



**Interregional Distribution Grid
Companies Holding (MRSK Holding) Group**

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

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Board of Directors of JSC IDGC Holding

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Joint Stock Company IDGC Holding (the "Company") and its subsidiaries (the "Group") as at 30 June 2012, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2012 and for the six month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

26 September 2012

IDGC Holding (MRSK Holding) Group
Consolidated Interim Condensed Statement of Comprehensive Income for the six months ended 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Notes	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited
Revenue and government subsidies	7	302,654	322,329
Operating expenses	8	(278,214)	(285,614)
Other income, net		713	377
Results from operating activities		25,153	37,092
Finance income		2,817	2,049
Finance costs		(6,066)	(4,380)
Net finance costs		(3,249)	(2,331)
Share of profit of equity accounted investees (net of income tax)		97	118
Profit before income tax		22,001	34,879
Income tax expense		(6,384)	(8,755)
Profit for the period		15,617	26,124
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(102)	(101)
Net change in fair value of available-for-sale financial assets transferred to profit or loss		(30)	-
Income tax on other comprehensive income		14	13
Other comprehensive income for the period, net of income tax		(118)	(88)
Total comprehensive income for the period		15,499	26,036
Profit attributable to:			
Owners of the Company		9,080	16,849
Non-controlling interest		6,537	9,275
Total comprehensive income attributable to:			
Owners of the Company		8,962	16,761
Non-controlling interest		6,537	9,275
Earnings per share	11		
Basic and diluted earnings per ordinary share		0.19	0.38

These consolidated interim condensed financial statements were approved by management on 26 September 2012 and were signed on its behalf by:

Deputy Executive Director for Economic and Finance

A.V. Demidov

Chief Accountant

G.I. Zhabbarova

The consolidated interim condensed statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 11 to 28.

IDGC Holding (MRSK Holding) Group
Consolidated Interim Condensed Statement of Financial Position as at 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Notes	30 June 2012 Unaudited	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	9	700,988	687,489
Intangible assets		4,102	4,368
Investments in equity accounted investees		1,369	1,280
Non-current accounts receivable		16,659	16,818
Other investments and financial assets		9,752	9,837
Deferred tax assets		2,746	2,599
Total non-current assets		735,616	722,391
Current assets			
Inventories		16,811	12,907
Other investments and financial assets		10,659	8,728
Current tax assets		4,666	4,516
Trade and other receivables		85,514	81,682
Cash and cash equivalents		42,529	48,853
Total current assets		160,179	156,686
Total assets		895,795	879,077

IDGC Holding (MRSK Holding) Group
Consolidated Interim Condensed Statement of Financial Position as at 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Notes	30 June 2012 Unaudited	31 December 2011
EQUITY AND LIABILITIES			
Equity	10		
Share capital		49,947	45,039
Share premium		16,244	6,036
Treasury shares		(1,786)	(1,786)
Reserve for issue of shares		-	9,382
Reserve for purchase of shares of subsidiaries		(4,894)	-
Other reserves		162	280
Retained earnings		218,136	207,790
Total equity attributable to equity holders of the Company		277,809	266,741
Non-controlling interest		181,949	177,136
Total equity		459,758	443,877
Non-current liabilities			
Loans and borrowings	12	171,368	168,831
Trade and other payables		37,414	30,081
Employee benefits		9,965	9,660
Deferred tax liabilities		35,065	32,478
Total non-current liabilities		253,812	241,050
Current liabilities			
Loans and borrowings	12	18,942	26,954
Trade and other payables		155,351	161,920
Provisions		7,506	4,757
Current tax liabilities		426	519
Total current liabilities		182,225	194,150
Total liabilities		436,037	435,200
Total equity and liabilities		895,795	879,077

IDGC Holding (MRSK Holding) Group
Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited
OPERATING ACTIVITIES		
Profit for the period	15,617	26,124
<i>Adjustments for:</i>		
Depreciation and amortization	32,136	26,365
Finance costs	6,066	4,380
Finance income	(2,817)	(2,049)
Loss / (gain) on disposal of property, plant and equipment	147	(113)
Share of profit of equity accounted investees (net of income tax)	(97)	(118)
Other non-cash transactions	221	263
Income tax expense	6,384	8,755
Operating profit before working capital changes and reserves	57,657	63,607
Change in trade and other receivables	(4,211)	(1,522)
Change in financial assets related to employee benefit fund	98	6
Change in inventories	(3,766)	(4,080)
Change in trade and other payables	7,276	6,378
Change in employee benefit liabilities	305	68
Change in provisions	2,749	318
Cash flows from operations before income taxes and interest paid	60,108	64,775
Income taxes paid	(4,475)	(8,085)
Interest paid	(9,167)	(6,534)
Net cash flows from operating activities	46,466	50,156

IDGC Holding (MRSK Holding) Group
Consolidated Interim Condensed Statement of Cash Flows for the six months ended 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(48,571)	(37,488)
Proceeds from sale of property, plant and equipment	752	289
Acquisition of investments and placement of bank deposits	(8,847)	(6,346)
Proceeds from sale of investments and withdrawal of bank deposits	6,736	9,932
Dividends received	17	14
Interest received	1,536	588
Net cash flows used in investing activities	(48,377)	(33,011)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	23,382	43,581
Repayment of loans and borrowings	(26,377)	(50,300)
Purchase of non-controlling interest in subsidiaries (see Note 10)	(4,948)	-
Proceeds from shares issued (see Note 10)	5,734	1,296
Dividends paid	(29)	(15)
Payment of finance lease liabilities	(2,175)	(2,979)
Net cash flows used in financing activities	(4,413)	(8,417)
Net (decrease) / increase in cash and cash equivalents	(6,324)	8,728
Cash and cash equivalents at the beginning of the period	48,853	24,890
Cash and cash equivalents at the end of the period	42,529	33,618

IDGC Holding (MRSK Holding) Group
Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

Attributable to equity holders of the Company

	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserve for purchase of shares of subsidiaries	Available-for-sale investments revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	45,039	6,036	(1,786)	-	-	671	184,635	234,595	161,246	395,841
Profit for the period	-	-	-	-	-	-	16,849	16,849	9,275	26,124
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	(101)	-	(101)	-	(101)
Income tax on other comprehensive income	-	-	-	-	-	13	-	13	-	13
Total comprehensive income for the period	-	-	-	-	-	(88)	16,849	16,761	9,275	26,036
Transactions with owners, recorded directly in equity										
Dividends	-	-	-	-	-	-	(104)	(104)	(1,492)	(1,596)
Purchase of shares issued by subsidiaries (see Note 10)	-	-	-	-	-	-	(574)	(574)	1,870	1,296
Effect of employee share options (see Note 10)	-	-	-	-	-	-	193	193	-	193
Total transactions with owners, recorded directly in equity	-	-	-	-	-	-	(485)	(485)	378	(107)
Balance at 30 June 2011 (unaudited)	45,039	6,036	(1,786)	-	-	583	200,999	250,871	170,899	421,770

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 11 to 28.

IDGC Holding (MRSK Holding) Group
Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

Attributable to equity holders of the Company

	Share capital	Share premium	Treasury shares	Reserve for issue of shares	Reserve for purchase of shares of subsidiaries	Available-for-sale investments revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	45,039	6,036	(1,786)	9,382	-	280	207,790	266,741	177,136	443,877
Profit for the period	-	-	-	-	-	-	9,080	9,080	6,537	15,617
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	(132)	-	(132)	-	(132)
Income tax on other comprehensive income	-	-	-	-	-	14	-	14	-	14
Total comprehensive income for the period	-	-	-	-	-	(118)	9,080	8,962	6,537	15,499
Transactions with owners, recorded directly in equity										
Issue of shares (see Note 10)	4,908	10,208	-	(9,382)	-	-	-	5,734	-	5,734
Dividends	-	-	-	-	-	-	(145)	(145)	(1,336)	(1,481)
Purchase of shares issued by subsidiaries (see Note 10)	-	-	-	-	-	-	1,194	1,194	(271)	923
Purchase of non-controlling interest in subsidiaries (see Note 10)	-	-	-	-	(4,894)	-	63	(4,831)	(117)	(4,948)
Effect of employee share options (see Note 10)	-	-	-	-	-	-	154	154	-	154
Total transactions with owners, recorded directly in equity	4,908	10,208	-	(9,382)	(4,894)	-	1,266	2,106	(1,724)	382
Balance at 30 June 2012 (unaudited)	49,947	16,244	(1,786)	-	(4,894)	162	218,136	277,809	181,949	459,758

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 11 to 28.

1 Background

(a) The Group and its operations

Joint Stock Company “Interregional Distribution Grid Companies Holding” (hereinafter referred to as “JSC IDGC Holding” or “the Company”) was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as “RAO UES”) dated 26 October 2007 by the means of spin-off from RAO UES.

The ordinary and preference shares of the Company are traded on the MICEX-RTS Stock Exchange. Also GDRs of the Company are listed on the London Stock Exchange.

The Company’s registered office is located at 26 Ulanskiy pereulok, Moscow, Russia, 107996.

The IDGC Holding (MRSK Holding) Group (hereinafter referred to as “the Group”) comprises JSC IDGC Holding and its subsidiaries presented in Note 5.

The Group’s principal activities are electricity distribution and technological connection services. In addition some Group subsidiaries sell electricity.

(b) Russian business environment

The Group’s operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(c) Relations with state and current regulations

The Group’s strategic business units (see Note 6) are regional natural monopolies. The Russian Government directly affects the Group’s operations through the system of regional tariffs.

In accordance with legislation the Group’s tariffs are controlled by the Federal Service on Tariffs and Regional Energy Commissions in each region.

As at 30 June 2012 the Russian Government owned 56.58% of the voting ordinary shares and 7.01% of the preference shares of the Company (31 December 2011: 55.95% of the voting ordinary shares and 7.01% of the preference shares). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Russian Government supports the Group due to its strategic position for economy of the Russian Federation. The Group’s customer base includes a number of government-related entities.

2 Basis of preparation

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

(b) Use of judgments, estimates and assumptions

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

In preparing these consolidated interim condensed financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2011.

3 Significant accounting policies

The accounting policies applied by the Group in these consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011.

4 Determination of fair values

A number of the Group's accounting measures and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities.

In preparing these consolidated interim condensed financial statements, the methods for determination of fair values were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2011.

5 Significant subsidiaries

	Country of incorporation	30 June 2012	31 December 2011
		Unaudited Ownership/voting, %	Ownership/voting, %
JSC "Tyumenenergo"	Russian Federation	100	100
JSC "IDGC of Volga"	Russian Federation	67.63	67.63
JSC "IDGC of North Caucasus"	Russian Federation	81.14	63.93
JSC "IDGC of North-West"	Russian Federation	55.38	55.38
JSC "IDGC of Siberia"	Russian Federation	55.59	55.59
JSC "IDGC of South"	Russian Federation	51.66	51.66
JSC "IDGC of Urals"	Russian Federation	51.52	51.52
JSC "MOESK"	Russian Federation	50.9	50.9
JSC "Lenenergo"	Russian Federation	49.23 / 53.29	45.71 / 50.31
JSC "IDGC of Centre and Volga region"	Russian Federation	50.4	50.4
JSC "IDGC of Centre"	Russian Federation	50.23	50.23
JSC "Yantarenergo"	Russian Federation	100	100
JSC "TDC"	Russian Federation	52.03 / 59.88	52.03 / 59.88
JSC "Kubanenergo"	Russian Federation	62.79	45.77*
JSC "Karachaevo-Cherkesskenergo"	Russian Federation	100	100
JSC "Kalmenergosbyt"	Russian Federation	100	100
JSC "Tyvaenergosbyt"	Russian Federation	100	100
JSC "Kabbalkenergo"	Russian Federation	65.27	65.27
JSC "Dagestan Power Sales Company"	Russian Federation	51	51
JSC "Sevkavkazenergo"	Russian Federation	55.94	49*
JSC "Ingushenergo"	Russian Federation	49*	49*
JSC "Research Centre of IDGC"	Russian Federation	100	100
JSC "VNIPInergoprom"	Russian Federation	100	100
JSC "Special design bureau for heat and power equipment VTI"	Russian Federation	100	100
JSC "Power Grid Optical Networks Engineering"	Russian Federation	100	100

	Country of incorporation	30 June 2012	
		Unaudited	31 December 2011
		Ownership/voting, %	Ownership/voting, %
JSC "NEMC"	Russian Federation	55.15	54.71
JSC "Nedvizhimost VNIPIenergoprom"	Russian Federation	100	100
JSC "NIC of UES"	Russian Federation	100	100
JSC "NIC North - West"	Russian Federation	100	100
JSC "NIC Volga"	Russian Federation	100	100
JSC "NIC of the South"	Russian Federation	100	100
JSC "NIC Urals"	Russian Federation	100	100
JSC "NIC Siberia"	Russian Federation	100	100

* The Group exercises control over these entities stemming from the majority representation on the Board of Directors.

6 Operating segments

The Group has thirteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity distribution services including technological connection services in separate geographical regions of the Russian Federation and is managed separately. The "other" segment includes insignificant operating segments such as electricity transmission, electricity sales, rent services and repair and maintenance services. For each of the strategic business units, the Management Board reviews internal management reports on at least a quarterly basis. Unallocated items comprise assets and balances of the Group's headquarter which exercises management activity on remuneration basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on earnings before interest expense, income tax and depreciation and amortisation (EBITDA), as included in the internal management reports that are reviewed by the Management Board. EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these consolidated interim condensed financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

(i) **Information about reportable segments**

For the six months ended 30 June 2012:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kubanenergo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar- energo	IDGC Centre	MOESK	Other	Total
Revenue from external customers	28,215	22,672	24,068	24,382	12,061	13,630	3,527	29,215	13,849	17,212	185	33,854	55,157	23,329	301,356
Inter-segment revenue	6	3	2,171	-	168	-	1,518	5	1,464	28	1,549	22	10	8,819	15,763
Total segment revenue	28,221	22,675	26,239	24,382	12,229	13,630	5,045	29,220	15,313	17,240	1,734	33,876	55,167	32,148	317,119
Including															
<i>Electricity transmission</i>	27,491	22,085	25,443	24,190	11,697	13,320	4,925	28,652	14,603	14,141	1,536	33,273	48,680	3,920	273,956
<i>Connection services</i>	669	329	602	90	475	272	31	413	500	3,017	95	285	6,326	238	13,342
<i>Other revenue</i>	61	261	194	102	57	38	89	155	210	82	103	318	161	27,990	29,821
EBITDA	1,883	5,095	2,312	3,797	2,786	(662)	1,236	4,615	2,418	4,498	33	9,196	20,799	(257)	57,749

IDGC Holding (MRSK Holding) Group
Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

For the six months ended 30 June 2011:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kubanenergo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar- energo	IDGC Centre	MOESK	Other	Total
Revenue from external customers	30,208	25,060	25,083	24,307	11,955	13,792	3,478	33,214	14,566	18,341	4,904	34,540	61,498	21,261	322,207
Inter-segment revenue	428	1	2,477	4	173	-	2,058	19	1,513	386	31	513	8	6,318	13,929
Total segment revenue	30,636	25,061	27,560	24,311	12,128	13,792	5,536	33,233	16,079	18,727	4,935	35,053	61,506	27,579	336,136
Including															
Electricity transmission	29,873	24,582	26,812	24,128	11,869	13,440	5,372	32,695	15,697	14,908	3,921	33,633	54,733	4,539	296,202
Connection services	606	299	645	48	158	316	75	365	158	3,740	939	1,060	6,600	315	15,324
Other revenue	157	180	103	135	101	36	89	173	224	79	75	360	173	22,725	24,610
EBITDA	4,344	7,116	2,914	3,492	2,097	(346)	2,407	6,394	3,227	4,765	1,027	8,678	18,913	1,888	66,916

IDGC Holding (MRSK Holding) Group
Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2012 (Unaudited)
(in millions of Russian roubles, unless otherwise stated)

As at 30 June 2012:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kubanenergo	IDGC Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar- energo	IDGC Centre	MOESK	Other	Total
Segment assets	55,360	130,609	47,516	57,054	43,573	41,546	40,717	79,561	40,990	109,294	6,849	91,543	269,351	53,062	1,067,025
<i>Including property, plant and equipment</i>	42,564	114,310	36,789	47,216	28,942	26,074	24,975	64,851	33,517	91,942	4,607	71,610	202,615	25,825	815,837

As at 31 December 2011:

	IDGC Siberia and TDC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South	Kubanenergo	IDGC Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar- energo	IDGC Centre	MOESK	Other	Total
Segment assets	54,866	127,402	47,158	57,368	41,848	36,547	27,356	79,294	41,058	107,778	7,074	85,108	265,575	49,683	1,028,115
<i>Including property, plant and equipment</i>	43,532	113,315	36,694	48,466	28,928	24,967	23,394	64,298	33,354	90,196	4,494	69,677	197,449	26,193	804,957

(ii) **Reconciliations of reportable segment EBITDA**

Reconciliation of reportable segment EBITDA is presented below:

	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited
EBITDA of reportable segments	57,749	66,916
Adjustment for disposal of property, plant and equipment	(287)	62
Adjustment for inventories valuation	(19)	(119)
Discounting of financial instruments	132	238
Bad debt allowance adjustment	1,646	(4,058)
Adjustments for financial lease	2,685	3,296
Accrued salaries and wages	(865)	(236)
Retirement benefit obligations recognition	(305)	(68)
Assets related to employee benefit fund	(73)	264
Other provisions	(2,695)	(594)
Adjustments for deferred expenses	462	(161)
Other adjustments	783	(1,335)
Unallocated	960	1,310
	60,173	65,515
Depreciation and amortization	(32,136)	(26,365)
Interest expenses on financial liabilities measured at amortised cost	(5,439)	(3,157)
Financial leasing	(597)	(1,114)
Income tax expense	(6,384)	(8,755)
Profit for the period per Consolidated Interim Statement of Comprehensive Income	15,617	26,124

7 Revenue and government subsidies

During the six months ended 30 June 2012 revenue and government subsidies amounted to RUB 302,654 million (six months ended 30 June 2011: RUB 322,329 million) and included revenue from electricity distribution services in the amount of RUB 263,915 million (six months ended 30 June 2011: RUB 286,113 million), revenue from technological connection services in the amount of RUB 14,475 million (six months ended 30 June 2011: RUB 15,589 million) and revenue from electricity sales in the amount of RUB 19,466 million (six months ended 30 June 2011: RUB 16,510 million).

8 Operating expenses

During the six months ended 30 June 2012 operating expenses amounted to RUB 278,214 million (six months ended 30 June 2011: RUB 285,614 million) and included electricity transmission expenses in the amount of RUB 106,385 million (six months ended 30 June 2011: RUB 112,786 million), cost of purchased electricity for compensation of technological losses in the amount of RUB 39,665 million (six months ended 30 June 2011: RUB 51,149 million), personnel costs in the amount of RUB 52,845 million (six months ended 30 June 2011: RUB 51,165 million), depreciation and amortisation expenses in the amount of RUB 32,136 million (six months ended 30 June 2011: RUB 26,365 million), cost of purchased electricity for resale in the amount of RUB 11,815 million (six months ended 30 June 2011: RUB 9,649 million) and allowance for impairment of trade and other receivables in the amount of RUB 4,783 million (six months ended 30 June 2011: RUB 5,526 million).

9 Property, plant and equipment

	Land and buildings	Transmis- sion networks	Equipment for electricity transmission	Other	Construc- tion in progress	Total
Balance at 1 January 2011	107,441	304,134	154,144	83,395	94,698	743,812
Additions	151	567	950	1,689	35,777	39,134
Transfer	2,667	6,137	4,877	2,836	(16,517)	-
Disposals	(59)	(321)	(282)	(395)	(809)	(1,866)
Balance at 30 June 2011 (unaudited)	110,200	310,517	159,689	87,525	113,149	781,080
<i>Depreciation</i>						
Balance at 1 January 2011	(14,402)	(68,270)	(30,518)	(27,381)	-	(140,571)
Depreciation charge	(2,750)	(11,114)	(5,237)	(6,831)	-	(25,932)
Disposals	59	276	110	261	-	706
Balance at 30 June 2011 (unaudited)	(17,093)	(79,108)	(35,645)	(33,951)	-	(165,797)
<i>Net book value</i>						
At 1 January 2011	93,039	235,864	123,626	56,014	94,698	603,241
At 30 June 2011 (unaudited)	93,107	231,409	124,044	53,574	113,149	615,283

	Land and buildings	Transmis- sion networks	Equipment for electricity transmission	Other	Construc- tion in progress	Total
Balance at 1 January 2012	128,469	341,991	190,279	104,255	115,220	880,214
Additions	2,529	588	600	829	42,026	46,572
Transfer	2,828	9,694	7,572	2,405	(22,499)	-
Disposals	(453)	(346)	(97)	(482)	(508)	(1,886)
Balance at 30 June 2012 (unaudited)	<u>133,373</u>	<u>351,927</u>	<u>198,354</u>	<u>107,007</u>	<u>134,239</u>	<u>924,900</u>
Depreciation						
Balance at 1 January 2012	(20,119)	(90,428)	(41,625)	(40,553)	-	(192,725)
Depreciation charge	(3,699)	(12,834)	(6,624)	(8,555)	-	(31,712)
Disposals	73	112	42	298	-	525
Balance at 30 June 2012 (unaudited)	<u>(23,745)</u>	<u>(103,150)</u>	<u>(48,207)</u>	<u>(48,810)</u>	<u>-</u>	<u>(223,912)</u>
Net book value						
At 1 January 2012	<u>108,350</u>	<u>251,563</u>	<u>148,654</u>	<u>63,702</u>	<u>115,220</u>	<u>687,489</u>
At 30 June 2012 (unaudited)	<u>109,628</u>	<u>248,777</u>	<u>150,147</u>	<u>58,197</u>	<u>134,239</u>	<u>700,988</u>

10 Equity

(a) Share capital

*Number of shares unless
otherwise stated*

	Ordinary shares		Preference shares	
	30 June 2012 Unaudited	31 December 2011	30 June 2012 Unaudited	31 December 2011
Shares issued	47,871,694,416	42,964,067,081	2,075,149,384	2,075,149,384
Par value	RUB 1	RUB 1	RUB 1	RUB 1

(b) Issuance of additional shares

On 30 September 2011 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 5,444,391,292 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 3.08 roubles per share. This share issuance was registered by the Federal Service for Financial Markets on 10 November 2011. On 16 April 2012 the share issue was completed and 4,907,627,335 shares were subscribed. The increase in share capital was registered on 28 June 2012. The amount of RUB 4,908 million and RUB 10,208 million was recognised as share capital and share premium within equity for the six months ended 30 June 2012, respectively.

(c) **Non-controlling interest**

Purchase of shares issued by subsidiaries

On 25 October 2010 the Extraordinary General Meeting of Shareholders of JSC “Kubanenergo”, the Group’s subsidiary, approved an increase in charter capital through issuance of additional 31,732,913 ordinary shares with a par value of 100 roubles each under an open subscription. The approved offering price was RUB 184.92. This share issuance was registered by the Federal Service for Financial Markets on 14 December 2010. In April 2011, 13,204,353 shares were subscribed by the Company and 6,949,343 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 3,727 million. Additional capital of RUB 1,285 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 30 June 2011. As a result of the subscription of shares the Group’s ownership interest in JSC “Kubanenergo” increased from 40.63% to 45.77%.

On 9 March 2011 the Extraordinary General Meeting of Shareholders of JSC “IDGC of Siberia”, the Group’s subsidiary, approved an increase in charter capital through issuance of additional 6,605,021,036 ordinary shares with a par value of RUB 0.1 each under a closed subscription. The approved offering price was RUB 0.32 per share. This share issuance was registered by the Federal Service for Financial Markets on 21 April 2011. In June 2011 all placed 5,447,508,134 shares were subscribed by the Company which paid RUB 1,743 million. As a result of the subscription of shares the Group’s ownership interest in JSC “IDGC of Siberia” increased from 52.88% to 55.59%.

On 23 November 2011 the Extraordinary General Meeting of Shareholders of JSC “Kubanenergo”, the Group’s subsidiary, approved an increase in charter capital through issuance of additional 97,478,760 ordinary shares with a par value of 100 roubles each under an open subscription. The approved offering price was RUB 103.44. This share issuance was registered by the Federal Service for Financial Markets on 21 February 2012. In March 2012, 44,620,505 shares were subscribed by the Company and 21,151 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 4,618 million. Additional capital of RUB 2 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 30 June 2012. The Group recognised a decrease in retained earnings and an increase in non-controlling interest in the amount of RUB 11 million. As a result of the subscription of shares the Group’s ownership interest in JSC “Kubanenergo” increased from 45.77% to 62.79%.

On 23 November 2011 the Extraordinary General Meeting of Shareholders of JSC “IDGC of North Caucasus”, the Group’s subsidiary, approved an increase in charter capital through issuance of additional 44,632,214 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 92.54. This share issuance was registered by the Federal Service for Financial Markets on 28 February 2012. In April 2012, 25,999,568 shares were subscribed by the Company and 7,665 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 2,407 million. Additional capital of RUB 0.7 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 30 June 2012. The Group recognised an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 479 million. As a result of the subscription of shares the Group’s ownership interest in JSC “IDGC of North Caucasus” increased from 63.93% to 81.14%.

On 25 November 2011 the Extraordinary General Meeting of Shareholders of JSC “Lenenergo”, the Group’s subsidiary, approved an increase in charter capital through issuance of additional 273,023,689 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 14.56. This share issuance was registered by the Federal Service for Financial Markets on 22 February 2012. In April 2012, 137,362,638 shares were subscribed by the Company and 68,693,921 shares by 3rd parties and existing non-controlling shareholders who

jointly paid RUB 2,921 million. Additional capital of RUB 920 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 30 June 2012. The Group recognised an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 726 million. As a result of the subscription of shares the Group's ownership interest in JSC "Lenenergo" increased from 45.71% to 49.23%.

Purchase of non-controlling interest in subsidiaries

In February 2012, JSC "MOESK", the Group's subsidiary, acquired additional 9,999 shares of JSC "Energocentr" for a cash consideration of RUB 51 million. The excess of the value of non-controlling interest acquired of RUB 242 million over the consideration paid was recognized as an increase in retained earnings in the amount of RUB 191 million. As a result of the transaction the ownership interest of JSC "MOESK" in JSC "Energocentr" increased from 50% to 75% less one share.

In April 2012, the Group prepaid RUB 4,302 million for 27,260,040 ordinary shares of JSC "Kubanenergo", the Group's subsidiary, and RUB 525 million and RUB 67 million for 979,267,684 ordinary and 158,213,911 preference shares of JSC "TDC", the Group's subsidiary, respectively. The transaction is going to have been completed by the end of 2012. A prepayment for shares of subsidiaries in the amount of RUB 4,894 million was recognised as a reserve for purchase of shares of subsidiaries within equity as at 30 June 2012.

In June 2012, the Group's ownership interest in JSC "Sevkavkazenergo", the Group's subsidiary, increased from 49.00% to 55.94% as a result of the acquisition of additional shares. The Group recognised a decrease in retained earnings in the amount of RUB 128 million and an increase in non-controlling interest in the amount of RUB 125 million.

(d) Dividends

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

At the annual shareholders meeting held on 30 June 2012 the decision was made not to declare dividends for the year 2011 for ordinary shares and to declare dividends in the amount of RUB 0.07 per share for preference shares.

(e) Share options

On 9 November 2010 the Company's Board of Directors approved an Incentive Program ("the Option Program") for managers of the Company and its subsidiaries. In March 2011, contracts for the sale of the Company's shares were entered into with a managing company of a mutual fund which was established by the Group specifically for the purpose of establishing the Option Program, and the participants in the Option Program, stipulating deferred transfer and cash payment obligations by the Option Program participants ("the Contract"). Under the terms of the Contracts, the participants in the Option Program may exercise their right to acquire shares not earlier than three years from the effective date of the Contract, and retain this right until the expiry of a five-year period from the effective date of the Contract. If employment relations between a participant in the Option Program and the Group are terminated before the due date for performance of the Contract, the number of shares the participant is entitled to acquire will depend on time that has passed since the Contract signing date (except for termination due to unsatisfactory work under Russian Federation Labour Code).

During the six months ended 30 June 2012 contracts were signed for the options with weighted average exercise price of RUB 4.14 per share for 22,000,000 shares. For the same period options for 16,500,000 shares were cancelled as certain employees retired under the ordinary conditions of labour agreements. As at 30 June 2012 contracts were signed for 314,600,000 options out of the 429,642,598 shares allocated for this purpose.

The fair value of services received in return for share options granted to employees was measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Key inputs were as follows:

	30 June 2012	31 December 2011
Share price (in Russian roubles)	2.69	4.47
Exercise price (in Russian roubles)	4.14	4.14
Expected volatility	49%	42%
Expected average option life (years)	4	4
Risk-free interest rate	7%	7%
Fair value per share at measurement date (in Russian roubles)	0.91	2.00

Volatility was calculated based on historic volatility of the Company's shares quoted prices at MICEX. Risk-free rate was calculated based on yield of government bonds with the similar maturity.

The expenses arising from share option program for the six months ended 30 June 2012 in the amount of RUB 154 million (six month ended 30 June 2011: RUB 193 million) were charged as personnel costs to profit and loss. The same amounts were recognised within the retained earnings as part of transactions with owners recorded directly in equity in the consolidated interim condensed statement of changes in equity.

11 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 was based on the profit attributable to ordinary shareholders of RUB 8,690 million (six months ended 30 June 2011: RUB 16,065 million), and a weighted average number of ordinary shares outstanding of 46,195 million (six months ended 30 June 2011: 42,528 million), calculated as shown below.

<i>In millions of shares</i>	2012	2011
Issued shares at 1 January	42,964	42,964
Effect of own shares held	(436)	(436)
Effect of shares issued	3,667	-
Weighted average number of shares for the six months ended 30 June	46,195	42,528

	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited
Total profit attributable to holders of ordinary shares	8,690	16,065
Weighted average number of ordinary shares for the six months ended 30 June (million of shares)	46,195	42,528
Earnings per ordinary share (in RUB) – basic and diluted	0.19	0.38

12 Loans and borrowings

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

	30 June 2012 Unaudited	31 December 2011
<i>Non-current liabilities</i>		
Secured loans	20	37
Unsecured loans	160,331	159,630
Unsecured bonds issued	7,550	4,558
Promissory notes	2,723	2,811
Loans from other related parties	27	60
Financial lease liabilities	717	1,735
	171,368	168,831
<i>Current liabilities</i>		
Current portion of unsecured loans and bonds	14,075	12,037
Current portion of secured loans and bonds	107	6,009
Unsecured loans	860	3,839
Promissory notes	1,035	1,583
Loans from other related parties, including current portion of long-term loans	439	316
Current portion of financial lease liabilities	2,426	3,170
	18,942	26,954

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

<u>Amount</u>	<u>Interest rate</u>	<u>Maturity</u>
9,356*	6.47-10.5%	2012-2017
3,089*	7.48-8.62%	2014-2016
3,000	8.50%	2017
2,931*	7.9-11%	2012-2016
2,272	11%	2013
1,000	10.22-10.52%	2013
753*	MosPrime 3M+2.83%	2020
634*	10.05%	2019
330	7.5-13.5%	2013-2016

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

	<u>Amount</u>
Bonds	9,956
Promissory notes	419
Loans*	12,929
Loans	3,901

*- Loans from government-related entities.

13 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2011.

14 Commitments

As at 30 June 2012 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 109,144 million (as at 31 December 2011: RUB 98,887 million).

15 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in

respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group and which have not been accrued or disclosed in these consolidated interim condensed financial statements, other than disclosed in Note 15(f) below.

(d) Environmental matters

The Group and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group's management periodically evaluates its obligations under environmental regulations.

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

(e) Guarantees

The Group provided the following financial guarantees for loans granted by the following banks to the Group's lessors.

	Amount on contract 30 June 2012 Unaudited	Amount on contract 31 December 2011
OJSC "Rosbank"	518	682
OJSC "Sberbank"	43	73
OJSC "VTB Bank"	3	10
OJSC "Alpha Bank"	-	2
	564	767

(f) Other contingencies

Management believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property by the Group ("last-mile") there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim has individual legal circumstances and respective estimation should be based on variety of assumptions and judgments, which makes it impracticable. As at 30 June 2012 the Group was defendant in "last-mile" lawsuits for the total amount of RUB 11,242 million (31 December 2011: RUB 11,690 million). Management believes that the outflow of economic benefits under these proceedings is not probable and any provision is not recognised in these consolidated financial statements.

16 Related party transactions

(a) Control relationships

The Russian Government holds the majority of the voting rights of the Company and it is the ultimate controlling party of the Group.

(b) Transactions with government-related entities

In the course of its operating activities the Group is engaged in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs where applicable.

Revenues from government-related entities for the six months ended 30 June 2012 constitute 33% (six months ended 30 June 2011: 35%) of total Group revenues, including 35% (six months ended 30 June 2011: 36%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the six months ended 30 June 2012 constitute 55% (six months ended 30 June 2011: 56%) of total transmission costs.

Significant raised and repaid loans from government-related entities are disclosed in Note 12.

(c) Pricing policies

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

(d) Management remuneration

The Group identifies members of Boards of Directors, members of Management Boards and top managers of the Company and all its subsidiaries as key management personnel.

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

Key management received the following remuneration during the period, which is included in personnel costs:

	Six months ended 30 June 2012 Unaudited	Six months ended 30 June 2011 Unaudited
Salaries and bonuses	1,902	809

17 Events after the reporting period

Managing company

On 10 July 2012 an agreement has been signed between JSC IDGC Holding and Open Joint Stock company “Federal Grid Company of Unified Energy System” (hereinafter referred to as JSC “FGC UES”) by which the powers of the sole executive body of JSC “IDGC Holding” have been transferred to JSC “FGC UES”.

According to the agreement, JSC “FGC UES”, acting as the managing company, assumes the powers of the sole executive body of JSC “IDGC Holding”.

On 30 June 2012 the agreement was approved by the Board of Directors of JSC “IDGC Holding”, and on 9 July 2012, it was approved by the Board of Directors of JSC “FGC UES”.