Interregional Distribution Grid Company of North-West and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2013
and Auditors' Report

Contents

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Auditors' Report

Board of Directors
Open Joint Stock Company Interregional Distribution Grid Company of North-West

We have audited the accompanying consolidated financial statements of Interregional Distribution Grid Company of North-West (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Audited entity: OJSC Interregional Distribution Grid Company of North-West.

Registered in the Unified State Register of Legal Entities on 23 December 2004 by Saint-Petersburg Tax Inspectorate No. 15 of the Federal Tax Service of the Russian Federation No. 1047855175785. Certificate series 78 No. 005502120.

31, Sobornaya street, Leningrad region, Gatchina, Russia, 188300

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

ZAO KPMG (North-West Regional Center) registered by the Saint-Petersburg Registration Chamber on 13 June 1997, Registration No. 74620

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Tverdokhlebov L.T.

Deputy Audit Director of Saint Petersburg branch of ZAO KPMG - North-West Regional Center, (power of attorney dated 28 October 2011 №54/11)

ZAO KPMG

31 March 2014

St. Petersburg, Russian Federation

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

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

	Notes	For the year ended 31 December 2013	2012 (restated)
Revenue:			
Power transmitting		26,910,552	26,565,139
Sale of electricity		16,138,942	4,993,834
Connection to power network		954,693	1,412,021
Other revenue		610,891	447,672
Total revenue		**44,615,078**	**33,418,666**
Government subsidies		68,289	1,666
Expenses:			
Power transmitting services		(11,153,816)	(9,194,946)
Salaries and other personnel expenses	6	(9,633,709)	(8,799,893)
Electric purchases for resale		(9,355,540)	(2,490,848)
Depreciation and amortization of non-current assets		(3,574,832)	(3,083,079)
Electric purchases to cover losses		(3,820,209)	(3,269,968)
Raw materials used		(1,834,298)	(1,748,862)
Network and equipment repair services		(813,665)	(728,747)
Taxes other than income tax		(288,112)	(161,164)
Other services		(1,341,493)	(1,343,636)
Other operating expenses net		(1,521,534)	(1,883,593)
Total expenses		**(43,337,208)**	**(32,704,736)**
Operating result		**1,346,159**	**715,596**
Other non-operating income, net		399,504	307,998
Finance costs, net	7	(1,062,178)	(515,283)
Profit before income tax		683,485	508,311
Income tax expense	8	(296,913)	(111,886)
Profit for the year		386,572	396,425

The accompanying notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

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

	Notes	For the year ended 31 December 2013	2012 (restated)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Net changes in fair value of available-for-sale investments		(322)	(3,496)
Related income tax		64	686
		(258)	(2,810)
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability		(273,427)	(124,384)
Related income tax		54,685	24,877
		(218,742)	(99,507)
Other comprehensive income for the year, net of income tax		**(219,000)**	**(102,317)**
Total comprehensive income for the year		**167,572**	**294,108**
Profit attributable to:			
Equity holders of the Company		386,561	396,408
Non-controlling interests		11	17
		386,572	**396,425**
Total comprehensive income attributable to:			
Equity holders of the Company		167,561	294,091
Non-controlling interests		11	17
		167,572	**294,108**
Earnings per share based on weight average number of ordinary shares in issue			
Basic and diluted earnings per share (expressed in RUB)		0.0040	0.0041
Weighted average number of ordinary shares in issue	16	95,785,923,138	95,785,923,138

General Director — Titov S.G.

Chief Accountant — Maksimova T.V.

31 March 2014

The accompanying notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2013

(in thousand of Russian roubles)

	Notes	31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	9	35,915,430	33,250,887	29,522,724
Intangible assets	10	142,209	56,231	36,882
Deferred tax assets	8	20,888	2,238	2,135
Investment in securities and other financial assets	11	56,797	155,645	121,221
Other non-current assets	12	701,602	634,676	633,766
TOTAL NON-CURRENT ASSETS		**36,836,926**	**34,099,677**	**30,316,728**
CURRENT ASSETS				
Accounts receivable and prepayments	13	12,338,947	5,755,100	4,313,488
Income tax receivable		112,013	318,592	234,612
Inventories	14	821,951	784,780	702,820
Other current assets		517,245	373,256	439,806
Cash and cash equivalents	15	839,959	726,997	1,534,694
TOTAL CURRENT ASSETS		14,630,115	7,958,725	7,225,420
TOTAL ASSETS		51,467,041	42,058,402	37,542,148

The accompanying notes on pages 11 to 59 are an integral part of these consolidated financial statements.

ROSSETI Interregional Distribution Grid Company of the North-West

Consolidated Statement of Financial Position
as at 31 December 2013

(in thousand of Russian roubles)

	Notes	31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Share capital		9,578,592	9,578,592	9,578,592
Retained earnings		1,792,091	1,420,990	1,024,582
Merger reserve		10,457,284	10,457,284	10,457,284
Other reserves		290,219	509,219	611,535
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**22,118,186**	**21,966,085**	**21,671,993**
Non – controlling interests		288	277	260
TOTAL EQUITY		**22,118,474**	**21,966,362**	**21,672,253**
NON-CURRENT LIABILITIES				
Long-term loans and borrowings	17	13,953,056	10,629,252	6,148,294
Retirement benefit obligations	18	1,673,495	1,391,401	1,254,508
Deferred tax liabilities	8	2,135,546	1,962,665	1,894,277
Other non-current liabilities	19	1,086,187	402,841	268,445
TOTAL NON-CURRENT LIABILITIES		**18,848,284**	**14,386,159**	**9,565,524**
CURRENT LIABILITIES				
Accounts payable and advances received	20	6,755,988	4,991,705	5,626,414
Current taxes payable		832,035	337,424	410,740
Income tax payable		1,486	134	395
Current loans and borrowings	17	2,776,630	19,021	80,190
Current provisions		134,144	357,597	186,632
TOTAL CURRENT LIABILITIES		**10,500,283**	**5,705,881**	**6,304,371**
TOTAL LIABILITIES		**29,348,567**	**20,092,040**	**15,869,895**
TOTAL EQUITY AND LIABILITIES		**51,467,041**	**42,058,402**	**37,542,148**

General Director — Titov S.G.

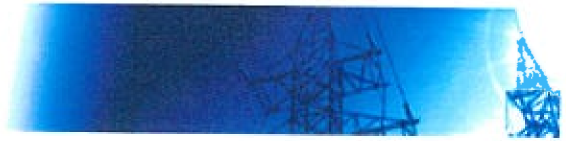
Chief Accountant — Maksimova T.V.

31 March 2014

The accompanying notes on pages 11 to 59 are an integral part of these consolidated financial statements.

ROSSETI

Interregional Distribution Grid Company of the North-West



Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

(in thousand of Russian roubles)

	Attributable to equity holders of the Company						
	Share capital	Retained earnings	Merger reserve	Other reserves	Total	Non-controlling interests	Total equity
Balance at 1 January 2012, as previously reported	9,578,592	1,553,642	10,457,284	3,683	21,593,201	260	21,593,461
Impact of change in accounting policy	-	(529,060)	-	607,853	78,793	-	78,793
Balance at 1 January 2012 (restated)	9,578,592	1,024,582	10,457,284	611,536	21,671,994	260	21,672,254
Total comprehensive income for the year							
Profit for the year	-	396,408	-	-	396,408	17	396,425
Other comprehensive loss for the year	-	-	-	(102,317)	(102,317)	-	(102,317)
Total comprehensive income for the year	-	396,408	-	(102,317)	294,091	17	294,108
Balance at 31 December 2012 (restated)	**9,578,592**	**1,420,990**	**10,457,284**	**509,219**	**21,966,085**	**277**	**21,966,362**
Balance at 01 January 2013	**9,578,592**	**1,420,990**	**10,457,284**	**509,219**	**21,966,085**	**277**	**21,966,362**
Total comprehensive income for the year							
Profit for the year	-	386,561	-	-	386,561	11	386,572
Other comprehensive income	-	-	-	(219 000)	(219 000)	-	(219 000)
Total comprehensive income for the year	-	386,561	-	(219 000)	167,561	11	167,572
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	(15,460)	-	-	(15,460)	-	(15,460)
Total transactions with owners, recorded directly in equity	-	(15,460)	-	-	(15,460)	-	(15,460)
Balance at 31 December 2013	**9,578,592**	**1,792,091**	**10,457,284**	**290,219**	**22,118,186**	**288**	**22,118,474**

The accompanying notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2013

(in thousand of Russian roubles)

	Year ended 31 December	
	2013	2012 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	**386,572**	**396,425**
Adjustments for:		
Income tax expense recognised in profit or loss	296,913	111,886
Net finance costs	1,062,178	515,283
Depreciation and amortisation	3,574,832	3,083,081
(Profit)/loss from disposal of PPE	(16,935)	45,146
Provision for inventory obsolescence	(9,714)	(37,011)
Other non-cash items	(89,797)	(113,173)
	5 204 049	4,001,637
Working capital changes		
Change in accounts receivable and prepayments	(6,543,085)	(1,494,901)
Change in inventories	(27,458)	(44,949)
Change in other current assets	(143,989)	66,549
Change in retirement benefit obligations and related assets	64,198	32,089
Change in accounts payable, advances received and provisions	2,268,276	(148,486)
Cash from operations before income taxes and interest paid	**821,991**	**2,411,939**
Interest paid	(1,030,307)	(489,207)
Income tax paid	65,315	(102,277)
Net cash (used in)/from operating activities	**(143,001)**	**1,820,455**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant and equipment, and intangible assets	193,926	136,922
Purchase of property, plant and equipment, intangible assets and other non-current assets	(5,997,699)	(7,195,760)
Interest received	11,151	21,505
Net cash used in investing activities	**(5,792,622)**	**(7,037,333)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans and borrowings	24,206,140	8,603,605
Repayments of loans and borrowings	(18,142,336)	(4,193,363)
Dividends paid	(15,219)	(1,061)
Net cash from financing activities	**6,048,585**	**4,409,181**
Net increase/(decrease) in cash and cash equivalents	**112,962**	**(807,697)**
Cash and cash equivalents at the 1 January	**726,997**	**1,534,694**
Cash and cash equivalents at the 31 December	**839,959**	**726,997**

The accompanying notes on pages 11 to 59 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2013

1. THE GROUP AND ITS OPERATIONS

Background

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

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningrad region, 188300, the Russian Federation. The Company's main offices are at Constitution Square, building 3 "A", Saint Petersburg, 196247, the Russian Federation.

Formation of the Group

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the Interregional Distribution Grid Company incorporated IDGC of North-West with seven branches, located in the Karelya Republic, The Komi Republic, Arkhangelsk Region, Vologda Region, Murmansk Region, Novgorod Region and Pskov Region, and subsidiaries (the "Group"). The principal subsidiaries are listed in Note 4.

The branches were formed on the basis of seven Regional Distribution Grid Companies: JSC "Karelenergo", JSC "AEK Komienergo", JSC "Arkhenergo", JSC "Vologdaenergo", JSC "Kolenergo", JSC "Novgorodenergo", JSC "Pskovenergo", all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method (see Note 2).

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.38% of the Company's shares to JSC IDGC Holding, a state-controlled entity. On 4 April 2013 in accordance with decision of General stockholders meeting JSC IDGC Holding has been renamed as Joint Stock Company Russian Grids.

Relations with the state and current regulations

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

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

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

As at 22 February 2013 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier in-charge of the service area of OJSC "Kolskaya Energy Retail Company" effective from 1 March 2013. As at 22 March 2013 the Ministry of Energy of the Russian Federation assigned the Company with the same status in respect of the service area of OJSC "Novgorodoblenergosbyt" effective from 1 April 2013. As at 25 September 2013 the Ministry of Energy of the Russian Federation assigned the Company with the same status in respect of the service area of OJSC "Novgorodoblelectro" effective from 1 October 2013.

The status of guaranteeing supplier in all cases was assigned for the year till the assigning of guaranteeing supplier status to the winner of the tender in respect of specified service area, but not more than for the period of 12 months.

The Group established separate units within its Kolenergo and Novgorodenergo branches for the purpose of electricity sales activities. The assigning of guaranteeing electric power supplier status did not entail change in assets, liabilities and equity of the Group at the date of status assignation. Financial information related to guaranteeing electric power supplier functions (sales of electricity) is disclosed in Note 5.

From 01 January 2014 guaranteeing electric power supplier function in Novgorod Region of the service area of OJSC "Novgorodoblenergosbyt" was assigned to another company according to Order of the Ministry of Energy of the Russian Federation as at 23 December 2013 No. 912.

Russian business environment

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

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Group additionally prepares IFRS consolidated financial statements in Russian language in accordance with the Federal Law as at 27.07.2010 No. FZ-208 "On consolidated financial reporting".

Basis of measurement

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

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

Predecessor accounting

In 2008 the Group accounted for the merger with entities controlled by RAO UES as business combination among entities under common control in accordance with its accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entities were combined from the earliest period presented and accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the merger of the entities under common control is recorded in equity as a merger reserve.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and in any future periods affected.

In particular, information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following areas:

- Note 9 – useful lives of property, plant and equipment;
- Note 13 – allowance for trade and other receivables;
- Note 14 – inventory obsolescence provisions;

In management's view there are no assumptions or estimation uncertainties that may have a significant risk of resulting in a material adjustment within the year after the reporting period.

Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

(i) Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

(ii) IFRS 13 Fair Value Measurement

(iii) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

(iv) IAS 19 Employee Benefits (2011)

The nature and effects of the changes are explained below.

(i) Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see Note 25(c)).

(ii) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. For disclosure see Note 25.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iii) Presentation of items in OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(iv) Post-employment defined benefit plans

The Group applied IAS 19 (2011) to its pension plan which is a defined benefit plan retrospectively beginning from 1 January 2012. As a result, past service costs are recognised in full amount as expense as at the earlier of the following dates: (a) the date of plan amendment or plan curtailment, and (b) the date when the related restructuring costs or termination benefits are recognised. Previously the entity recognised past service costs as an expense on the straight-line basis over the average period until the benefits become vested.

According to IAS 19 (2011) remeasurements of the net defined benefit obligation are recognised in other comprehensive income. Previously the Group applied for the corridor approach.

The quantitative impact of the change is set out below.

Consolidated Statement of Financial Position:

1 January 2012	As previously reported	Effect of revised IAS 19	As restated
Retained earnings	1,553,642	(529,060)	1,024,582
Other reserves	3,683	607,853	611,536
Total equity:	1,557,325	78,793	1,636,118
Deferred tax liabilities	1,874,578	19,699	1,894,277
Retirement benefit obligations	1,352,999	(98,491)	1,254,508
Total liabilities:	3,227,577	(78,793)	3,148,785

31 December 2012	As previously reported	Effect of revised IAS 19	As restated
Retained earnings	1,915,968	(494,978)	1,420,990
Other reserves	873	508,346	509,219
Total equity	1,916,841	13,368	1,930,209
Deferred tax liabilities	1,959,324	3,341	1,962,665
Retirement benefit obligations	1,408,110	(16,709)	1,391,401
Total liabilities:	3,367,434	(13,368)	3,354,066

Consolidated statement of profit or loss and other comprehensive income

For 2012	As previously reported	Effect of revised IAS 19	As restated
Salaries and other personnel expenses	(8,946,121)	146,228	(8,799,893)
Other operating expenses, net	(1,878,856)	(4,737)	(1,883,593)
Finance costs, net	(416,395)	(98,888)	(515,283)
Income tax expense	(103,365)	(8,521)	(111,886)
Profit for the year	362,343	34,082	396,425
Remeasurements of the defined benefit liability	-	(124,384)	(124,384)
Related income tax	-	24,877	24,877
Other comprehensive loss, net of tax	(2,810)	-	(2,810)
Other comprehensive loss for the year, net of tax	(2,810)	(99,507)	(102,317)
Total comprehensive loss for the year	359,533	(65,425)	294,108

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company and entities (including special purpose entities) controlled by the Group (its subsidiaries). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Acquisitions from entities under common control

A business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group is accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at their carrying amounts in the financial statements of the entities transferred. If these companies previously have not prepared IFRS financial statements, assets and liabilities are determined in accordance with IFRS 1. Any consideration paid is recognised as a part of merger reserve in equity.

Disposals to entities under common control

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and liabilities sold are derecognised at their book values as recognised in the financial statements of the Group.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Property, plant and equipment

Owned assets

Items of property, plant and equipment, except for land, are measured at historical cost (or deemed cost) less accumulated depreciation and impairment loss. Land is measured at cost less accumulated impairment loss. The deemed cost of property, plant and equipment of the branches, which were merged into the Group, was determined by reference to its fair value as at 1 January 2007, the date of transition to IFRS.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Items of property, plant and equipment transferred from customers or purchased using cash transferred from customers are measured at fair value on initial recognition.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net in "other non-operating income/expense" in the consolidated statement of profit or loss and other comprehensive income.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised, with the carrying amount of the component replaced being written off. Other subsequent expenditure is capitalised if a future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of a finance lease is initially recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy for that asset.

The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings and structures	7-50 years;
Power transmission equipment	7-33 years;
Power conversion equipment	5-29 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Intangible assets

All of the Group's intangible assets have finite useful lives and are capitalised on the basis of the costs incurred to acquire and prepare them for their intended use. Intangible assets are amortised using the straight-line method from the date they are ready for use over their useful lives, for the current and comparative periods, as follows:

Software	3-15 years;
Licenses and certificates	3-5 years.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. Management determines the classification of its financial assets at initial recognition.

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

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and accounts receivable originated by the Group. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest rate method less any impairment loss.

The Group is not permitted to classify any financial assets as held to maturity during the following two financial years and reclassifies the assets of this category as available-for-sale if the Group during the current financial year has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

- are close to maturity or the financial asset's call date;

- occur after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonable anticipated by the Group.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 13 and cash and cash equivalents as presented in Note 15.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amount of cash and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of reporting period. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss previously recognised in equity is included in profit and loss. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of profit or loss and other comprehensive income when the Group's right to receive the dividends is established. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities as presented in Note 11.

(ii) Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Impairment of non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy,
- adverse changes in the payment status of borrowers or issuers in the Group;
- economic conditions that correlate with defaults;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both a specific asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by reclassifying the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The Group's corporate assets do not generate separate cash inflows and are utilised by more than once CGU. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

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

The entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using the specific identification method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Spare parts

Spare parts and servicing equipment are carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Dividends

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

Retirement benefit obligations

Long-term employee benefits provided by the Group include defined contribution plans, defined benefit plans and other long-term employee benefits.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans, including Russia's State pension fund, are recognised in as an employee benefit expense in profit and loss in the periods during which services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Other long-term employee benefits

Other long-term defined benefit plans provided by an entity regulated by Collective Bargaining Agreements include: benefits in connection with the jubilee dates of employees' birthdays, one-time benefits paid in case of death, one-time benefits paid upon invalidity and financial support to honoured workers. The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is stated net of value added tax (VAT).

Rendering of services

Revenue from transmitting electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meter.

Revenue for connection to the power network is recognised at the full amount at the moment of actual connection of the customer to the network.

Revenue from sale of electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meter.

Dividends and interest income

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for investment in property, plant and equipment are recognized as deferred income and amortized during the useful life of related asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss using the effective interest method in the period in which they are incurred.

Income Tax

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker – the Management Board of the Company (the "CODM") to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill

New Standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Standard has not yet been endorsed in the Russian Federation.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be

applied retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 July 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. GROUP SUBSIDIARIES

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

Subsidiary	Principal activity	Ownership as at 31 December 2013, %	Ownership as at 31 December 2012, %
Pskovenergosbyt	Sale of electricity	100	100
Pskovenergoagent	Collection services	100	100
Energoservice North-West	Electricity metering services	100	100
Lesnaya skazka	Recreation	98	98

The subsidiary of the Group JSC "Pskovenergoavto" was liquidated as at 22 March 2012. Disposal of the subsidiary had not material effect on the Group operations and financial performance.

5. OPERATING SEGMENTS

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

The Group's primary activity is the provision of electricity transmission services and connection services within regions of the Russian Federation. In addition in 2013 the Group started to perform guaranteeing electric power supplier functions (see Note 1).

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

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

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

- Transmission Segments - Arkhenergo, Vologdaenergo, Karelenergo, Kolenergo, Komienergo, Novgorodenergo and Pskovenergo;
- Energy Retail Segments – Kolenergo, Novgorodenergo; Pskovenergosbyt;
- Other Segments – other Group companies.

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

The major differences relate to:

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

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

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

Segment results for the year ended 31 December 2013 are presented below:

	Transmission							Energy Retail					
	Arkh-energo	Vologda-energo	Karel-energo	Kol-energo	Komi-energo	Novgorod-energo	Pskovenergo	Kolenergo	Novgorod-energo	Pskov-energosbyt	Other Segments	Unallocated	Total
Revenues													
Power transmitting	4,466,369	6,347,979	3,565,156	3,763,478	6,448,101	2,135,801	180,247	-	-	-	-	-	26,907,131
Connection to power network	36,890	21,661	602,742	4,285	218,332	19,330	51,453	-	-	-	-	-	954,693
Sale of electricity	-	-	-	-	-	-	-	7,411,443	3,387,091	5,340,409	-	-	16,138,943
Other revenue	298,296	66,820	8,935	123,662	53,539	31,677	23,953	-	-	-	7,429	-	614,311
Intersegment revenue	-	1	5	-	-	-	2,782,776	-	-	441,198	359,314	-	3,583,294
Total revenues	**4,801,555**	**6,436,461**	**4,176,838**	**3,891,425**	**6,719,972**	**2,186,808**	**3,038,429**	**7,411,443**	**3,387,091**	**5,781,607**	**366,743**	**-**	**48,198,372**
Profit/(loss) before income tax	**141,036**	**118,308**	**403,560**	**284,995**	**504,525**	**(568 651)**	**(242,210)**	**204,839**	**(113,514)**	**503**	**(72,380)**	**-**	**661,011**
Depreciation	(410,157)	(891,141)	(339,682)	(291,125)	(692,511)	(510,415)	(358,580)	-	-	(640)	(3,917)	(17,807)	(3,515,975)
Finance income	1,881	3,113	1,987	3,249	2,561	1,809	1,382	-	-	167	193	-	16,342
Finance costs	(209,085)	(107,779)	(164,500)	(236,248)	(98,093)	(145,711)	(99,176)	18,885	2,943	(8,215)	(5,461)	-	(1,052,440)
Income tax expense	(50,189)	(91,181)	(41,204)	(35,926)	(90,203)	(59,692)	(64,154)	-	-	3,366	(464)	-	(429,647)
Total assets	**6,903,429**	**12,167,451**	**6,114,602**	**5,990,341**	**10,372,988**	**6,832,076**	**5,133,262**	**1,950**	**714**	**558,229**	**137,175**	**1,683,986**	**55,896,203**
Including property, plant and equipment	3,549,650	9,346,860	3,915,552	3,167,577	9,077,637	5,964,369	4,578,677	10,500	-	986	12,019	37,029	39,660,856
Total liabilities	**898,035**	**1,238,208**	**584,270**	**934,548**	**1,914,598**	**612,671**	**421,207**	**1,745**	**827**	**529,339**	**188,445**	**21,148,215**	**28,472,108**
Capital expenditures	482,140	1,972,611	779,795	333,596	1,150,234	998,212	563,805	-	-	1,432	1,608	34,065	6,317,498

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Segment results for the year ended 31 December 2012 are presented below:

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	Energy Retail	Other Segments	Unallocated	Total
Revenues											
Power transmitting	3,690,021	3,309,009	6,020,497	4,320,861	2,969,668	71,985	6,180,307	-	-	-	26,562,348
Connection to power network	65,664	343,693	456,214	150,413	17,220	57,643	321,173	-	-	-	1,412,020
Sale of electricity	-	-	-	-	-	-	-	4,993,834	-	-	4,993,834
Other revenue	239,212	18,507	58,366	26,910	37,368	10,853	50,784	2,011	5,805	-	449,816
Intersegment revenue	649	5	-	-	-	2,752,043	-	392,735	292,912	-	3,438,344
Total revenues	**3,995,546**	**3,671,214**	**6,535,077**	**4,498,184**	**3,024,256**	**2,892,524**	**6,552,264**	**5,388,580**	**298,717**	**-**	**36,856,362**
(Loss)/profit before income tax	**(809,393)**	**106,350**	**401,181**	**31,102**	**153,396**	**62,974**	**477,274**	**31,375**	**3,863**	**-**	**458,122**
Depreciation	(383,266)	(257,534)	(626,439)	(264,830)	(448,055)	(298,782)	(701,107)	(220)	(3,461)	(25,136)	(3,008,830)
Finance income	2,902	3,287	4,412	4,468	2,369	2,151	4,910	1,361	172	-	26,032
Finance costs	(89,342)	(66,235)	(74,971)	(144,792)	(57,594)	(43,081)	(21,651)	(1,083)	(5,294)	-	(504,043)
Income tax expense	(44,763)	(32,821)	(75,384)	(30,392)	(47,956)	(53,362)	(76,374)	(1,214)	(3,135)	-	(365,401)
Total assets	**4,501,429**	**5,424,785**	**9,655,244**	**4,534,554**	**6,305,868**	**4,848,090**	**9,108,896**	**440,649**	**140,789**	**1,109,306**	**46,069,610**
Including property, plant and equipment	3,494,760	3,481,249	8,622,044	3,163,495	5,504,865	4,396,868	8,309,285	454	14,303	28,392	37,015,715
Total liabilities	**759,176**	**945,416**	**1,144,263**	**653,897**	**356,807**	**423,325**	**691,528**	**408,088**	**118,485**	**13,349,710**	**18,850,695**
Capital expenditures	414,263	897,139	1,160,212	294,107	1,099,892	949,722	1,927,160	-	218	83,725	6,826,438

The reconciliations of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements are presented in the tables below.

Reconciliation of revenues is presented below:

	Year ended 31 December	
	2013	2012
Segment revenues	**48,198,372**	**36,856,362**
Intersegment revenue elimination	(3,583,294)	(3,438,345)
Other adjustments	-	649
Revenues per consolidated statement of profit or loss and other comprehensive income	44,615,078	33,418,666

Reconciliation of profit before income tax is presented below:

	Year ended 31 December	
	2013	2012
Segment results - profit before income tax	**661,011**	**458,122**
Accrued salaries and wages	(9,010)	91,371
Adjustment for depreciation of property, plant and equipment	(37,645)	(53,103)
Adjustments for finance costs	64,380	(20,540)
Intragroup dividends	-	(69,654)
Bad debt allowance adjustment	-	49,157
Other adjustments	4,749	52,958
Profit before income tax per consolidated statement of profit or loss and other comprehensive income	683,485	508,311

Reconciliation of depreciation and amortization is presented below:

	Year ended 31 December	
	2013	2012
Segment depreciation	**(3,515,975)**	**(3,008,830)**
Adjustment for depreciation and impairment of property, plant and equipment	(37,645)	(53,103)
Amortization of intangible assets	(21,212)	(21,146)
Depreciation, amortization per consolidated statement of profit or loss and other comprehensive income	(3,574,832)	(3,083,079)

Reconciliation of financial costs is presented below:

	Year ended 31 December	
	2013	2012
Segment finance income	**16,342**	**26,032**
Segment finance costs	**(1,052,440)**	**(504,043)**
Amounts included in cost of qualifying assets	54,374	70,017
Effect of discounting of accounts receivable	10,006	8,332
Other finance costs reclassification	(90,460)	(115,621)
Finance costs, net per consolidated statement of profit or loss and other comprehensive income	**(1,062,178)**	**(515,283)**

Reconciliation of income tax expense is presented below:

	Year ended 31 December	
	2013	2012
Segment income tax expense	**(429,647)**	**(365,401)**
Adjustment due to different accounting principles for deferred tax calculation	132,734	253,515
Income tax expense per consolidated statement of profit or loss and other comprehensive income	**(296,913)**	**(111,886)**

Reconciliation of total assets is presented below:

	31 December 2013	31 December 2012
Total segment assets	**55,896,203**	**46,069,610**
Adjustment for differences in deemed cost and depreciation rates, borrowing cost capitalized	(3,752,999)	(3,754,053)
Adjustment for inventories valuation and write offs	(204,938)	(213,555)
Adjustment due to different accounting principles for deferred tax calculation	(487,027)	(211,327)
Intersegment balances	(454,091)	(261,257)
Bad debt allowance	-	(6,162)
Investments in subsidiaries	(28,164)	(27,645)
Discount of accounts receivable	(9,291)	(19,298)
Recognition of assets related to employee benefits	545,501	546,346
Other adjustments	(38,153)	(64,257)
Total assets per statement of financial position	**51,467,041**	**42,058,402**

Reconciliation of property, plant and equipment is presented below:

	31 December 2013	31 December 2012
Segment property, plant and equipment	**39,660,854**	**37,015,715**
Adjustment for differences in deemed cost and depreciation rates, borrowing cost capitalized	(3,752,999)	(3,754,053)
Advances for acquisition of property, plant and equipment	(15,789)	(26,337)
Reclassification from other non-current assets	30,482	30,951
Other adjustments	(7,118)	(15,389)
Property, plant and equipment per statement of financial position	**35,915,430**	**33,250,887**

Reconciliation of total liabilities is presented below:

	31 December 2013	31 December 2012
Total segment liabilities	**28,472,108**	**18,850,695**
Retirement benefit obligations	1,673,495	1,391,401
Adjustment due to different accounting principles for deferred tax	(297,310)	152,487
Intersegment balances	(454,091)	(261,257)
Other adjustments	(45,635)	(41,286)
Total liabilities per statement of financial position	**29,348,567**	**20,092,040**

Information on revenues for separate types of services and products of the Group is presented on the face of the consolidated statement of profit or loss and other comprehensive income.

The Group operates in the Russian Federation. Significant customers of the Group are entities controlled by the Government of the Russian Federation. The amounts of revenues from such entities are disclosed in Note 21. Revenues from companies under government control are reported by all segments of the Group.

For the years ended 31 December 2013 and 2012 the Group had two major customers – electricity distribution selling companies in two regions of the Russian Federation - with individual turnover over 10% of total Group revenue. Revenue from such customers is reported by transmission segments operating in the regions where these distribution companies are located: Arkhangelsk and Komi (2012: Arkhangelsk, Komi). The total amounts of revenue for these major customers for the year ended 31 December 2013 were RUB 3,570,258 thousand (Arkhangelsk) and RUB 3,227,145 thousand (Komi) (for the year ended 31 December 2012: RUB 3,737,432 thousand and RUB 3,354,864 thousand correspondingly). These customers are most significant customers of the Group and account for RUB 2,672,630 thousand (Arkhangelsk) and RUB 240,573 thousand (Komi) respectively of the trade receivables carrying amount at 31 December 2013 (as at 31 December 2012: RUB 572,273 thousand and RUB 407,482 thousand correspondingly).

6. SALARIES AND OTHER PERSONNEL EXPENSES

Salaries and other personnel expenses for the year ended 31 December 2013 and 2012 were:

	Year ended 31 December	
	2013	2012 (restated)
Wages, salaries	6,678,088	6,147,662
Defined contribution plan	1,840,221	1,655,111
Unused vacation provision	1 057 394	945 994
Defined benefit plan (Note 18)	58,006	51,126
Total	9,633,709	8,799,893

7. FINANCE INCOME AND FINANCE COSTS

Finance costs for the year ended 31 December 2013 and 2012 were:

	Year ended 31 December	
	2013	2012 (restated)
Interest expense on loans	1,089,838	518,159
Discounting of long-term accounts receivable	1,449	3,206
Other finance costs	89,656	116,324
Less: amounts included in the cost of qualifying assets	(96,297)	(89,422)
Total finance costs	**1,084,646**	**548,267**
Interest income	(11,013)	(21,446)
Unwinding of discount	(11,455)	(11,538)
Total finance income	**(22,468)**	**(32,984)**
Total finance costs, net	1,062,178	**515,283**

The annual capitalization rate for general purpose borrowings for the year ended 31 December 2013 was 8.14% (2012: 7.79%).

8. INCOME TAX

Income tax recognised in profit or loss for the year ended 31 December 2013 and 2012 was:

	Year ended 31 December	
	2013	2012 (restated)
Current income tax	1,291	116,344
Adjustment for prior years	86,568	(98,302)
Fines	74	(6)
Deferred income tax	208,980	93,850
Total income tax expense	296,913	111,886

Profit before income tax for the year is reconciled to income tax expense as follows:

	Year ended 31 December	
	2013	2012 (restated)
Profit before income tax	683,485	508,311
Income tax at statutory tax rate	136,697	101,663
Adjustments due to:		
Permanent tax differences (income and expenses not recognized for taxation purposes)	73,574	108,531
Fines	74	(6)
Under /(over) provided in prior years	86,568	(98,302)
Income tax expense	**296,913**	**111,886**

The statutory tax rate effective in the Russian Federation was 20% in 2013 and in 2012.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The statutory tax rate of 20% was applied in the calculation of deferred tax assets and liabilities as at 31 December 2013 and 31 December 2012. The tax effect of the movements in these temporary differences is detailed below:

	31 December 2013	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2013 (restated)
Pension plan	225,599	1,903	54,685	169,011
Other current liabilities and accrued expenses	170,803	(47,604)	-	218,407
Other assets/ liabilities	6,443	(57,006)	64	63,385
Tax loss carry-forwards	274,039	261,280	-	12,759
Accounts payable and advances received	147	19	-	128
Deferred tax assets	**677,031**	**158,592**	**54,749**	**463,690**
Set-off of tax	(656,143)	(194,691)	-	(461,452)
Net deferred tax assets	**20,888**	**(36,099)**	**54,749**	**2,238**
Property, plant and equipment	(2,317,051)	(118,038)	-	(2,199,013)
Accounts receivable	(474,638)	(249,534)	-	(225,104)
Deferred tax liabilities	**(2,791,689)**	**(367,572)**	**-**	**(2,424,117)**
Set-off of tax	656,143	194,691	-	461,452
Net deferred tax liabilities	**(2,135,546)**	**(172,881)**	**-**	**(1,962,665)**

	31 December 2012 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2012 (restated)
Pension plan	169,011	3,560	24,879	140,572
Other current liabilities and accrued expenses	218,407	33,542	-	184,865
Other assets/ liabilities	63,385	19,726	686	42,973
Tax loss carry-forwards	12,759	(22,918)	-	35,677
Accounts payable and advances received	128	128	-	-
Deferred tax assets	463,690	34,038	25,565	404,087
Set-off of tax	(461,452)	(59,500)	-	(401,952)
Net deferred tax assets	2,238	(25,462)	25,565	2,135
Property, plant and equipment	(2,199,013)	(93,623)	-	(2,105,390)
Accounts receivable	(225,104)	(34,265)	-	(190,839)
Deferred tax liabilities	**(2,424,117)**	**(127,888)**	-	**(2,296,229)**
Set-off of tax	461,452	59,500	-	401,952
Net deferred tax liabilities	(1,962,665)	(68,388)	-	(1,894,277)

The Group has recognised deferred tax assets as at 31 December 2013 in respect of tax loss carry-forwards of RUB 1,370,195 thousand (31 December 2012: RUB 63,795 thousand). The tax losses expire 10 years after their origination in 2022-2023.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductable, management of the Group believes it is more likely than not that the Group will realize the benefits of the deductible differences.

9. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
Cost or Deemed cost						
Opening balance as at 1 January 2013	**5,186,851**	**23,481,202**	**11,792,915**	**5,049,099**	**2,193,558**	**47,703,625**
Additions and transfers	690,953	2,683,464	1,861,866	1,005,306	153,410	**6,394,999**
Disposals	(25,525)	(6,761)	(13,715)	(69,865)	(141,528)	**(257,394)**
Closing balance as at 31 December 2013	5,852,279	26,157,905	13,641,066	5,984,540	2,205,440	53,841,230
Depreciation						
Opening balance as at 1 January 2013	**(1,371,685)**	**(7,894,482)**	**(3,158,145)**	**(2,028,426)**	**-**	**(14,452,738)**
Charge for the year	(267,775)	(1,785,703)	(839,953)	(660,034)		**(3,553,465)**
Disposals	9,122	4,866	9,476	56,939	-	**80,403**
Closing balance as at 31 December 2013	**(1,630,338)**	**(9,675,319)**	**(3,988,622)**	**(2,631,521)**	**-**	**(17,925,800)**
Net book value as at 1 January 2013	3,815,166	15,586,720	8,634,770	3,020,673	2,193,558	33,250,887
Net book value as at 31 December 2013	4,221,941	16,482,586	9,652,444	3,353,019	2,205,440	35,915,430

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
Cost or Deemed cost						
Opening balance as at 1 January 2012	**4,876,664**	**20,961,647**	**9,756,543**	**3,720,356**	**1,655,527**	**40,970,737**
Additions and transfers	379,947	2,531,760	2,050,828	1,370,446	629,783	**6,962,764**
Disposals	(69,760)	(12,205)	(14,456)	(41,703)	(91,752)	**(229,876)**
Closing balance as at 31 December 2012	**5,186,851**	**23,481,202**	**11,792,915**	**5,049,099**	**2,193,558**	**47,703,625**
Depreciation						
Opening balance as at 1 January 2012	**(1,111,963)**	**(6,289,803)**	**(2,467,301)**	**(1,557,168)**	**(21,778)**	**(11,448,013)**
Charge for the year	(261,777)	(1,611,722)	(696,528)	(491,906)	-	**(3,061,933)**
Disposals	2,055	7,043	5,684	20,648	21,778	**57,208**
Closing balance as at 31 December 2012	(1,371,685)	(7,894,482)	(3,158,145)	(2,028,426)	-	(14,452,738)
Net book value as at 1 January 2012	3,764,701	14,671,844	7,289,242	2,163,188	1,633,749	29,522,724
Net book value as at 31 December 2012	3,815,166	15,586,720	8,634,770	3,020,673	2,193,558	33,250,887

Borrowing cost included in cost of qualifying assets for the year ended 31 December 2013 amounted to RUB 96,297 thousand (2012: RUB 89,422 thousand).

Prepayments for the acquisition of property, plant and equipment, net of VAT included in the assets under construction amounted of RUB 31,851 thousand (as at 31 December 2012: RUB 96,638 thousand, net of VAT).

The depreciation of non-current assets included in assets under construction for the year ended 31 December 2013 amounted to RUB 1,246 thousand (for the year ended 31 December 2012: nil).

Because of impairment indicators were identified, the Group performed impairment testing in respect of property, plant and equipment for specific cash-generating units as at 31 December 2013. The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2013 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets. No impairment loss was identified as a result of impairment test in respect of property, plant and equipment.

10. INTANGIBLE ASSETS

	Software	Licenses and certificates	Total
Cost			
Opening balance as at 1 January 2013	**78,671**	**23,528**	**102,199**
Additions	95,019	13,572	108,591
Disposals	(5,364)	(589)	(5,953)
Closing balance as at 31 December 2013	168,326	36,511	204,837
Amortization			
Opening balance as at 1 January 2013	**(40,373)**	**(5,595)**	**(45,968)**
Charge for the year	(18,965)	(3,648)	(22,613)
Disposals	5,364	589	5,953
Closing balance as at 31 December 2013	(53,974)	(8,654)	(62,628)
Net book value as at 1 January 2013	38,298	17,933	56,231
Net book value as at 31 December 2013	114,352	27,857	142,209
Cost			
Opening balance as at 1 January 2012	**68,722**	**9,366**	**78,088**
Additions	34,330	15,567	49,897
Disposals	(24,381)	(1,405)	(25,786)
Closing balance as at 31 December 2012	78,671	23,528	102,199
Amortization			
Opening balance as at 1 January 2012	**(38,085)**	**(3,121)**	**(41,206)**
Charge for the year	(17,909)	(3,237)	(21,146)
Disposals	15,621	763	16,384
Closing balance as at 31 December 2012	(40,373)	(5,595)	(45,968)
Net book value as at 1 January 2012	30,637	6,245	36,882
Net book value as at 31 December 2012	38,298	17,933	56,231

11. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

Investments in securities and other financial assets as at 31 December 2013 and 31 December 2012 were:

	31 December 2013	31 December 2012
Available-for-sale investments, at fair value		
Equity securities	10,615	10,937
Loans and receivables, at amortized cost		
Restructured trade receivables from principal activities	13,144	14,174
Long-term promissory notes	5,899	5,263
Other non-current receivables	27,139	125,271
Total	56,797	155,645

Equity securities represent investments in shares of TGC-1 and other securities, which are listed on MICEX and RTS, recorded at fair market value.

The restructured trade receivables amounts due for electricity for prior periods, which were past-due and in respect of which the agreement to settle such receivables during several years was reached prior to 2013.Long-term promissory notes represent investments in non-interest-bearing promissory notes of MDM-Bank with the maturity date of 21 September 2016. All non-current receivables are RUB-denominated.

12. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2013 and 31 December 2012 were:

	31 December 2013	31 December 2012
Assets related to long-term employee benefits	545,501	546,346
VAT on non-current prepayments from customers	149,974	45,152
Other	6,127	43,178
Total	701,602	634,676

Assets related to long-term employee benefits represent available for sale financial investments (contributions) in a non-state pension fund (see Note 18). Subject to certain restrictions, contributions to the non-state pension fund can be withdrawn at the discretion of the Group.

13. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable and prepayments as at 31 December 2013 and 31 December 2012 were:

	31 December 2013	31 December 2012
Trade receivables	13,374,218	6,788,982
Other receivables	520,811	359,845
Less: allowance for doubtful debts	(1,933,499)	(1,631,958)
Subtotal financial assets	**11,961,530**	**5,516,869**
Prepayments	377,417	238,231
Total	**12,338,947**	**5,755,100**

All accounts receivable are RUB-denominated and relate to sales to enterprises located in Russian Federation.

Accounts receivable include amounts due from related parties (Note 21).

All impaired receivables have been provided for. Management has determined an allowance for doubtful debtors based on specific customer identification, current court practice, customer payment discipline, subsequent receipts, and settlements and the analysis of expected future cash flows. Management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

The Group's trade receivables as at 31 December 2013 include RUB 552,676 thousand related to litigations with retail electricity sales companies (31 December 2012: RUB 593,069 thousand) which were fully included in respective provision (31 December 2012: RUB 399,719 thousand). During 2013 some of the litigations that existed as at 31 December 2012 were won by the Group, some were lost by the Group while others remained unresolved. Additionally the Group entered into a number of new similar litigations. The main reasons for the litigation are disagreements over the amount of power consumed, application of tariffs for electricity transmission and provision of power and delays in customers' payments. No provision has been recognised for amounts considered to be probable of recovery by the Group.

Certain trade receivables and other accounts receivable have been restructured before 2013 and are due to be realized more than one year from the end of reporting period (Note 11).

The ageing of receivables at the reporting date was:

	Gross 31 December 2013	Impairment 31 December 2013	Gross 31 December 2012	Impairment 31 December 2012
Not past due	3,889,992	-	2,767,938	(98,580)
Past due less than 3 months	3,133,756	(11,811)	2,029,472	(231,408)
Past due more than 3 months and less than 6 months	1,998,089	(28,729)	718,041	(201,989)
Past due more than 6 months and less than 1 year	2,883,010	(878,339)	559,716	(80,829)
Past due more than 1 year	1,990,182	(1,014,620)	1,073,660	(1,019,152)
	13,895,029	(1,933,499)	7,148,827	(1,631,958)

Based upon historic default rates, management believes that, apart from the above, no impairment allowance is necessary in respect of receivables.

Movement in the allowance for doubtful debt in respect of trade and other receivables:

	Year ended 31 December	
	2013	2012
Balance at the beginning of the year	**(1,631,958)**	**(1,139,011)**
Provision accrual	(1,395,248)	(1,020,356)
Provision reversal	620,444	144,145
Amounts written-off against provision as uncollectable	473,263	383,264
Balance at the end of the year	**(1,933,499)**	**(1,631,958)**

Recognition of the allowance for impaired receivables was included in other operating expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The allowance account in respect of trade receivables is used to record impairment loss unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

14. INVENTORIES

Inventories as at 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Spare parts and consumables for repairs	398,762	379,055
Emergency stock	148,615	126,614
Fuel and oils	103,064	120,288
Working clothes and fittings	84,350	79,478
Other inventories	95,197	97,096
Less: allowance for obsolete and slow-moving inventories	(8,037)	(17,751)
Total	821,951	784,780

As of 31 December 2013 there are no inventories pledged to secure bank loans and borrowings (31 December 2012: RUB 375 thousand).

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Current accounts RUB - denominated	832,318	721,690
Specific bank accounts	5,918	3,814
Other cash and cash equivalents	1,723	1,493
Total	**839,959**	**726,997**

The Group has accounts in several Russian banks, including Sberbank, Bank-VTB, Gasprombank, Alfa-Bank, Rosbank, Svyaz-bank, Transcreditbank and others. Management believes that they all are reliable counterparties with a stable position on the Russian market and that, accordingly, no impairment allowance is necessary.

16. EQUITY

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (Note 2), the principal component of the net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

Authorised, issued and fully paid share capital

As at 31 December 2013 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2012: 95,785,923,138) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

Merger reserve

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

Retained earnings and dividends

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

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

Voting rights of shareholders

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

Earnings per share

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

17. 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.

	31 December 2013	31 December 2012
Non-current liabilities		
Unsecured bank loans	13,953,056	10,629,252
	13,953,056	**10,629,252**
Current liabilities		
Current portion of unsecured bank loans	1,383,336	19,021
Unsecured bank loans	1,393,294	-
	2,776,630	**19,021**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			31 December 2013	31 December 2012	31 December 2013		31 December 2012	
Bank loan	**Currency**	**Year of maturity**	**Effective interest rate**	**Effective interest rate**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank loans								
Unsecured bank loans	RUB	2014	7.01%-8.10%	7.01%-11.00%	2,776,630	2,776,630	19,021	19,021
Unsecured bank loans*	RUB	2015	7.01%-9.45%	7.48%-11%	3,100,000	3,100,000	5,596,646	5,596,646
Unsecured bank loans	RUB	2015	7.31%	7.31% - 8.90%	700,000	700,000	700,000	700,000
Unsecured bank loans*	RUB	2016	7.49%-8.42%	7.49%-9.50%	7 193 563	7 193 563	3,179,824	3,179,824
Unsecured bank loans	RUB	2017	-	11.80%	-	-	1,152,782	1,152,782
Unsecured bank loans*	RUB	2018	8.06%-8.10%	-	2 959 493	2 959 493	-	-
Total debt					**16,729,686**	**16,729,686**	**10,648,273**	**10,648,273**

*- Loans from state-controlled entities

Loans are attracted at market interest rates. Annual interest rates are equivalent to effective interest rates.

The effective interest rate is the market interest rate on main and additional loan agreements effective at the reporting date for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

The Group has no floating rate loans.

For more information about the Group's exposure to interest rate and foreign currency risk, see Note 25.

All loans and borrowings are RUB-denominated.

The following assets were pledged to secure loans and borrowings:

	31 December 2013	31 December 2012
Inventories (refer to Note 14)	-	375
Total	**-**	**375**

18. RETIREMENT BENEFIT OBLIGATIONS

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power Industry); and
- defined benefit pension plans regulated by Collective Bargaining Agreements that include lump sum benefits for pensioners, benefits paid in connection with the jubilee dates birthday of employees and pensioners, and financial support for pensioners, one-time benefits paid in case of death.

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

The amounts recognised in the consolidated statement of financial position are as follows:

	31 December 2013	31 December 2012 (restated)
Present value of defined benefit obligation	1,590,724	1,326,487
Present value of other long-term employee benefit obligation	82,771	64,914
Total net defined benefit liability	**1,673,495**	**1,391,401**

The movement in the net defined benefit obligation over the year is as follows:

	Defined benefit obligation	Other long-term employee benefit obligation	Total
At 1 January 2012 (restated)	1,195,077	59,431	1,254,508
Current service cost	46,105	5,021	51,126
Interest expense	94,174	4,714	98,888
Remeasurements:			
Loss from change in financial assumptions	85,015	4,300	89,315
Experience losses	39,369	438	39,807
Contributions	**(133,253)**	**(8,990)**	**(142,243)**
At 31 December 2012 (restated)	**1,326,487**	**64,914**	**1,391,401**
At 1 January 2013 (restated)	1,326,487	64,914	1,391,401
Current service cost	52,607	5,399	58,006
Interest expense	87,328	4,287	91,615
Remeasurements:			
Loss from change in demographic assumptions	133,539	10,653	144,192
Gain from change in financial assumptions	(67,081)	(3,876)	(70,957)
Experience losses	206,969	11,320	218,289
Contributions	**(149,125)**	**(9,926)**	**(159,051)**
At 31 December 2013	**1,590,724**	82,771	1,673,495

Amounts recognized in profit or loss

	Year ended 31 December	
	2013	**2012 (restated)**
Service cost	58,006	51,126
Remeasurements on present value of other long-term employee benefit obligation	18,097	4,737
Interest expense	91,615	98,888
Total	167,718	154,751

Amounts recognized in other comprehensive income

	Year ended 31 December	
	2013	2012 (restated)
Loss from change in demographic assumptions	133,539	-
(Gain)/loss from change in financial assumptions	(67,081)	85,015
Experience losses	206,969	39,369
Total	273,427	124,384

The movement of remeasurements in other comprehensive income are as follows

	Year ended 31 December	
	2013	2012 (restated)
At 1 January	(635,432)	(759,816)
Movement of remeasurements	273,427	124,384
At 31 December	(362,005)	(635,432)

The principal actuarial assumptions are as follows

Financial actuarial assumptions	31 December 2013	31 December 2012
Discount rate, annual (nominal)	8.00%	7.10%
Future financial support benefit increases	5.00%	5.00%
Future salary increases (nominal)	5.00%	5.00%

Demographic actuarial assumptions	31 December 2013	31 December 2012
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	5.00%	5.00%
Mortality table	2010	2002

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

	Change in assumption	Impact on defined benefit liability
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by 2.72%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 1.27%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 1.52%
Employee turnover	Increase / decrease by 10%	Decrease/ Increase by 0.89%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by 0.80%

The above sensitivity analyses is based on reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant.

Contributions expected to be paid by the entity to Non-State Pension Fund of the Electric Power Industry in the year ended 31 December 2014 amount to RUB 51,155 thousand. Those contributions can be used by the fund both for financing defined benefit and defined contribution plans and contributions related to defined benefit plan only cannot be reliably identified.

19. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Advances from customers	983,163	295,998
Other	103,024	106,843
Total	**1,086,187**	**402,841**

20. ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Accounts payable and advances received as at 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Trade payables	2,737,014	1,582,150
Advances received	1,584,333	1,572,627
Payables to employees	1,083,218	1,057,236
Unsettled liabilities for the acquisition of property, plant and equipment	1,118,654	668,387
Dividends payable	241	-
Other payables	232,528	111,305
Total	**6,755,988**	**4,991,705**

No interest charged on the outstanding balance for trade and other payables during credit period. All payables are RUB-denominated.

21. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 31 December 2013 the Group was controlled by JSC Russian Grids, a state controlled entity (see Note 1).

Management remuneration

There are no transactions or balances with key management and close family members except for their remuneration in the form of salary and bonuses. Total key management remuneration which was included in personnel expenses amounted to:

	Year ended 31 December	
	2013	2012
Salaries and bonuses	204,972	198,408

Transactions with state-controlled entities

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

Revenues from state-controlled entities for the year ended 31 December 2013 constitute 13.5% (2012: 9.0%) of total Group revenues and 9.1% (2012: 7.8%) of power transmitting revenue.

Electricity transmission fees due to state-controlled entities for the year ended 31 December 2013 constitute 64.9% (2012: 69.4%) of total power transmitting services costs.

Cash and cash equivalents in state-controlled banks as at 31 December 2013 constitute 89.9% (31 December 2012: 83.4%) of total cash and cash equivalents.

Significant loans from state controlled entities are disclosed in Note 17.

Pricing policies

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

22. COMMITMENTS AND CONTINGENCIES

Political environment

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

Insurance

The insurance market 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 in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport as well as accident, health and medical insurance for employees. Furthermore, the Group has arranged for third party liability insurance in respect of potential effects related to usage of dangerous production facilities.

As at 31 December 2013 the Group has insured its main production assets with the insurance coverage of RUB 43,659,377 thousand (as at 31 December 2012: RUB 41,986,647 thousand) and vehicles below 10 years of age with the insurance coverage of RUB 545,753 thousand (as at 31 December 2012: RUB 432,047 thousand).

Apart from this, the Group does not have full coverage for its production 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.

Litigation

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

Taxation contingencies in Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

Environmental matters

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

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

Disagreements with counterparties

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. Disagreements between the Group and its counterparties on to the amount of mutual obligations are normally proceeded in courts. Disagreements normally relates to the amount of electricity distributed. These disagreements appear due to different approaches to electricity volume's calculation, tariffs applied by the Group and its counterparties and disagreements regarding electric power transmitted via "last-mile" grid. Disagreements on the volume of electricity distributed impact the volume of electric power the Group has to acquire from sales companies to compensate electricity losses.

Often the Group comes to an out-of-court agreement with its counteragents regarding the reimbursement of electric power losses in case of disagreements related to electricity transmission services receivables are resolved.

The Group recognise allowance for doubtful debts for receivables on electricity transmission services challenged by customers and provision for counterparties' claims for reimbursement of electric power acquired to compensate electricity losses in case of adverse court precedents outcomes for the same/similar court cases for distribution companies took place in the past.

Capital expenditure commitments

As at 31 December 2013 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 2,864,999 thousand (as at 31 December 2012: RUB 1,984,538 thousand).

23. OPERATING LEASE ARRANGEMENTS

The Group mainly leases land from municipal authorities. The leases provide an option to renew the lease after the end of lease term. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	Year ended 31 December	
	2013	**2012**
Rental land payments	52,396	52,270
Other rental payments	150,149	98,401
Total	**202,545**	**150,671**

Non-cancellable operating lease rentals are payable as follows:

	31 December 2013	31 December 2012
Less than one year	61,932	62,305
Between one and five years	216,824	219,135
More than five years	1,578,423	1,585,296
Total	**1,857,179**	**1,866,736**

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to their quoted closing bid price; and
- The fair value of other financial assets and financial liabilities is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the carrying values of financial assets (refer to Note 25) and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The fair value of financial assets recognised in the consolidated statement of financial position at fair value (refer to Notes 11 and 25) was determined based on quoted closing bid prices on MICEX at the reporting date (level 1 of fair value measurement hierarchy in accordance with IFRS 7).

25. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;

- market risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

(a) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Industry risks

Industry risk is caused by the changes in economic condition of the industry and the extent of these changes within the industry as well as in comparison with other industries. Industry risk is mainly related to credit risk and have direct impact on it.

The legislation in the Russian Federation regulating electric power transmission is in a developing state, and is characterised by frequent changes and subject to varying interpretation. Because of these reasons, various interpretations of the legislation and contractual terms relatively often take place between electricity market participants, which results in disagreements under various grounds and entail the following risks:

- Risk of the significant increase in overdue accounts receivable and growth of bad debts for electricity transmission services, particularly with sale companies regarding industry legislation treatment in respect of electricity transmission services settlements.
- Risk of reduction of the volume of services provided due to termination (non-prolongation) of Unified National Electricity Network grids rent arrangements with JSC FGC UES (last mile grids), which may arise from changes in the regulatory and legislative frameworks.

The Group undertakes the following activities in order to minimize the above mentioned risks:

- monitoring of agreements' terms compliance and timely response to disputable matters as well as initiation and prolongation of grids' rent agreements with JSC "FGC UES"
- monitoring of the electricity's balances (in natural units) and analysis of actual amount of electricity losses and the volume of electricity transmitted including electricity volumes transmitted to customers connected via grids leased under "last mile" agreements with JSC "FGC UES" and excluding these volumes;
- continuous analysis of reasons for disagreements with customers, including disagreements regarding the volume of electricity transmitted;

- court proceedings by the Group in respect of disagreement cases when customers challenge grids' transmitting spots ownership of the Group in order to accumulate precedents of positive court outcomes on such issues.

Major categories of financial instruments

The Group holds a number of financial instruments with specific characteristics and financial risk factors associated with them. The Group's principal financial liabilities comprise loans and borrowings, finance lease liabilities, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and loans given, cash and cash equivalents, and promissory notes. Financial instruments per categories as at 31 December 2013 and 31 December 2012 were as follows:

Financial assets per category	**31 December 2013**	**31 December 2012**
Available-for-sale financial assets		
Assets related to long-term employee benefits	545,501	546,346
Available-for-sale investments	10,615	10,937
Loans and receivables		
Trade and other receivables	11,961,530	5,516,869
Cash and cash equivalents		
Cash and cash equivalents	839,959	726,997
Total financial assets	**13,357,606**	**6,801,149**

Financial liabilities per category	**31 December 2013**	**31 December 2012**
Financial liabilities at amortized cost		
Loans and borrowings	(16,729,686)	(10,648,273)
Trade and other payables	(4,088,437)	(2,361,842)
Total financial liabilities	**(20,818,123)**	**(13,010,115)**

(c) Credit risk

Credit risk is the risk that a counterparty will default on its obligations to the Group, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding unsecured trade and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits attributable to customers are regularly reviewed at least on an annual basis. Of the receivables balance as at 31 December 2013, the Group's ten largest customers (individually 1% and above of the total balance) represent 65% (31 December 2012: 79%) of the outstanding balance.

The credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, arises from the risk of default of the counterparty, with the maximum exposure being equal to the carrying value of these instruments. The maximum exposure to credit risk as at 31 December 2013 is RUB 12,801,489 thousand (31 December 2012: RUB 6,243,866 thousand).

Offsetting of financial assets and liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognized amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognized financial instruments that are subject to the above agreements.

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2013		
Net amounts presented in the statement of financial position	2 767 631	2 217 773
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(306 812)	(306 812)
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	2 460 819	1 910 961

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2012		
Net amounts presented in the statement of financial position	443 462	1 543 909
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(154 140)	(154 140)
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	289 322	1 389 769

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Available loan facilities

As at 31 December 2013 the Group available loan facilities (unutilised credit lines from Sberbank, Bank VTB, Svyaz-bank), which is planned to be subsequently utilised by the Group amounted to RUB 7,168,222 thousand (31 December 2012: RUB 2,479,073 thousand).

Liquidity analysis of the Group's obligations

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2013	Carrying amount	Contractual cash flows	Up to 6 month	6 month-1 year	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Loans and borrowings	16,729,686	20,028,274	1,620,607	2,350,203	4,813,586	7,643,324	252,305	3,348,249
Trade and other payables	4,088,437	4,088,437	4,082,710	5,727	-	-	-	-
	20,818,123	24,116,711	5,703,317	2,355,930	4,813,586	7,643,324	252,305	3,348,249

31 December 2012	Carrying amount	Contractual cash flows	Up to 6 month	6 month-1 year	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Loans and borrowings	10,648,273	13,708,955	494,163	475,142	950,283	7,032,217	3,479,893	1,277,257
Trade and other payables	2,361,842	2,361,843	2,350,386	11,457	-	-	-	-
	13,010,115	16,070,798	2,844,549	486,599	950,283	7,032,217	3,479,893	1,277,257

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The foreign currency transactions, undertaken by the Group, are minimal and thus the Group has limited exposure to foreign currency risk.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates.

However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

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

(f) Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

There were no changes to the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. EVENTS AFTER THE REPORTING PERIOD

As at 01 January 2014 guaranteeing electric power supplier function in Novgorod region of the service area of OJSC "Novgorodoblenergosbyt" was assigned to another company by Ministry of Order № 912 issued on as at 23 December 2013. As at 31 December 2013 accounts receivable of the Group's sub-division, which guaranteeing electric power supplier function were re-assigned to another company amounted to RUB 229,467 thousand, accounts payable equalled to RUB 146,844 thousand.

As at 30 January 2014 the Board of Directors of the Group approved listing prospectus for interest-bearing non-convertible coupon bonds for the total volume of 15 million bonds, bond's par value of 1 000 RUB and total nominal amount of RUB 15 billion and bonds' maturity period of 10 years.