. However, based on the lack of elaboration of legislation that regulates the lease of Unified National (All-Russia) Electricity Network property ("last-mile"), as at 31 December 2012 the Company was a party in litigation relating to a claim submitted to the court by OJSC Novolipetsk Steel complex regarding the legitimacy of the revenue recognition from the transmission of electricity via "last-mile" grids in the period from July 2008 to September 2011in the amount of RUB 5,122,123 thousand.

Thousands of Russian Roubles, unless otherwise stated

Resolution of the Federal Arbitration Court of Moscow District dated 04.07.2013 canceled decision of the Arbitration Court of Moscow and the resolution of the 9th Arbitration Appeal Court on recovering from JSC "IDGC of Centre" in favor of OJSC Novolipetsk Steel 5.1 billion rubles of unjust enrichment.

(f) Guarantees

As at 30 June 2013 the Group has no issued financial guarantees for loans.

	Amount on contract 30 June 2013	Amount on contract 31 December 2012
Belgorodskoe OSB №8582	-	8,234
	-	**8,234**

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 30 June 2013 and 31 December 2012 was JSC Russian Grids. 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 Russian Grids.

(b) Transactions with parent

For the six months ended 30 June 2013 there is no management fee (for the six months ended 30 June 2012: RUB 187,387 thousand).

(c) Management compensation

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

Total remuneration paid to key management, Board of Directors and Management Board members for the six months ended 30 June 2013 and included into personnel costs was:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Salary and bonuses	85,994	185,657

(d) Transactions with government-related entities

The Group applies the exemption in IAS 24 Related party disclosures that allows to present reduced related party disclosures regarding transactions with government-related entities.

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

Revenues from government-related entities accounts for 3% of total revenue for the six months ended 30 June 2013, (for the six months ended 30 June 2012: 3%) including 3% of the proceeds from the transfer of electricity (for the six months ended 30 June 2012: 3%).

Due to the fact that on 14 June 2013 the state-owned shares (79.64%) of JSC "FGC UES" were handed over from the Russian Federation represented by the the Federal Agency for State Property Management (Rosimushchestvo) to JSC "Russian Grids", the share of the cost of electricity transmission to government-related entities decreased.

Costs of electricity transmission for government-related entities account for 4% of the total cost of the electricity transmission for the six months ended 30 June 2013 (for the six months ended 30 June 2012: 3%).

Thousands of Russian Roubles, unless otherwise stated

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

	Addition of loans and borrowings	The balance of transactions	Addition of loans and borrowings	The balance of transactions
	Six months 2013	**30 June 2013**	**Six months 2012**	**31 December 2012**
Loans and borrowings received from:				
Government-related entities	833,900	17,374,822	-	16,523,705
	833,900	**17,374,822**	**-**	**16,523,705**

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

(f) Pricing policy

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