FEDERAL GRID COMPANY UES GROUP

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

(UNAUDITED)

PRICEWATERHOUSECOOPERS

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of Open Joint Stock Company «Federal Grid Company of Unified Energy System» (JSC FGC UES):

Introduction

1 We have reviewed the accompanying consolidated interim financial statements of JSC FGC UES and its subsidiaries (the "Group") which comprise the consolidated interim statement of financial position as at 30 June 2010, consolidated interim statement of comprehensive income, consolidated interim statement of cash flows and consolidated interim statement of changes in equity for the six months then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of review

2 We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

3 The Group has not maintained adequate accounting records regarding the original cost, revalued amounts, depreciation and impairment provision at the level of individual items of property, plant and equipment. As such, it was not practicable to extend our review procedures sufficiently to satisfy ourselves as to the carrying amount of individual items of property, plant and equipment of RR 776,972 million and RR 740,320 million included in the accompanying consolidated interim statement of financial position as at 30 June 2010 and 31 December 2009, respectively, the related revaluation effects in both the consolidated interim statement of comprehensive income and the consolidated interim statement of changes in equity, depreciation expenses in the consolidated interim statement of comprehensive income and the related effect on the deferred tax balance.

Qualified conclusion

4 Based on our review, except for the effect of the matters noted in paragraph 3 above, if any, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as of 30 June 2010, and of its financial performance and cash flows for the six months then ended in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting".

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REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

Emphasis of matter – governmental economic and social policies

5 Without further qualifying our conclusion, we draw attention to Note 4 to the accompanying consolidated interim financial statements. The Government of the Russian Federation has an ultimate controlling interest in the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
29 October 2010

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FGC UES Group

Consolidated Interim Statement of Financial Position as at 30 June 2010
(Unaudited)
(in millions of Russian Roubles)

	Notes	30 June 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	776,972	740,320
Intangible assets	6	5,828	6,392
Investments in associated companies	7	58,951	58,451
Available-for-sale investments	8	41,777	35,229
Long-term promissory notes	9	9,354	8,952
Other non-current assets	10	890	959
Total non-current assets		**893,772**	**850,303**
Current assets			
Cash and cash equivalents	11	15,292	33,699
Bank deposits	12	4,822	10,187
Short-term promissory notes	9	41,937	48,681
Accounts receivable and prepayments	13	28,708	29,248
Profit tax prepayments		1,569	988
Inventories	14	4,793	3,271
Other current assets		77	47
Total current assets		**97,198**	**126,121**
TOTAL ASSETS		**990,970**	**976,424**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	15	616,781	576,757
Treasury shares	15	(6,864)	(6,864)
Share premium	15	10,501	10,347
Reserves	15	329,620	267,533
Retained earnings		(91,654)	(47,795)
Equity attributable to the shareholders of FGC UES		**858,384**	**799,978**
Non-controlling interest		1,180	1,570
Total equity		**859,564**	**801,548**
Non-current liabilities			
Deferred profit tax liabilities	16	83,997	83,640
Non-current debt	17	6,000	6,000
Retirement benefit obligations	18	3,736	3,439
Total non-current liabilities		**93,733**	**93,079**
Current liabilities			
Accounts payable to the shareholders of FGC UES	15	-	40,178
Current debt and current portion of non-current debt	19	599	7,545
Accounts payable and accrued charges	20	35,980	32,938
Other taxes payable	21	1,094	1,136
Total current liabilities		**37,673**	**81,797**
Total liabilities		**131,406**	**174,876**
TOTAL EQUITY AND LIABILITIES		**990,970**	**976,424**

Authorised for issue and signed on behalf of the Management Board:

29 October 2010

First Deputy Chairman of the Management Board D.A. Troshenkov

Chief Accountant V.V. Shchukin

Consolidated Interim Statement of Comprehensive Income for the six months ended 30 June 2010 (Unaudited)
(in millions of Russian Roubles)

	Notes	The six months ended 30 June 2010	The six months ended 30 June 2009
Revenues	22	56,565	42,247
Other operating income	22	1,765	2,022
Operating expenses	23	(44,346)	(35,526)
Gain on sale of available-for-sale investments	8	-	303
Specific impairment of property, plant and equipment and intangible assets	5,6	(1,100)	(3,617)
Operating profit		**12,884**	**5,429**
Finance income	24	3,131	4,997
Finance costs	25	(50)	(1,305)
Share of result of associates	7	525	1,480
Profit before profit tax		**16,490**	**10,601**
Profit tax	16	(3,854)	(2,661)
Profit for the period		**12,636**	**7,940**
Other comprehensive income			
Share of other comprehensive income of associates	7	7	186
Foreign currency translation difference	7	(32)	47
Available-for-sale investments	8	6,535	13,478
Profit tax recorded directly in other comprehensive income	16	(1,308)	(1,130)
Other comprehensive income for the period, net of profit tax		**5,202**	**12,581**
Total comprehensive income for the period		**17,838**	**20,521**
Profit / (loss) attributable to:			
Shareholders of JSC "FGC UES"	26	13,026	7,967
Non-controlling interest		(390)	(27)
Total comprehensive income attributable to:			
Shareholders of JSC "FGC UES"		18,228	20,548
Non-controlling interest		(390)	(27)
Earning per ordinary share for profit attributable to the shareholders of JSC "FGC UES" – basic and diluted (in Russian Roubles)	**26**	**0.01**	**0.01**

Authorised for issue and signed on behalf of the Management Board:

29 October 2010

First Deputy Chairman of the Management Board — D.A. Troshenkov

Chief Accountant — V.V. Shchukin

FGC UES Group

Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2010
(Unaudited)
(in millions of Russian Roubles)

	Notes	The six months ended 30 June 2010	The six months ended 30 June 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before profit tax		**16,490**	**10,601**
Adjustments to reconcile profit before profit tax to net cash provided by operations			
Depreciation of property, plant and equipment	23	14,962	9,421
Loss on disposal of property, plant and equipment	23	145	554
Impairment of property, plant and equipment and intangible assets	5,6	1,100	3,617
Amortisation of intangible assets	23	447	308
Gain on disposal of available-for-sale investments	8	-	(303)
Share of result of associates	7	(525)	(1,480)
Accrual of allowance for doubtful debtors	23	2,987	2,250
Finance income	24	(3,121)	(4,591)
Finance costs	25	50	1,284
Effect of exchange rate fluctuations on bank deposits denominated in foreign currency	24	(10)	(8)
Other non-cash operating costs		(38)	(10)
Operating cash flows before working capital changes and profit tax paid		**32,487**	**21,643**
Working capital changes:			
Increase in accounts receivable and prepayments		(7,315)	(6,977)
Increase in other current assets		(14)	(46)
Increase in inventories		(1,530)	(317)
Decrease / (increase) in other non-current assets		69	(335)
Increase in accounts payable and accrued charges		2,830	1,528
Increase in taxes payable, other than profit tax		4,555	1,335
Increase in retirement benefit obligations		297	250
Profit tax paid		(5,420)	(1,636)
Net cash generated by operating activities		**25,959**	**15,445**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(51,812)	(44,180)
Proceeds from sale of property, plant and equipment		-	491
Purchase of intangible assets		(182)	(368)
Purchase of promissory notes		(14,040)	-
Investment in bank deposits		(1,662)	(150)
Redemption of promissory notes		19,688	31,209
Redemption of bank deposits		7,100	1,671
Disposal of available-for-sale investments		-	345
Interest received		3,994	1,975
Net cash used in investing activities		**(36,914)**	**(9,007)**

Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2010
(Unaudited)
(in millions of Russian Roubles)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from shares issuance	15	-	32,296
Proceeds from current borrowings		54	4,000
Repayment of debt		(7,000)	(19,001)
Dividends paid		-	(1)
Interest paid		(506)	(1,441)
Net cash (used in) / generated by financing activities		**(7,452)**	**15,853**
Net (decrease) / increase in cash and cash equivalents		**(18,407)**	**22,291**
Cash and cash equivalents at the beginning of the period	11	**33,699**	**15,685**
Cash and cash equivalents at the end of the period	11	**15,292**	**37,976**

Authorised for issue and signed on behalf of the Management Board:

29 October 2010

First Deputy Chairman of the Management Board D.A. Troshenkov

Chief Accountant V.V. Shchukin

Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2010
(Unaudited)
(in millions of Russian Roubles)

		Attributable to shareholders of FGC UES							
	Note	Share capital	Share premium	Treasury shares	Reserves (Note 15)	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2010		**576,757**	**10,347**	**(6,864)**	**267,533**	**(47,795)**	**799,978**	**1,570**	**801,548**
Comprehensive income for the period									
Profit / (loss) for the period		-	-	-	-	13,026	**13,026**	(390)	**12,636**
Other comprehensive income, net of related profit tax									
Share of other comprehensive income of associates	7, 15	-	-	-	-	6	**6**	-	**6**
Foreign currency translation difference	7	-	-	-	(32)	-	**(32)**	-	**(32)**
Gain on change of fair value of available-for-sale investments	15	-	-	-	5,228	-	**5,228**	-	**5,228**
Total other comprehensive income		-	-	-	***5,196***	*6*	***5,202***	-	***5,202***
Total comprehensive income for the period		-	-	-	5,196	13,032	**18,228**	(390)	**17,838**
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	15	40,024	154	-	-	-	**40,178**	-	**40,178**
Transfer of merger reserve to retained earnings	15	-	-	-	56,891	(56,891)	-	-	-
Total transactions with shareholders of FGC UES		40,024	154	-	56,891	(56,891)	**40,178**	-	**40,178**
As at 30 June 2010		**616,781**	**10,501**	**(6,864)**	**329,620**	**(91,654)**	**858,384**	**1,180**	**859,564**

The accompanying notes on pages 9 to 50 are an integral part of these consolidated interim financial statements

Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2010 (Unaudited)
(in millions of Russian Roubles)

		Attributable to shareholders of FGC UES							
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Reserves (Note 15)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2009		**576,757**	**10,347**	**(6,864)**	**(2,860)**	**13,337**	**590,717**	**1,346**	**592,063**
Comprehensive income for the period									
Profit/(loss) for the period		-	-	-	-	7,967	**7,967**	(27)	**7,940**
Other comprehensive income, net of related profit tax									
Share of other comprehensive income of associates	7	-	-	-	-	149	**149**	-	**149**
Foreign currency translation difference	7	-	-	-	47	-	**47**	-	**47**
Gain on change of fair value of available-for -sale investments	8	-	-	-	12,385	-	**12,385**	-	**12,385**
Total other comprehensive income		-	-	-	**12,432**	**149**	**12,581**	-	**12,581**
Total comprehensive income for the period		-	-	-	**12,432**	**8,116**	**20,548**	**(27)**	**20,521**
As at 30 June 2009		**576,757**	**10,347**	**(6,864)**	**9,572**	**21,453**	**611,265**	**1,319**	**612,584**

Authorised for issue and signed on behalf of the Management Board:

29 October 2010

First Deputy Chairman of the Management Board — D.A. Troshenkov

Chief Accountant — V.V. Shchukin

Note 1. The Group and its operations

Open Joint Stock Company "Federal Grid Company of Unified Energy System" ("FGC UES" or "the Company") was established on 25 June 2002 as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification United Energy System of Russia ("RAO UES") as a result of implementing the decisions of the Board of Directors of RAO UES dated 25 January 2002 and 7 May 2002 in accordance with the Russian Federation Government Resolution No. 526 "Electric Utilities Reform in the Russian Federation" dated 11 July 2001.

RAO UES itself was created as the holder of certain significant electricity power generation, transmission and distribution assets during the industry privatization in 1992.

The Company was established in the course of the Russian electric utilities industry restructuring, discussed further below, to maintain and operate the high voltage electricity transmission network, received from RAO UES and its subsidiaries, and to provide electricity transmission services using that network.

In 2002 and 2003 the assets of the transmission business (the high voltage network and related assets under construction) belonging to RAO UES were transferred to the Company by RAO UES as a contribution to the share capital of the Company.

In 2008 the reorganization of RAO UES was completed and RAO UES ceased to exist as a legal entity. FGC UES is RAO UES's legal successor.

The Group's primary activity is the provision of services for the transmission of electric power via the Unified National Electrical Network ("UNEN").

Starting from July 2008 the Company's ordinary registered uncertified shares are traded on the MICEX and RTS exchanges. The shares have been included in the quotation list "B" and received the trading code "FEES".

The registered office of the Company is located at 5a, Academician Chelomey Str., 117630, Moscow, Russian Federation.

Relations with the state. At 30 June 2010 after an additional issue of shares (Note 15), the state owns 79.11 percent of the voting ordinary shares of the Company (at 31 December – 77.66 percent). The Government of the Russian Federation ("RF") is the ultimate controlling party of the Company.

The RF directly affects the Group's operations through regulation by the Federal Tariff Service (FTS).

The investment program of FGC UES is subject to approval by the Ministry of Industry and Electricity and FTS.

As described in the *Operating environment* section below, the Government's economic, social and other policies could have material effects on the operations of the Group.

Operating environment. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has further increased the level of economic uncertainty of Group's environment.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Note 2. Basis of preparation

Statement of compliance. These consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with, and comply with, IAS 34 "Interim Financial Reporting" and other relevant International Financial Reporting Standards ("IFRS") and its interpretations. All information should be read in conjunction with the Group's annual audited consolidated interim financial statements for the year ended 31 December 2009.

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying Interim Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble (RR), which is FGC UES's functional currency and the currency in which these Interim Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million, unless otherwise stated.

New accounting developments. These consolidated interim financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2009, except for those policies which were changed to comply with the new or amended standards and interpretations that are in force for the financial periods beginning on 1 January 2010.

(a) Certain new standards and interpretations became effective for the Group from 1 January 2010:

- IFRIC 17, "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets must be recognised in profit or loss when the entity settles the dividend payable.

- IFRIC 18, "Transfers of Assets from Customers" (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

- IAS 27, "Consolidated and Separate Financial Statements" (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

- IFRS 3, "Business Combinations" (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer must remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs must be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer must recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date must be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Note 2. Basis of preparation (continued)

- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, "Share-based Payment" (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.
- Eligible Hedged Items—Amendment to IAS 39, "Financial Instruments: Recognition and Measurement" (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
- IFRS 1, "First-time Adoption of International Financial Reporting Standards" (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result.
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.

(b) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted:

- Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Note 2. Basis of preparation (continued)

- Amendment to IAS 24, "Related Party Disclosures" (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction

Note 2. Basis of preparation (continued)

between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

Going concern. These Interim Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

Critical accounting estimates and assumptions. Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these Interim Financial Statements in conformity with IFRS. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving preparation of estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Interim Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Property, plant and equipment. The property, plant and equipment have been revalued at 31 December 2009. The revaluation was performed by independent appraisers on a depreciated replacement cost basis, except for most of administrative buildings. The depreciated replacement cost was tested for impairment using a profitability test with respect to each cash generating unit (Note 5). Actual results may be different from these estimates.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued in these IFRS Interim Financial Statements. The possible tax claims in respect of certain open tax positions of the Group companies are disclosed in Note 27.

Note 3. Summary of significant accounting policies

Principles of consolidation. The Interim Financial Statements comprise the financial statements of FGC UES and the financial statements of those entities whose operations are controlled by FGC UES. Control is presumed to exist when FGC UES controls, directly or indirectly, through subsidiaries, more than 50 percent of voting rights. The Group holds 49% of the voting rights in JSC "Kuban Trunk Grids", a fully consolidated subsidiary. The Group has the power to govern the financial and operating policies of this subsidiary on the basis of a significant shareholding combined with other factors which allow the Group to exercise control, most importantly: FGC UES has appointed the majority or all of the members of the Board of Directors, FGC UES is the dominant owner and FGC UES has in substance full control of all aspects of the entities assets and operations.

All inter-company balances and transactions have been eliminated. The non-controlling interest in the Group subsidiaries has been disclosed as part of the Group's equity.

Associates. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition and is reduced by accumulated impairment losses, if any. The Group discontinues the use of the equity method of accounting from the date when it ceases to have significant influence in the associate.

Note 3. Summary of significant accounting policies (continued)

The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss, and its share of post-acquisition movements in reserves is recognised in the Group's other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these Interim Financial Statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the Statement of Financial Position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group holds financial assets of the following measurement categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. The Group's financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. The Group's financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Note 3. Summary of significant accounting policies (continued)

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. The Group classifies investments as available for sale at the time of purchase. Available-for-sale investments are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss for the period.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss– is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss.

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Roubles at the official exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

As at 30 June 2010, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") was RR 31.20:US$ 1.00 (31 December 2009 – RR 31.24:US$ 1.00); between the Russian Rouble and Euro: RR 38.19:Euro 1.00 (31 December 2009 RR 43.39:Euro 1.00).

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which is determined using the fair value at the end of the reporting period. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and increase the revaluation reserve in equity; the increase is recognised in current period profits to the extent that it reverses previously recognised impairment loss of the same assets.

Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve in equity; all other decreases are recognised in profit or loss for the period. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the assets, and the net amount is restated to the revalued amount of the asset.

The revaluation reserve in respect of an item of property, plant and equipment is transferred directly to retained earnings when the item is derecognised (on the retirement or disposal of the asset).

Renewals and improvements are capitalised and the assets replaced are retired. The cost of minor repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The useful lives are reviewed at each financial year end and, if expectations differ from previous estimates, the changes are recognised prospectively.

Note 3. Summary of significant accounting policies (continued)

The useful lives, in years, of assets by type of facility are as follows:

	Useful lives
Buildings	25-60
Electric power transmission grids	30-50
Substations	15-35
Other	5-15

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised as current period loss to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Research costs are recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of origination and are subject to insignificant changes in value.

Bank deposits. Bank deposits comprise cash deposited at banks with a maturity date of more then three months from the acquisition date.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added tax (VAT). Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Note 3. Summary of significant accounting policies (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories Mostly include repair materials and spare parts for transmission assets. Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Value added tax on purchases and sales. Output VAT on sales should be charged on the earliest of the dates: the date of shipment of goods (works, services) or the date of advance payment receipt from the buyer. Input VAT could be recovered without payment for the goods (works, services). Before 1 January 2009 no VAT on advances given could be recovered. Starting from 1 January 2009 VAT on advances given is generally recoverable VAT due to the budget (due from the budget) is calculated as the difference between output VAT on sales of goods (works, services) and input VAT charged by suppliers and recovered.

Income taxes. Income taxes have been provided for in these consolidated interim financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits/losses for the current and prior periods. Taxes other than on income are recorded as operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at each end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade accounts payable and accrued charges. Trade accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract. Accounts payable are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Note 3. Summary of significant accounting policies (continued)

Advances received. Advances received represent deferred income from customers for future connection services and are recorded at the undiscounted amount.

Debt. Debt is recognised initially at its fair value plus transaction costs that are directly attributable to its issue. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation. Borrowing costs are expensed in the period in which they are incurred if not related to purchase or construction of qualifying assets. Starting from 2009 the borrowing costs related to purchase or construction of assets that take a substantial period of time to get ready for use or sale (qualifying assets) are capitalised as part of the cost of the asset. The Group applies the transitional provisions of IAS 23 for borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Pension and post-employment benefits. In the normal course of business the Group makes mandatory social security contributions to the Russian Federation state pension scheme on behalf of its employees. These contributions are expensed when incurred and included in employee benefit expenses and payroll taxes in profit or loss.

In addition, the Group maintains a number of post employment and other long-term benefit plans which are defined benefit in nature. These plans include life pension, lump sum upon retirement, financial support after retirement, jubilee and death benefits and cover majority of the Group's employees. Under the pension plan amount of pension benefits that an employee will receive after retirement dependents on his date of birth, number of years of service, position, salary and presence of awards. The Group settles its liability to provide life pension through a non-state pension fund. However, the assets held in the non-state pension fund do not meet definition of plan assets in accordance with IAS 19. These assets are accounted for as other non-current assets. Other benefits, apart from life pension payable via the non-state pension fund, are provided when they are due directly by the Group.

The liability recognised in the Statement of Financial Position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

With regard to post employment benefits, actuarial gains and losses in excess of 10% of the defined benefit obligation are recognised as an expense over the average remaining working life of employees. Past service costs are recognised immediately as an expense in the consolidated statement of comprehensive income to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Actuarial gains and losses and past service costs related to other long-term employee benefits are recognised as an expense in the consolidated statement of comprehensive income when they arise.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in debts. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Note 3. Summary of significant accounting policies (continued)

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the financial statements are authorised for issue.

Non-controlling interest. Non-controlling interest represents minority's proportionate share of the equity and comprehensive income of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of non-controlling interests. Any gains or losses resulting from the purchases and sales of the non-controlling interests are recognised in the statement of changes in equity.

Revenue recognition. Revenue amounts are presented exclusive of value added tax. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue from sales of electricity is recognised on the delivery of electricity. Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network and is recognized when the customer is connected to the grid network.

Share capital. Ordinary shares with discretionary dividends are classified as equity upon completion of share issue and registration of the issue in the Federal Financial Markets Service. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting period.

(in millions of Russian Roubles unless otherwise stated)

Note 4. Balances and transactions with related parties

State controlled entities

In the normal course of business the Group enters into transactions with entities under Government control, large portion of the Group's primary activity - transmission services are rendered to entities controlled by Government of Russian Federation. The Group borrows funds from banks under Government control at the prevailing market rates. Taxes are accrued and settled in accordance with the Russian tax legislation.

During the six months ended 30 June 2010 and 2009 the Group had the following significant transactions with state controlled entities:

	The six months ended 30 June 2010	The six months ended 30 June 2009
Transmission revenue	50,495	38,394
Electricity sales	861	986

Significant balances with state controlled entities are presented below:

	30 June 2010	31 December 2009
Cash and cash equivalents	7,014	3,405
Bank deposits	3,158	3,244
Long-term promissory notes (Note 9)	758	671
Short-term promissory notes (Note 9)	27,810	46,331
Trade receivables (Net of allowance for doubtful debtors of RR 7,039 million as at 30 June 2010 and 4,569 million as at 31 December 2009)	10,157	6,042
Accounts payable to the shareholders of FGC UES	-	(40,178)
Accounts payable and accrued charges	(10,000)	(10,834)
Current debt	(505)	(505)

Tax balances and charges are disclosed in Notes 17, 22 and 24. Tax transactions are disclosed in the Statement of Comprehensive Income.

Directors' compensation. Compensation is paid to members of the Management Board for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements. Also, additional medical coverage is provided to the members of Management Board and their close family members.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Fees, compensation or allowances, are not paid to the members of the Board of Directors who are government employees.

Total remuneration in the form of salary, bonuses and non-cash benefits provided to the members of the Board of Directors and Management Board for the six months ended 30 June 2010 and 2009 was as follows:

	The six months ended 30 June 2010		The six months ended 30 June 2009	
	Expense	Accrued liability	Expense	Accrued liability
Short-term compensation, including salary and bonuses	56	3	10	1
Remuneration for serving on the Board of Directors	3	-	1	1
Post-employment benefits	10	68	11	57
Total	**69**	**71**	**22**	**59**

(in millions of Russian Roubles unless otherwise stated)

Note 5. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 1 January 2010	21,194	412,970	123,585	173,708	8,863	740,320
Additions	-	-	910	50,783	1,041	52,734
Transfers	168	3,641	6,275	(10,692)	608	-
Disposals	(16)	(81)	(132)	(33)	(6)	(268)
Closing balance as at 30 June 2010	21,346	416,530	130,638	213,766	10,506	792,786
Including PPE under finance lease	-	-	2,273	-	-	2,273
Accumulated depreciation and impairment						
Opening balance as at 1 January 2010	-	-	-	-	-	-
Charge for the period	(259)	(7,607)	(6,135)	-	(961)	(14,962)
Impairment loss	-	-	-	(856)	(4)	(860)
Disposals	-	-	5	3	-	8
Closing balance as at 30 June 2010	(259)	(7,607)	(6,130)	(853)	(965)	(15,814)
Including PPE under finance lease	-	-	(194)	-	-	(194)
Net book value as at 1 January 2010	21,194	412,970	123,585	173,708	8,863	740,320
Net book value as at 30 June 2010	21,087	408,923	124,508	212,913	9,541	776,972

(in millions of Russian Roubles unless otherwise stated)

Note 5. Property, plant and equipment (continued)

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 1 January 2009	15,380	152,170	98,435	212,365	22,725	501,075
Additions	747	4	2,990	40,709	1,257	45,707
Transfers	251	254	3,604	(4,827)	718	-
Disposals	(6)	(8)	(416)	(767)	(155)	(1,352)
Closing balance as at 30 June 2009	16,372	152,420	104,613	247,480	24,545	545,430
Including PPE under finance lease	-	-	5,830	-	68	5,898
Accumulated depreciation and impairment						
Opening balance as at 1 January 2009	(657)	(10,723)	(16,376)	(1,481)	(4,489)	(33,726)
Charge for the period	(212)	(3,012)	(4,752)	-	(1,445)	(9,421)
Impairment loss	-	-	-	(3,606)	(11)	(3,617)
Disposals	4	8	86	-	28	126
Closing balance as at 30 June 2009	(865)	(13,727)	(21,042)	(5,087)	(5,917)	(46,638)
Including PPE under finance lease	-	-	(3,186)	-	(48)	(3,234)
Net book value as at 1 January 2009	14,723	141,447	82,059	210,884	18,236	467,349
Net book value as at 30 June 2009	15,507	138,693	83,571	242,393	18,628	498,792

Borrowing costs of RR 445 million were capitalised in the six months ended 30 June 2010 and included in additions. Capitalisation rate of 5.2% was used for the six months ended 30 June 2010 to determine the amount of borrowing costs eligible for capitalization, representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment.

The Group obtains bank guarantees in relation to advances paid to construction companies and suppliers of property, plant and equipment. These guarantees represent an irrevocable assurance of the bank to make payments to the Group in the event of the default of the construction company or supplier of property, plant and equipment on its obligations. The total amount of guarantees received is RR 37,776 million as at 30 June 2010 (as at 31 December 2009 - RR 68,709 million) including VAT.

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

The Group has the option to purchase land on which electric power transmission lines are located upon application to the state registering body or to formalize the right for rent. According to Russian legislation the expiry date of this option for is 1 January 2013. As at 30 June 2010 the Group companies have no intention to purchase this land.

(in millions of Russian Roubles unless otherwise stated)

Note 5. Property, plant and equipment (continued)

Revaluation. Property, plant and equipment was revalued at 31 December 2009. The revaluation was performed by independent appraisers on a depreciated replacement cost basis, except for most of administrative buildings which were valued on the basis of recent market transactions involving similar assets on arm's length terms. The replacement cost for most power transmission lines, substations and construction in progress is based on their technical capabilities, construction costs and construction cost estimates. The cost to replace the majority of the Group's equipment is measured on the basis of purchase agreements and manufacturers' and selling companies' price-lists. The depreciated replacement cost was tested for impairment using a profitability test with respect to each cash generating unit. The Group's transmission segment (Note 30) was considered as a single cash generating unit.

As a result of the revaluation the Group's equity increased by RR 238,290 million, comprising an increase in the carrying value of property, plant and equipment of RR 297,862 million, net of a related deferred tax of RR 59,572 million. For each revaluated class of property, plant and equipment stated at revalued amount in these Interim Financial Statements, the carrying amount that would have been recognized had the assets been carried under the historical cost basis is as follows:

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Net book value as at 30 June 2010	11,325	122,340	78,695	300,760	21,425	534,545
Net book value as at 31 December 2009	11,183	119,809	73,439	265,528	20,722	490,681

Impairment. Management of the company analysed the existence of indicators of impairment of property, plant and equipment and decided that no indicators existed at the end of the reporting period.

Leased property, plant and equipment. Subsequent to the latest revaluation the Group leased certain equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 30 June 2010 the net book value of leased property, plant and equipment was RR 2,079 million (as at 31 December 2009 – RR 2,273 million). The leased equipment is pledged as security for the lease obligations.

Operating leases. The Group leases a number of land areas owned by the local government under operating lease. The expected lease payments due are determined based on the lease agreements and payable as follows:

	30 June 2010	31 December 2009
Under one year	461	476
Between two and five years	1,279	1,140
Over five years	6,413	8,482
Total	**8,153**	**10,098**

The above lease agreements are usually signed for period of 1 to 49 years and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

As at 30 June 2010 the carrying value of property, plant and equipment leased out under operating lease is RR 1,832 million (as at 31 December 2009 - RR 1,856 million).

(in millions of Russian Roubles unless otherwise stated)

Note 6. Intangible assets

	Corporate system of managing geographically dispersed resources	Corporate information management system (SAP-R3)	Other software	Total
Cost at 1 January 2009	1,706	3,952	2,376	8,034
Accumulated amortisation	(361)	(398)	(342)	(1,101)
Carrying value at 1 January 2009	1,345	3,554	2,034	6,933
Additions	1	348	236	585
Disposals	-	(1,015)	(214)	(1,229)
Amortisation charge	(85)	(150)	(73)	(308)
Carrying value at 30 June 2009	1,261	2,737	1,983	5,981
Cost at 30 June 2009	1,707	3,285	2,398	7,390
Accumulated amortisation	(446)	(548)	(415)	(1,409)
Carrying value at 30 June 2009	1,261	2,737	1,983	5,981
Cost at 1 January 2010	1,707	4,498	2,539	8,744
Accumulated amortisation	(532)	(692)	(662)	(1,886)
Accumulated impairment	-	(466)	-	(466)
Carrying value at 1 January 2010	1,175	3,340	1,877	6,392
Additions	-	134	60	194
Disposals	-	(64)	(20)	(84)
Disposals of accumulated amortisation	-	-	13	13
Amortisation charge	(86)	(165)	(196)	(447)
Impairment loss	-	(240)	-	(240)
Carrying value at 30 June 2010	1,089	3,005	1,734	5,828
Cost at 30 June 2010	1,707	4,568	2,579	8,854
Accumulated amortisation	(618)	(857)	(845)	(2,320)
Accumulated impairment	-	(706)	-	(706)
Carrying value at 30 June 2010	1,089	3,005	1,734	5,828

The Corporate system of managing geographically dispersed resources is a software system for gathering, processing and storing information on conditions in the transmission network, which is required for effective maintenance of UNEN. The Corporate system of managing geographically dispersed resources is amortised during 5 years. The Corporate system of managing geographically dispersed resources includes the development cost of RR 847 million at 30 June 2010 and at 31 December 2009.

Corporate information management system (SAP-R3) consists of several modules (parts) and related licences. As at 30 June 2010 only certain modules (parts) were placed in operation and are subject to amortisation. These modules are amortised over 5 years, on a straight-line basis. The Corporate information management system (SAP-R3) includes the development cost of RR 2,271 million as at 30 June 2010 (as at 31 December 2009 - RR 2,178 million).

As at 30 June 2009 licenses for Corporate information management system (SAP-R3) in amount of RR 1,013 million originally acquired by the Company with a view of a further sale are classified as "Non-current assets held for sale" because the Company was in process of active negotiations with potential buyers of these assets in 2009-2010 years. As at 31 December 2009 the management of the Company revised plans of selling these assets and the licenses were reclassified from non-current assets held for sale back to intangible assets, and impaired.

Other software includes capitalised software development costs that meet the definition of an intangible asset of RR 1,083 million as at 30 June 2010 (as at 31 December 2009 - RR 1,079 million).

(in millions of Russian Roubles unless otherwise stated)

Note 7. Investments in associated companies

The movements in the carrying value of investments in associates are as follows:

	The six months ended 30 June 2010	The six months ended 30 June 2009
Carrying value at 1 January	58,451	44,632
Share of result of associates	525	1,480
Translation difference	(32)	47
Share of other comprehensive income of associates	7	186
Carrying value at 30 June	**58,951**	**46,345**

The carrying value of investments in associates is as follows:

	30 June 2010	31 December 2009
JSC "WGC-1"	29,506	30,053
JSC "Volzhskaya TGC"	18,563	17,774
JSC "TGC-6"	6,210	6,066
JSC "TGC-11"	3,772	3,624
Other associates	900	934
Total	**58,951**	**58,451**

In March 2009 the rights for 40.2% shares of JSC WGC-1 were transferred in trust management to OJSC INTER RAO UES in favour of the Company. The transfer did not result in the termination of the Group's rights of ownership for these shares and the Group continues to exercise significant influence over OJSC WGC-1 as at 30 June 2010.

Where there was an active market and quoted prices for shares, the fair value of the associates as at the date of acquisition was established using the market prices. When no published quoted price was available, the fair value was determined by applying various valuation techniques. The fair value of investments in associates for which a published price is available is as follows:

	30 June 2010	31 December 2009
JSC "WGC-1"	21,359	14,124
JSC "Volzhskaya TGC"	15,312	13,746
JSC "TGC-6"	5,337	4,508
JSC "TGC-11"	2,323	2,534

The following is summarised financial information, in aggregate, in respect of significant associates:

	Ownership/Voting,%		Assets		Liabilities	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
JSC "WGC-1"	43.1	43.1	93,461	96,081	(25,002)	(26,353)
JSC "TGC-6"	24.7	24.7	37,925	40,625	(12,782)	(10,103)
JSC "Volzhskaya TGC"	33.7	33.7	71,555	69,470	(16,390)	(16,650)
JSC "TGC-11"	27.5	27.5	19,879	19,921	(6,137)	(6,718)

	Revenue for the six months ended		Profit / (loss) for the six months ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
JSC "WGC-1"	26,347	23,259	(1,288)	287
JSC "TGC-6"	15,357	10,853	586	1,228
JSC "Volzhskaya TGC"	28,187	26,637	2,345	2,339
JSC "TGC-11"	10,610	8,681	539	1,009

(in millions of Russian Roubles unless otherwise stated)

Note 7. Investments in associated companies (continued)

Revaluation of property, plant and equipment of associates. As at 31 December 2009 the property, plant and equipment of associates was revalued by an independent appraiser. The Group's share of the revaluation surplus recognised in the Group's other comprehensive income was RR 14,151 million; the related deferred tax charge of RR 2,830 million was also recognised in other comprehensive income for the year ended 31 December 2009. The revaluation decrease on JSC "TGC-6" in the amount of RR 715 million reduced the revaluation surplus previously recognised in other comprehensive income; the related deferred tax of RR 143 million was credited to other comprehensive income for the year ended 31 December 2009. As at 30 June 2010 the property, plant and equipment was not revalued.

Impairment of investments in associates. As at 31 December 2009 the Group has assessed whether the carrying value of the investments exceeded their recoverable amount at that date. The Group determined the recoverable amount based on value in use being the present value of the future cash flows expected to be derived from the investment. The future expected cash flows were discounted at 18% being the nominal pre-tax discount rate determined based on the weighted average cost of capital of the associates. In 2009 pursuant to this impairment test, an impairment loss of RR 1,473 million was recognised in relation to the investment in JSC "TGC-6" as a loss for the period; the related deferred tax of RR 295 million was credited to profit and loss. No additional impairment loss was recorded as at 30 June 2010.

As at 30 June 2010 and 31 December 2009 an accumulated impairment loss of RR 1,766 million had been recognised in relation to the investment in JSC "Volzhskaya TGC".

Note 8. Available-for-sale investments

	31 December 2009	Additions	Change in fair value*	30 June 2010
JSC "Bashkirenergo"	7,699	-	2,088	9,787
JSC "RusHydro"	5,337	3	1,783	7,123
JSC "Mosenergo"	5,878	-	(674)	5,204
JSC "IDGC Holding"	4,247	-	61	4,308
JSC "WGC-6"	2,899	-	1,339	4,238
JSC "WGC-4"	2,261	1	1,124	3,386
JSC "Inter RAO UES"	2,668	-	(139)	2,529
JSC "WGC-2"	626	-	392	1,018
JSC "TGC-1"	857	-	109	966
JSC "WGC-3"	818	-	121	939
JSC "RAO ES Vostoka"	487	-	119	606
JSC "Sangtudinskaya GES-1"	555	-	-	555
JSC "TGC-9"	282	-	129	411
JSC "Kuzbassenergo"	255	-	60	315
JSC "TGC-13"	210	-	32	242
JSC "TGC-11 Holding"	150	-	-	150
Total	**35,229**	**4**	**6,544**	**41,777**

(in millions of Russian Roubles unless otherwise stated)

Note 8. Available-for-sale investments (continued)

	31 December 2008	Disposal	Change in fair value*	30 June 2009
JSC "RusHydro"	2,673	-	2,819	5,492
JSC "Bashkirenergo"	1,395	-	2,978	4,373
JSC "Mosenergo"	1,705	-	872	2,577
JSC "WGC-6"	1,039	-	1,078	2,117
JSC "Kuzbassenergo"	1,003	-	1,046	2,049
JSC "IDGC Holding"	1,033	-	879	1,912
JSC "WGC-4"	528	-	878	1,406
JSC "Inter RAO UES"	351	-	945	1,296
JSC "Sangtudinskaya GES-1"	1,100	-	-	1,100
JSC "WGC-3"	199	-	784	983
JSC "WGC-2"	176	-	299	475
JSC "TGC-1"	177	-	239	416
JSC "TGC-9"	100	-	192	292
JSC "TGC-11"	45	-	231	276
JSC "RAO ES Vostoka"	86	-	189	275
JSC "TGC-13"	74	-	27	101
JSC "TGC-2"	56	(44)	22	34
JSC "TGC-14"	34	-	-	34
Total	**11,774**	**(44)**	**13,478**	**25,208**

* - Change in fair value of available-for-sale investments is recognised in other comprehensive income.

JSC "Sangtudinskaya GES-1"

Available-for-sale investments include shares of JSC "Sangtudinskaya GES-1", which is incorporated and operates in Tajikistan. As at 30 June 2010 and 31 December 2009 the Group's interest in JSC "Sangtudinskaya GES-1" was 14.78%. The controlling shareholder in JSC "Sangtudinskaya GES-1" is the Russian Federation.

As at 31 December 2009 the Group has assessed the fair value of shares of JSC "Sangtudinskaya GES-1" using valuation techniques and determined it at the amount of RR 555 million. Pursuant to this assessment, an additional impairment loss in relation to the investment in JSC "Sangtudinskaya GES-1" was recognised in 2009 amounting to RR 545 million. As at 30 June 2010 there was no change in the of fair value of the shares of JSC "Sangtudinskaya GES-1".

JSC "Bashkirenergo" and JSC "Kuzbassenergo"

As a result of merger with RAO UES the Group acquired a 21.27% share in JSC "Bashkirenergo" and a 20.27% share in JSC "Kuzbassenergo". Management had assessed the level of influence that the Group has on JSC "Bashkirenergo" and JSC "Kuzbassenergo" and determined that it did not amount to significant influence. Consequently, the investments in these entities were classified as available-for-sale investments.

In November 2009 the Company sold 18.98% of the shares of JSC "Kuzbassenergo" to JSC "InterRAO UES" Consequently, as at 30 June 2010 the Group's share of the voting rights in JSC "Kuzbassenergo" was 1.29%.

JSC "TGC-2"

During the six months ended 30 June 2009 the Company partially sold its interest in the shares of JSC "TGC 2". The carrying value of the disposed investment was RR 89 million and the gain on the sale of this investment amounted to RR 303 million, which was recorded as Gain on sale of available-for-sale investments in Statement of Comprehensive Income. The remaining package of shares of JSC "TGC-2" with a carrying value of RR 34 million as at 30 June 2009 was sold in July 2009.

(in millions of Russian Roubles unless otherwise stated)

Note 8. Available-for-sale investments (continued)

Available-for-sale investments valuation

The fair value of the available-for-sale financial instruments was determined based on the quoted market prices or, where quotations were not available, based on valuation techniques. At 30 June 2010 the total carrying value of the investments for which fair value was determined based on the quoted market prices was RR 41,222 million (as at 31 December 2009 - RR 34,674 million).

Change in fair value of available-for-sale investments

The Group assessed the available-for-sale investments for impairment as at 31 December 2008 and concluded that an impairment had taken place as there was evidence of a significant and prolonged decline in the fair value of equity instruments below their cost.

As at 31 December 2009 the accumulated impairment loss amounted of RR 18,306 million. A partial reversal of this impairment loss as a result of the increase in market prices during the six months ended 30 June 2010 was recognised in other comprehensive income in the amount of RR 6,535 million (during the six months ended 30 June 2009 RR 13,478 million). As at 30 June 2010 the total revaluation reserve for available-for-sale investments was RR 27,147 million (Note 15), net of a related deferred tax of RR 4,423 million (as at 31 December 2009 - RR 21,919 million, net of a related deferred tax of RR 3,116 million).

Note 9. Promissory notes

	Rating	Rating agency	Effective interest rate, %	Due	30 June 2010	31 December 2009
Long-term promissory notes						
LLC "Energo Finance" (net of impairment of RR 3,533 million as at 30 June 2010 and RR 3,896 million as at 31 December 2009)		Not available	9.1%-10.6%	2014	8,025	7,672
JSC "System Operator UES"*		Not available	7.0%	2012	558	542
JSC "ROSBANK"	BBB+	Fitch Ratings	12.0%	2015	259	245
JSC "Evrofinance Mosnarbank"	B+	Fitch Ratings	12.6%	2014	202	190
JSC "IDGC of Centre and Volga region"*		Not available	12.6%	2011-2020	137	129
JSC "Alfa-Bank"	BB	Fitch Ratings	12.6%	2015	5	5
Other long-term promissory notes			12.6%	2011-2016	168	169
Total long-term promissory notes					**9,354**	**8,952**
Short-term promissory notes						
JSC "VTB Bank"*	BBB	Fitch Ratings	7.2%-8.5%	2010	26,581	45,083
JSC "Alfa-Bank"	BB	Fitch Ratings	12.6%-15.5%	2010	11,804	1,524
JSC Bank "ROSSIYA"	B-	Fitch Ratings	4.5%-5.5%	2010	1,500	-
JSC "System Operator UES"*		Not available	-	2010	1,114	1,114
JSC "Gazprombank"	Baa3	Moody's	15.5%	2010	722	672
JSC "Mosenergo"*		Not available	12.6%	2010	91	86
Other short-term promissory notes			12.6%	2010	125	202
Total short-term promissory notes					**41,937**	**48,681**

Companies marked with * above are state-controlled entities (Note 4).

All promissory notes are denominated in Russian roubles.

As at 30 June 2010 and 31 December 2009 the fair value of promissory notes, determined using valuation techniques, was RR 55,456 million and RR 57,481 million respectively.

(in millions of Russian Roubles unless otherwise stated)

Note 10. Other non-current assets

	30 June 2010	31 December 2009
Long-term accounts receivable	453	438
Total financial assets	**453**	**438**
VAT recoverable	256	312
Other non-current assets	181	209
Total	**890**	**959**

Note 11. Cash and cash equivalents

	30 June 2010	31 December 2009
Cash at bank and in hand	13,134	13,387
Cash equivalents	2,158	20,312
Total	**15,292**	**33,699**

Cash at bank	Rating	Rating agency	30 June 2010	31 December 2009
JSB "Sberbank"	BBB	Fitch Ratings	6,641	2,146
	Baa1	Moody's		
JSC "Alfa-Bank"	BB	Fitch Ratings	5,038	9,664
	Ba1	Moody's		
	BB+	Standart&Poor's		
JSB "Gazprombank"	Baa3	Moody's	1,012	1,111
	BB	Standart&Poor's		
Yugo-Zapadniy bank	BBB	Fitch Ratings	210	341
JSC "VTB bank"	BBB	Fitch Ratings	25	19
	Baa1	Moody's		
	BBB	Standart&Poor's		
JSB "Otkrytie bank"	-	Not available	81	78
Other			127	28
Total cash at bank			**13,134**	**13,387**

Cash equivalents include short-term investments in certificates of deposit:

Bank deposits	Interest rate	Rating	Rating agency	30 June 2010	31 December 2009
JSB "Gazprombank"	4.1%	Baa3	Moody's	2,000	18,777
JSB "Sberbank"	3.1%-4.1%	BBB	Fitch Ratings	138	899
OJSC "Alfa-Bank"	2.0%-6.8%	Ba1	Moody's	-	587
Other				20	49
Total bank deposits				**2,158**	**20,312**

Although some of the banks have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

There are no deposits denominated in foreign currency included in cash equivalents as at 30 June 2010 (as at 31 December 2009 - RR 1,216 million).

(in millions of Russian Roubles unless otherwise stated)

Note 12. Bank deposits

	Interest rate	Rating	Rating agency	30 June 2010	31 December 2009
LLC "KIT Finance Investment bank"	9.0%-13.0%	Caa2	Moody's	2,090	2,017
JSB "VTB bank"	12.2%-13.8%	Baa1	Moody's	1,068	1,197
JSB "Gazprombank"	4.5%	Baa3	Moody's	1,000	5,740
OJSC "Alfa-Bank"	6.4%	Ba1	Moody's	663	1,198
JSB "Otkrytie bank"	7.5%	-	-	1	5
JSB "Sberbank"	10.0%	Baa1	Moody's	-	30
Total bank deposits				**4,822**	**10,187**

Carrying amount of bank deposits approximates its' fair value.

There are no bank deposits denominated in foreign currency as at 30 June 2010 (as at 31 December 2009 - RR 5 million).

Note 13. Accounts receivable and prepayments

	30 June 2010	31 December 2009
Trade receivables (Net of allowance for doubtful debtors of RR 7,543 million as at 30 June 2010 and RR 4,862 million as at 31 December 2009)	13,080	8,434
Other receivables (Net of allowance for doubtful debtors of RR 1,013 million as at 30 June 2010 and RR 992 million as at 31 December 2009)	636	869
Total financial assets	**13,716**	**9,303**
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 2,447 million as at 30 June 2010 and 2,162 million as at 31 December 2009)	1,445	2,434
VAT recoverable	9,585	9,332
Tax prepayments	2,327	6,902
VAT related to advances received	1,635	1,277
Total	**28,708**	**29,248**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Tax prepayments will be settled against future tax liabilities.

Management has determined the provision for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates their fair value.

(in millions of Russian Roubles unless otherwise stated)

Note 13. Accounts receivable and prepayments (continued)

The movement of the provision for doubtful debts is shown below:

Six months ended 30 June 2010	Trade receivables	Other receivables	Advances to suppliers and prepayments	Total
As at 1 January	**4,862**	**992**	**2,162**	**8,016**
Provision reversal	(366)	(169)	(2)	(537)
Debt written-off	(2)	-	-	(2)
Provision accrual	3,049	190	287	3,526
As at 30 June	**7,543**	**1,013**	**2,447**	**11,003**

Six months ended 30 June 2009	Trade receivables	Other receivables	Advances to suppliers and prepayments	Total
As at 1 January	**1,455**	**703**	**427**	**2,585**
Provision reversal	(9)	(58)	(3)	(70)
Debt written-off	(2)	(99)	-	(101)
Provision accrual	786	301	1,233	2,320
As at 30 June	**2,230**	**847**	**1,657**	**4,734**

As at 30 June 2010 the overdue receivables for which the provision had not been recorded amounted to RR 3,562 million (at 31 December 2009 - RR 2,775 million). The ageing analysis is shown below:

	At 30 June 2010	At 31 December 2009
Less than 3 months	3,284	1,551
3 to 6 months	220	595
6 to 12 months	43	334
1 year to 5 years	15	295
Total	**3,562**	**2,775**

The analysis of overdue accounts receivables for which the provision had been recorded as at 30 June 2010 is shown below, gross of allowance for doubtful accounts:

	At 30 June 2010	31 December 2009
Less than 3 months	1,070	1,042
3 to 6 months	3,058	644
6 to 12 months	45	18
1 year to 5 years	3,420	3,598
Total	**7,593**	**5,302**

Note 14. Inventories

	At 30 June 2010	31 December 2009
Repair materials	2,744	2,230
Spare parts	1,586	794
Other inventories	463	247
Total	**4,793**	**3,271**

The cost of inventories is shown net of an obsolescence provision for RR 47 million as at 30 June 2010 (as at 31 December 2009 - RR 39 million). At 30 June 2010 and 31 December 2009 the Group had no inventories pledged as security under loan and other agreements.

(in millions of Russian Roubles unless otherwise stated)

Note 15. Equity

Share capital

	Number of shares issued and fully paid			
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Ordinary shares	1,233,561,333,552	1,153,514,196,362	616,781	576,757

As at 30 June 2010 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Additional issue of shares. In January 2010 Company registered issue of additional 80,047 million shares at par value RR 0.5 each for the amount of RR 40,024 million. The effective interest of the Government of RF was increased from 77.66 to 79.11 percent. As a result of this issue, the share capital was increased to RR 616,781 million and additional share premium recognised in the amount of RR 154 million.

Treasury shares. Treasury shares as at 30 June 2010 and 31 December 2009 represent 13,727,165 thousand of ordinary shares in amount of RR 6,864 million.

Treasury shares were received by the Group during the reorganisation process in the form of a legal merger with RAO UES in 2008. The Company's shares are held by its subsidiary, LLC "Index Energetiki".

Treasury shares received during 2008 are accounted for at their nominal value of RR 0.5 per share.

Reserves. Reserves include the Revaluation reserve for property, plant and equipment and available-for-sale investments, Merger reserve and Foreign currency translation reserve.

Based on the application of predecessor accounting (Note 2), the difference between the value of the share capital issued, the IFRS carrying values of the contributed assets and the non-controlling interest has been recorded as a merger reserve within equity in amount of RR 56,891 million.

After the liquidation of JSC "RAO UES of Russia" no additional movements of this reserve is expected to occur and the nature of this reserve does not significantly differ from other Group's retained earnings/accumulated losses once the formation of the merger reserve is finalized. Consequently during the six months ended 30 June 2010 the accumulated merger reserve was reclassified to the retained earnings in amount of RR 56,891 million.

The translation reserve, relating to the exchange differences arising on translation of the net assets of a foreign associate, as at 30 June 2010 was credit of RR 24 million (31 December 2009: credit of RR 56 million) and is included in other reserves.

Reserves comprise the following:

	30 June 2010	31 December 2009
Revaluation reserve, net of tax, for:		
- for property, plant and equipment (Note 5)	291,700	291,700
- for property, plant and equipment of associates (Note 7)	10,749	10,749
- available-for-sale investments (Note 8)	27,147	21,919
Merger reserve	-	(56,891)
Foreign currency translation reserve	24	56
Total	**329,620**	**267,533**

(in millions of Russian Roubles unless otherwise stated)

Note 15. Equity (continued)

Reserves for the six months ended 30 June 2010 (net of tax):

	Revaluation reserve for: property, plant and equipment (Note 5, 7)	Revaluation reserve for: available-for-sale investments (Note 8)	Merger reserve	Foreign currency translation reserve	Total reserves
As at 1 January 2010	**302,449**	**21,919**	**(56,891)**	**56**	**267,533**
Transfer of merger reserve to retained earnings	-	-	56,891	-	**56,891**
Foreign currency translation difference (Note 7)	-	-	-	(32)	**(32)**
Gain on change of fair value of available-for-sale investments	-	5,237	-	-	**5,237**
Realised revaluation reserve for available-for-sale investments	-	(9)	-	-	**(9)**
As at 31 June 2010	**302,449**	**27,147**	-	**24**	**329,620**

Reserves for the six months ended 30 June 2009:

	Revaluation reserve for: property, plant and equipment (Note 5)	Revaluation reserve for: available-for-sale investments (Note 8)	Merger reserve	Foreign currency translation reserve	Total reserves
As at 1 January 2009	**53,984**	-	**(56,891)**	**47**	**(2,860)**
Foreign currency translation difference (Note 7)	-	-	-	47	**47**
Gain on change of fair value of available-for -sale investments (Note 8)	-	12,385	-	-	**12,385**
As at 30 June 2009	**53,984**	**12,385**	**(56,891)**	**94**	**9,572**

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2009, the statutory net loss of the parent company, FGC UES, as reported in the published statutory financial statements for the year ended 31 December 2009, was RR 59,866 million (for the year ended 31 December 2008 net profit was RR 4,465 million). At the Annual General Meeting in June 2009 and 2010 decisions were approved not to declare dividends for the years ended 31 December 2008 and 31 December 2009.

(in millions of Russian Roubles unless otherwise stated)

Note 16. Profit tax

Profit tax expense comprises the following:

	The six months ended 30 June 2010	The six months ended 30 June 2009
Current profit tax charge	(4,805)	(2,819)
Deferred profit tax credit	951	158
Total profit tax credit	**(3,854)**	**(2,661)**

During the six months ended 30 June 2010 and 2009 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

Net profit before profit tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	The six months ended 30 June 2010	The six months ended 30 June 2009
Profit before profit tax	**16,490**	**10,601**
Theoretical profit tax charge at statutory tax rate of 20 percent	(3,298)	(2,120)
Tax effect of items which are not deductible or assessable for taxation purposes	(185)	(177)
Non-recognised deferred tax asset	(371)	(364)
Total Profit tax credit	**(3,854)**	**(2,661)**

Deferred profit tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at 20 percent at 30 June 2010 and 31 December 2009, the rates expected to be applicable when the asset or liability will reverse.

(in millions of Russian Roubles unless otherwise stated)

Note 16. Profit tax (continued)

Deferred profit tax assets and liabilities for the six months ended 30 June 2010:

		Movements for the year		
	30 June 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2009
Deferred profit tax liabilities				
Property, plant and equipment	70,069	(551)	-	70,620
Investments in associates	11,619	105	1	11,513
Available-for-sale investments	4,575	5	1,307	3,263
Accounts receivable and prepayments	48	42	-	6
Other deferred tax liabilities	36	5	-	31
Total deferred profit tax liabilities	**86,347**	**(394)**	**1,308**	**85,433**
Deferred profit tax assets				
Property, plant and equipment	(1,229)	(68)	-	(1,161)
Long-term promissory notes	(1,307)	(187)	-	(1,120)
Accounts receivable and prepayments	(1,254)	(302)	-	(952)
Retirement benefit obligation	(346)	(25)	-	(321)
Accounts payable and accruals	(93)	(79)	-	(14)
Other deferred tax assets	(347)	(60)	-	(287)
Tax losses	(1,542)	(207)	-	(1,335)
Unrecognised deferred tax assets	3,768	371	-	3,397
Total deferred profit tax assets	**(2,350)**	**(557)**	**-**	**(1,793)**
Deferred profit tax liabilities, net	**83,997**	**(951)**	**1,308**	**83,640**

Current portion of net deferred tax liabilities equals a debit of RR 2,204 million and represent the amount of deferred tax liabilities to be recovered during the year ended 30 June 2011 (as at 31 December 2009 – RR 2,221 million).

The Group has not recognised deferred tax assets as at 30 June 2010 in respect of tax losses carried forward of RR 7,642 million (as at 31 December 2009 – RR 6,677 million) at entities listed in the table below as the probability of future taxable profit available in respective entities is less than high.

	30 June 2010	31 December 2009
JSC "Nurenergo"	4,694	4,614
JSC "Mobile gas-turbine electricity plants"	2,292	1,533
JSC "The principle electricity transmission service company of Unified National Electrical Network"	121	244
Others	535	286
Total tax loses carried forward	**7,642**	**6,677**

The tax losses expire 10 years after their origination. In particular, these tax losses expire during 2012-2019, including RR 969 million in the period from 2 to 5 years (during 2012-2014) and RR 6,673 million in the period over 5 years (during 2015-2019).

(in millions of Russian Roubles unless otherwise stated)

Note 16. Profit tax (continued)

Deferred profit tax assets and liabilities for the six months ended 30 June 2009:

	30 June 2009	Movements for the period: Recognised in profit or loss	Movements for the period: Recognised in other comprehensive income	31 December 2008
Deferred profit tax liabilities				
Property, plant and equipment	29,644	331	-	29,313
Investments in associates	9,084	257	37	8,790
Available-for-sale investments	1,593	-	1,093	500
Other deferred tax liabilities	29	(53)	-	82
Total deferred profit tax liabilities	**40,350**	**535**	**1,130**	**38,685**
Deferred profit tax assets				
Property, plant and equipment	(885)	(69)	-	(816)
Available-for-sale investments	(276)	11	1,603	(1,890)
Long-term promissory notes	(1,052)	(206)	-	(846)
Accounts receivable and prepayments	(1,446)	(580)	-	(866)
Retirement benefit obligation	(212)	(50)	-	(162)
Accounts payable and accruals	(41)	4	-	(45)
Other deferred tax assets	(300)	22	-	(322)
Tax losses	(697)	(189)	-	(508)
Unrecognised deferred tax assets	2,310	364	(1,603)	3,549
Total deferred profit tax assets	**(2,599)**	**(693)**	**-**	**(1,906)**
Deferred profit tax liabilities, net	**37,751**	**(158)**	**1,130**	**36,779**

(in millions of Russian Roubles unless otherwise stated)

Note 17. Non-current debt

	Currency	Effective interest rate	Due	30 June 2010	31 December 2009
Certified interest-bearing non-convertible bearer bonds, Issue 04	RR	7.3%	06.10.2011	6,000	6,000
Certified interest-bearing non-convertible bearer bonds, Issue 02	RR	8.2%	22.06.2010	-	7,000
Total non-current debt				6,000	13,000
Less: current portion of non-current bonds				-	(7,000)
Non-current debt				**6,000**	**6,000**

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans and the current market rate for floating rate loans.

At 30 June 2010 the estimated fair value of total non-current debts (including the current portion) was RR 6,075 million (as at 31 December 2009 - RR 12,874 million), which is estimated using the market prices for quoted FGC UES bonds as at 30 June 2010.

As at 30 June 2010 the Group has long-term undrawn committed financing facilities of RR 15,000 million (as at 31 December 2009 - nil): in May 2010 the Company and JSB Gazprombank concluded an agreement to open a 3-year credit line for RR 15,000 million, which may be used for the general purposes of the Group.

Note 18. Retirement benefit obligations

	The six months ended 30 June 2010	The six months ended 30 June 2009
Net liability in the Statement of Financial Position as at 1 January	**3,439**	**2,933**
Net period cost	424	363
Benefits paid	(127)	(113)
Net liability in the Statement of Financial Position as at 30 June	**3,736**	**3,183**

The Group's post-employment benefits policy includes the employee pension scheme and various post-employment, retirement and jubilee payments. The post-employment and retirement benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules. The program's core element is the corporate pension scheme implemented by the Group in cooperation with the Non-State Pension Fund of Electric Power Industry (NPFE).

The Group also pays various long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

Additionally, financial aid in the form of defined benefits is provided to former employees who have state, industry or corporate awards. Such financial aid is provided both to employees entitled and not entitled to non-state pensions.

The most recent actuarial valuation was performed as at 31 December 2008.

The tables below provide information about benefit obligations and actuarial assumptions as at 30 June 2010 and 31 December 2009.

(in millions of Russian Roubles unless otherwise stated)

Note 18. Retirement benefit obligations (continued)

The amounts recognised in the Statement of Financial Position are determined as follows:

	30 June 2010	31 December 2009
Total present value of defined benefit obligations	4,763	4,544
Net actuarial gains not recognised in the Statement of financial position	(395)	(396)
Unrecognised past service cost	(632)	(709)
Liability recognised in the Statement of Financial Position	**3,736**	**3,439**

The amounts recognised in profit or loss are as follows:

	The six months ended 30 June 2010	The six months ended 30 June 2009
Interest cost	205	193
Current service cost	141	134
Net Actuarial Loss Recognized in the period	-	2
Recognised past service cost	78	34
Net expense recognised in the Statement of Comprehensive Income	**424**	**363**

Changes in the present value of the Group's retirement benefit obligation are as follows:

	The six months ended 30 June 2010	The six months ended 30 June 2009
Defined benefit obligations at 1 January	**4,544**	**4,262**
Benefits paid by the plan	(127)	(113)
Current service costs	141	134
Interest on obligation	205	193
Present value of defined benefit obligations at 30 June	**4,763**	**4,476**

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	30 June 2010	31 December 2009
Discount rate	9.0%	9.0%
Inflation rate	6.5%	6.5%
Future salary increases	7.5%	7.5%
Future pension increase	6.5%	6.5%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates depends on past service - around 10% for employees with 2 or less years of service going down to 5% for employees with 10 or more years of service

Retirement ages assumption is as follows: average retirement ages are 60.5 years for men and 56 years for women. Similar retirement age assumption was used at 31 December 2008.

Mortality table: Russian population mortality table 1998.

(in millions of Russian Roubles unless otherwise stated)

Note 19. Current debt and current portion of non-current debt

	Effective interest rate	30 June 2010	31 December 2009
IDGC Holding	14.1%	505	505
Other current debt		94	40
Current portion of non-current bonds	8.2%	-	7,000
Total		**599**	**7,545**

In June 2010 the Group fulfilled its obligations under Series 02 bonded loan.

As at 30 June 2010 the Group has short-term undrawn committed financing facilities of RR 30,000 million (as at 31 December 2009 - nil) which may be used for the general purposes of the Group. In January 2010 the Company and JSC Alfa-Bank concluded an agreement to open a long-term credit line for RR 15,000 million. In February 2010 the Company and JSB Sberbank concluded an agreement to open a credit line for RR 15,000 million.

Note 20. Accounts payable and accrued charges

	30 June 2010	31 December 2009
Trade payables	12,371	11,750
Accounts payable to construction companies	9,101	9,377
Total financial liabilities	**21,472**	**21,127**
Advances received	9,323	7,368
Accrued liabilities and other creditors	5,185	4,443
Total	**35,980**	**32,938**

Note 21. Other taxes payable

	30 June 2010	31 December 2009
Property tax	273	432
Value added tax	239	335
Employee taxes	217	35
Other taxes	365	334
Total	**1,094**	**1,136**

Note 22. Revenues

	The six months ended 30 June 2010	The six months ended 30 June 2009
Transmission fee	54,414	39,889
Electricity sales	1,959	1,563
Grids repair and maintenance services	104	330
Connection services	88	465
Total revenues	**56,565**	**42,247**

Other operating income primarily includes income from non-core activities.

	The six months ended 30 June 2010	The six months ended 30 June 2009
Design works	482	408
Communication services	222	243
Research and development services	203	218
Insurance compensation	202	409
Rental income	115	118
Dividend income	-	236
Other income	541	390
Total other operating income	**1,765**	**2,022**

(in millions of Russian Roubles unless otherwise stated)

Note 23. Operating expenses

	The six months ended 30 June 2010	The six months ended 30 June 2009
Depreciation of property, plant and equipment	14,962	9,421
Employee benefit expenses and payroll taxes	9,957	7,035
Purchased electricity	7,890	7,834
Accrual of allowance for doubtful debtors	2,987	2,250
Repair and maintenance services:	2,210	2,416
(including materials for repair)	*701*	*718*
Rent	666	801
Business trips and transportation expenses	666	489
Security services	500	434
Insurance	474	572
Amortisation of intangible assets	447	308
Other materials	387	392
Taxes, other than on income	376	223
Information system maintenance	371	620
Consulting, legal and auditing services	321	279
Electricity transit via foreign countries	315	223
Communication service	262	115
Fuel	227	194
Loss on disposal of property, plan and equipment	145	554
Research and development	89	27
Other	1,094	1,339
Total	**44,346**	**35,526**

FGC UES purchases electricity to compensate electricity losses which occur during transmission.

Employee benefit expenses and payroll taxes include expenses on voluntary pension programs and long-term compensation payments.

	The six months ended 30 June 2010	The six months ended 30 June 2009
Wages and salaries	7,735	5,363
Payroll taxes	1,798	1,309
Pension costs - defined benefit plans (Note 18)	424	363
Total	**9,957**	**7,035**

Rent expense principally represent short-term operating lease, including rent of land (Note 5) and office facilities.

Note 24. Finance income

	The six months ended 30 June 2010	The six months ended 30 June 2009
Interest income	3,121	4,591
Foreign exchange difference	10	406
Total finance income	**3,131**	**4,997**

Note 25. Finance costs

	The six months ended 30 June 2010	The six months ended 30 June 2009
Interest expense	495	1,284
Foreign currency exchange differences	-	21
Total finance cost	**495**	**1,305**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 5)	(445)	-
Total finance cost recognised in profit or loss	**50**	**1,305**

(in millions of Russian Roubles unless otherwise stated)

Note 26. Earnings per ordinary share for profit attributable to the shareholders of JSC "FGC UES"

	The six months ended 30 June 2010	The six months ended 30 June 2009
Weighted average number of ordinary shares (millions of shares)	1,222,505	1,153,514
Profit attributable to the shareholders of FGC UES (millions of RR)	13,026	7,967
Weighted average earning per share – basic and diluted (in RR)	**0.01**	**0.01**

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Note 27. Contingencies, commitments and operating risks

Political environment. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by the political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

Insurance. The Group held limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group.

Tax contingency. Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 30 June 2010 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained, including the uncertainty of deductibility of certain types of costs for taxation purposes. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Interim Financial Statements. The Group estimates that possible tax claims in respect of certain open tax positions of the Group companies primarily related to value added tax and timing of revenue recognition for profit tax purposes could amount to as much as RR 4,557 million if the tax positions would be successfully challenged (as at 31 December 2009: RR 3,367 million).

In addition, tax and other legislation do not address all the specific aspects of the Group's reorganisation related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

(in millions of Russian Roubles unless otherwise stated)

Note 27. Contingencies, commitments and operating risks (continued)

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 268,288 million as at 30 June 2010 (as at 31 December 2009 - RR 208,568 million) including VAT.

Note 28. Financial instruments and financial risks

Financial risk factors. The Group's ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk. Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another. The Group's financial management policy aims to minimize or eliminate possible negative consequences of the risks for the financial results of the Group. The Group could use derivative financial instruments from time to time for such purposes as part of its risk management strategy.

Financial instruments by categories:

30 June 2010	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Investments available for sale (Note 8)	-	41,777	-	41,777
Other non-current assets (Note 10)	453	-	-	453
Accounts receivable (Note 13)	13,716	-	-	13,716
Long-term promissory notes (Note 9)	9,354	-	-	9,354
Short-term promissory notes (Note 9)	41,937	-	-	41,937
Bank deposits (Note 12)	4,822	-	-	4,822
Cash and cash equivalents (Note 11)	15,292	-	-	15,292
Other current assets	77	-	-	77
Total financial assets	**85,651**	**41,777**	-	**127,428**
Financial liabilities				
Non-current debt (Note 17)	-	-	6,000	6,000
Current debt and current portion of non-current debt (Note 19)	-	-	599	599
Trade payables (Note 20)	-	-	12,371	12,371
Account payables to construction companies (Note 20)	-	-	9,101	9,101
Total financial liabilities	-	-	**28,071**	**28,071**

(in millions of Russian Roubles unless otherwise stated)

Note 28. Financial instruments and financial risks (continued)

31 December 2009	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Investments available for sale (Note 8)	-	35,229	-	35,229
Other non-current assets (Note 10)	438	-	-	438
Accounts receivable (Note 13)	9,303	-	-	9,303
Long-term promissory notes (Note 9)	8,952	-	-	8,952
Short-term promissory notes (Note 9)	48,681	-	-	48,681
Bank deposits (Note 12)	10,187	-	-	10,187
Cash and cash equivalents (Note 11)	33,699	-	-	33,699
Other current assets	47	-	-	47
Total financial assets	**111,307**	**35,229**	-	**146,536**
Financial liabilities				
Non-current debt (Note 17)	-	-	6,000	6,000
Current debt and current portion of non-current debt (Note 19)	-	-	7,545	7,545
Trade payables (Note 20)	-	-	11,750	11,750
Account payables to construction companies (Note 20)	-	-	9,377	9,377
Total financial liabilities	-	-	**34,672**	**34,672**

(a) Market risk

(i) Foreign exchange risk. The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk. The Group's operating profits and cash flows from operating activity are not largely dependent on the changes in market interest rates. As at 30 June 2010 the interest rates on the borrowing are fixed.

The Group's interest-bearing assets consist of certificates of deposit amounting to RR 6,980 million (as at 31 December 2009 – RR 30,499 million) placed at fixed rate and promissory notes amounting to RR 50,177 million (as at 31 December 2009 – RR 57,633 million).

For the purpose of interest risk reduction the Group makes credit market monitoring to identify favourable credit conditions.

(iii) Price risk. Equity price risk arises from available-for-sale investments received during the share conversion process. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's investment program needs. Transactions in equity products are monitored and authorised by the Group treasury. The total amount of investments available-for-sale exposed to the market risk equals RR 41,222 million. At 30 June 2010, if equity prices at that date had been 10% higher (lower) with all other variables held constant, the Group's revaluation reserve in equity would increase (decrease) by RR 4,122 million and profit before tax would not be affected. At 31 December 2009, if equity prices at that date had been 10% higher (lower) with all other variables held constant, the Group's revaluation reserve in equity would increase (decrease) by RR 3,467 million and profit before tax would not be affected.

(in millions of Russian Roubles unless otherwise stated)

Note 28. Financial instruments and financial risks (continued)

(b) Credit risk.

The amounts exposed to credit risk are as follows:

30 June 2010	Other non-current assets (Note 10)	Accounts receivable (Note 13)	Long-term promissory notes (Note 9)	Short-term promissory notes (Note 9)	Bank deposits (Note 12)	Other current assets	Cash and cash equivalents (Note 11)
Not overdue, not impaired	453	10,154	1,329	41,937	4,822	77	15,292
Not overdue, but impaired:	-	-	8,025	-	-	-	-
- gross amount	-	*961*	*11,569*	-	-	-	-
- less impairment provision	-	*(961)*	*(3,544)*	-	-	-	-
Overdue, but not impaired	-	3,562	-	-	-	-	-
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	*7,593*	-	*47*	-	*19*	-
- less impairment provision	-	*(7,593)*	-	*(47)*	-	*(19)*	-
Total amount	**453**	**13,716**	**9,354**	**41,937**	**4,822**	**77**	**15,292**

31 December 2009	Other non-current assets (Note 10)	Accounts receivable (Note 13)	Long-term promissory notes (Note 9)	Short-term promissory notes (Note 9)	Bank deposits (Note 12)	Other current assets	Cash and cash equivalents (Note 11)
Not overdue, not impaired	438	6,528	1,280	48,681	10,187	47	33,699
Not overdue, but impaired:	-	-	7,672	-	-	-	-
- gross amount	-	*552*	*11,568*	*47*	-	-	-
- less impairment provision	-	*(552)*	*(3,896)*	*(47)*	-	-	-
Overdue, but not impaired	-	2,775	-	-	-	-	-
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	*5,302*	-	-	-	*19*	-
- less impairment provision	-	*(5,302)*	-	-	-	*(19)*	-
Total amount	**438**	**9,303**	**8,952**	**48,681**	**10,187**	**47**	**33,699**

As at 30 June 2010 the amount of financial assets, which are exposed to credit risk, is RR 85,651 million (as at 31 December 2009: RR 111,307 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The Group's trade debtors are quite homogenous as regards their credit quality and concentration of credit risk. They are primarily comprised of large, reputable customers, most of which are controlled by the State (see Note 4). Historical data, including payment histories during the recent credit crisis, would suggest that the risk of default from such customers is very low. The impairment provision recorded mainly represents the discounting effects of the late payments of some customers which experience temporary liquidity difficulties.

Credit risk is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors. The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Although some of the banks and companies have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

The main credit risks of the Group are concentrated within the balances of promissory notes. The detailed information on promissory notes is presented in Note 9.

(in millions of Russian Roubles unless otherwise stated)

Note 28. Financial instruments and financial risks (continued)

(c) Liquidity risk. Liquidity risk is managed at the Group level and includes maintaining the appropriate volume of monetary funds, conservative approach to excess liquidity management, and access to financial resources by securing credit facilities and limiting the concentrations of cash in banks. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	1 to 2 years	Total
At 30 June 2010			
Non-current and current debt and interest payable	1,093	6,134	7,227
Trade payables (Note 20)	12,371	-	12,371
Account payables to construction companies (Note 20)	9,101	-	9,101
Total as at 30 June 2010	**22,565**	**6,134**	**28,699**
At 31 December 2009			
Non-current and current debt and interest payable	8,313	6,379	14,692
Trade payables (Note 20)	11,750	-	11,750
Account payables to construction companies (Note 20)	9,377	-	9,377
Total as at 31 December 2009	**29,440**	**6,379**	**35,819**

(d) Fair value. Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The carrying value less provision for doubtful of trade receivables is assumed to approximate their fair value due to the short-term nature of the receivables. The fair value of financial liabilities for disclosure in the financial statements is estimated by discounting future contractual cash flows at the current market interest rate that is available for Group for similar financial instruments.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	30 June 2010	31 December 2009
Level 1	41,222	34,674
Level 2	-	-
Level 3	555	555
Total	**41,777**	**35,229**

The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 8).

Note 29. Capital risk management

The Group's management of the capital of its entities aims to comply with the capital requirements established by the legislation of the Russian Federation for joint stock companies, in particular:

- share capital can not be lower than RR 100 thousand;
- in case the share capital of an entity is greater that statutory net assets of the entity, such entity must reduce its share capital to the value not exceeding its statutory net assets;
- in case the minimum allowed share capital exceeds the entity's statutory net assets, such entity is subject for liquidation.

At 30 June 2010 several companies of the Group namely JSC "Mobile gas-turbine electricity plants", JSC "The principle electricity transmission service company of Unified National Electrical Network" and JSC "Nurenergo" were not in compliance with all requirements mentioned above. Management of the Group currently takes measures to correspond with all legislation requirements within the short period.

The Group's capital management objectives are to ensure that its operations be continued at a profit for the shareholders and with benefits for other stakeholders, and to maintain the optimal capital structure with a view to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group can adjust the dividends paid to the shareholders or their contributions to the authorized capital by issuing new shares or by selling assets to reduce debts.

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the Russian Standards on Accounting (RSA). The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. At 30 June 2010 the Company's gearing ratio calculated under RSA was less than 0.01 (at 31 December 2009: 0.02).

Note 30. Segment information

Under IFRS 8 operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (further "CODM") in deciding how to allocate resources and in assessing performance. The Board of Directors of the Company has been determined as the CODM.

The Group has a single primary activity i.e. the provision of electricity transmission services within the Russian Federation which is represented as Transmission Segment comprising JSC FGC UES, its' maintenance (service) subsidiaries, LLC Index Energetiki, JSC "The Kuban Trunk Grids" and JSC "The Tomsk Trunk Grids".

FGC UES itself maintains the high voltage electricity transmission network.

Maintenance (service) subsidiaries – JSC "The principle electricity transmission service company of Unified National Electrical Network" and JSC "Specialized electricity transmission service company of Unified National Electrical Network" - are engaged in maintenance services (repair and restoration) for the Unified National Electric Network.

Assets and liabilities of LLC Index Energetiki acquired as the result of RAO UES liquidation are held only for the purpose of implementation of FGC UES investment program through sale in the appropriate market situation. As this division of financial assets and liabilities between FGC UES and LLC Index Energetiki is only of legal nature and the management of the Group analyses information on financial assets of these two entities simultaneously, the operations and balances relating to LLC Index Energetiki are included within the Transmission Segment.

The Board of Directors of the Company does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission segment performance is return on equity ratio (ROE). It is calculated based on statutory financial statements prepared according to RSA as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by CODM is net profit of segment based on the statutory financial statements prepared according to RSA. The Other information provided to CODM is also based on statutory financial statements prepared according to RSA.

(in millions of Russian Roubles unless otherwise stated)

Note 30. Segment information (continued)

	Transmission segment – based on statutory financial statements prepared according to RSA	
	The six months ended 30 June 2010	The six months ended 30 June 2009
Revenue from external customers	55,968	41,986
Intercompany revenue	97	172
Total revenue	56,065	42,158
Depreciation and amortization	16,118	11,773
Interest income	2,998	3,860
Interest expenses	531	1,327
Current profit tax	4,801	2,720
Profit for the period	12,950	8,901
Capital expenditure	42,008	33,574
	At 30 June 2010	**At 31 December 2009**
Total reportable segment assets	802,464	705,904
Total reportable segment liabilities	92,722	135,007

	The six months ended 30 June 2010	The six months ended 30 June 2009
Total revenues from segment (RSA)	56,065	42,158
Reclassification between revenue and other income	(416)	(1,302)
Adjustment of revenue incorrectly recognised under RSA	(953)	-
Other adjustments	7	-
Non-segmental revenue	1,959	1,563
Elimination of intercompany revenue	(97)	(172)
Total revenue (IFRS)	**56,565**	**42,247**

(in millions of Russian Roubles unless otherwise stated)

Note 30. Segment information (continued)

	The six months ended 30 June 2010	The six months ended 30 June 2009
Profit for the period (RSA)	12,950	8,901
Adjustment of bad debts provision under IFRS	5,208	178
Adjustment of property, plant and equipment to IFRS cost	1,572	2,355
Impairment of property, plant and equipment not recognized under RSA	(1,030)	(3,589)
(Accrual) / reversal of unused vacation provision recognised under IFRS	(289)	71
Recovery of promissory notes impairment reserves under RSA	(4,894)	-
Accrual of expenses concerning accounting period	(266)	-
Adjustment of revenue incorrectly recognised under RSA	(953)	-
Impairment of advances for construction-in-progress	(142)	(46)
Pension liabilities adjustment	(325)	(277)
Discounting of promissory notes	(754)	(1,007)
Capitalized interest	445	-
Unrealised profit adjustment	(318)	(338)
Share of result of associates	525	1,480
Deferred tax adjustments	1,350	(54)
Dividends' accrual under IFRS	-	236
Other adjustments	70	308
Non-segmental other operating loss	(513)	(278)
Profit for the period (IFRS)	**12,636**	**7,940**

(in millions of Russian Roubles unless otherwise stated)

Note 30. Segment information (continued)

	30 June 2010	31 December 2009
Total reportable segment assets (RSA)	**802,464**	**705,904**
Adjustment of property, plant and equipment to IFRS cost	131,690	130,385
Interest capitalized	1,242	797
Reversal of RSA revaluation of property, plant and equipment	(113,853)	(28,066)
Impairment of advances for construction-in-progress	(2,860)	(1,928)
Adjustment of VAT recoverable according to IFRS	(4,209)	(3,084)
Revaluation of property, plant and equipment	204,003	204,003
Write-off of construction-in-progress	(369)	(402)
Reversal of RSA impairment of investments in subsidiaries	5,580	5,580
Reversal of RSA impairment of investments in associates	62,453	62,453
Adjustment of Investments in associates under equity method of accounting	(36,212)	(36,713)
Impairment of associates	(3,240)	(3,240)
Reversal of impairment of promissory notes and other short-term investments under RSA	10,271	15,165
Deferred tax adjustment	(5,346)	(5,311)
Treasury shares adjustment according to accounting policy	(4,379)	(4,379)
Discounting of promissory notes	(5,406)	(4,652)
Write-off and impairment of accounts receivable	7,384	2,176
Write-off of intangible assets	(1,405)	(1,271)
Adjustment on available-for-sale investments	7,198	655
Adjustment of trade receivables incorrectly recognised under RAS	(1,125)	-
Set-off of assets and liabilities	(589)	-
Other adjustments	(532)	(384)
Non-segmental assets	18,164	20,623
Unrealised profit adjustment	(962)	(643)
Elimination of investments in subsidiaries	(23,560)	(23,560)
Elimination of intercompany balances	(55,432)	(57,684)
Total assets (IFRS)	**990,970**	**976,424**

	30 June 2010	31 December 2009
Total reportable segment liabilities (RSA)	**92,722**	**135,007**
Pension adjustment	3,736	3,439
Adjustment of VAT recoverable according to IFRS	(4,209)	(3,084)
Set-off of assets and liabilities	(589)	-
Other adjustments	221	(64)
Non-segmental liabilities	15,188	16,965
Deferred tax adjustments	79,943	80,297
Elimination of intercompany balances	(55,606)	(57,684)
Total liabilities (IFRS)	**131,406**	**174,876**

Note 30. Segment information (continued)

The main differences between financial information prepared in accordance with IFRS and financial information reported to the chief operating decision-maker related to profit and losses, assets and liabilities results from different accounting methods under IFRS and RSA. Financial information on segments reported to CODM under RSA does not include main adjustments made in accordance with IFRS.

Non-segmental revenue, non-segmental other operating loss, non-segmental assets and non-segmental liabilities represent corresponding revenues, profit (loss), assets and liabilities of components (subsidiaries) that are not determined as segments by CODM.

Information on revenues for separate services and products of the Group is presented in Note 22.The Group performs most of its activities in the Russian Federation and do not have any significant revenues from foreign customers or any non-current assets located in foreign countries.

The major customers of the Group are entities controlled by the Government of Russian Federation. The amounts of revenues from such entities are disclosed in Note 4. The Group has no other major customers with turnover over 10 percent of the Group revenues.

Note 31. Events after the reporting period

Bonds issue. In September 2010 the Group placed corporate bonds of series 06, 08 and 10 for the total nominal value of RR 30,000 million. Bonds of series 06 and 08 were issued for the total nominal value of RR 20,000 million, each series amounting to RR 10,000 million and placed under 3 year offer and coupon rate of 7.15%. Bonds of series 10 for the total nominal value of RR 10,000 million were placed under 5 year offer and coupon rate of 7.75%.

By the end of October 2010 the Group planned to place corporate bonds of series 07, 09 and 11 for the total nominal value of RR 20,000 million. Bonds of series 07 amounting to RR 5,000 million are planned to be placed under 5 year offer and coupon rate of 7.5%. Bonds of series 9 and 11 amounting to RR 5,000 million and RR 10,000 million are planned to be placed under 7 year offer and coupon rate of 7.99%.

Additional share issue. In September 2010 the Group started the process of placing an additional 28,289 million ordinary shares with a par value RR 0.5 each for the amount of RR 14,144 million and received consideration from the Government of the RF in the form of cash in the amount of RR 11,189 million. This share issue should be completed in February 2011.

Trust management. In third quarter 2010 the Group transferred to trust management of JSC INTER RAO UES the rights for shares of the following associated companies: JSC "TGC-6" (24,7%), JSC "TGC-11"(27,5%) and JSC "Volzhskaya TGC" (31, 5%). In addition, the Group transferred the rights for shares of most available-for-sale investments, except for JSC "IDGC Holding", JSC "Inter RAO UES" and JSC "RAO ES Vostoka".