Group of companies “Russian Grids”
(“Russian Grids”)

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

Contents

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Auditors' Report

To the Shareholders and Board of Directors

JSC "Russian Grids"

We have audited the accompanying consolidated financial statements of JSC "Russian Grids" (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.

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.

Audited entity: JSC Russian Grids

Registered in the Unified State Register of Legal Entities on 1 July 2008 by Inter-Regional inspectorate of Federal Tax Service No.46 of Moscow, Registration No. 1087760000019, Certificate series 77 No 011168002.

Amendments due to renaming registered in the Unified State Register of Legal Entities on 4 April 2013 by Inter-Regional inspectorate of Federal Tax Service No.46 of Moscow, Registration No. 7137746729542, Certificate series 77 No. 015768874.

26 Ulanskiy pereulok, Moscow, Russia, 107996

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.

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.

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.

Sloutsky E.A.

Director, (power of attorney dated 1 October 2013 No. 86/13)

ZAO KPMG

22 April 2014

Moscow, Russian Federation

(in millions of Russian roubles, unless otherwise stated

	Notes	**Year ended 31 December 2013**	**Year ended 31 December 2012 (restated)**
Revenue and government subsidies	8	759,779	652,183
Operating expenses	9	(914,495)	(564,470)
Other income, net		5,895	3,364
Results from operating activities		**(148,821)**	**91,077**
Finance income	11	9,049	9,885
Finance costs	11	(50,618)	(41,425)
Net finance costs		**(41,569)**	**(31,540)**
Share of (loss)/profit of equity accounted investees (net of income tax)		(11)	71
(Loss)/profit before income tax		**(190,401)**	**59,608**
Income tax benefit /(expense)	12	31,012	(15,753)
(Loss)/profit for the year		**(159,389)**	**43,855**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		(123)	(106)
Net change in fair value of available-for-sale financial assets transferred to profit or loss		-	(17)
Foreign currency translation differences		26	(50)
Related income tax		25	28
Total items that are or may be reclassified subsequently to profit or loss		**(72)**	**(145)**
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(3,879)	(4,595)
Related income tax		752	761
Total items that will not be reclassified to profit or loss		**(3,127)**	**(3,834)**
Other comprehensive loss for the year net of income tax		**(3,199)**	**(3,979)**
Total comprehensive (loss)/income for the year		**(162,588)**	**39,876**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

(in millions of Russian roubles, unless otherwise stated

	Notes	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
(Loss)/profit attributable to:			
Owners of the Company		(132,113)	25,375
Non-controlling interest		(27,276)	18,480
Total comprehensive (losses)/income attributable to:			
Owners of the Company		(134,332)	22,683
Non-controlling interest		(28,256)	17,193
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per ordinary share (in RUB)	20	(0.82)	0.17

These consolidated financial statements were approved by management on 22 April 2014 and were signed on its behalf by:

First Deputy Director General
for Economic Affairs and Finance

A. A. Demin

Acting Director for accounting
and reporting – Chief Accountant

O. V. Bulygina

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

(in millions of Russian roubles, unless otherwise stated)

	Notes	31 December 2013	31 December 2012 (restated)	31 December 2011 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	13	1,595,862	1,639,737	1,440,830
Intangible assets		16,557	13,929	11,340
Investments in equity accounted investees		1,202	1,188	1,891
Non-current accounts receivable	17	7,442	12,559	17,128
Other investments and financial assets	14	27,309	60,687	92,549
Deferred tax assets	15	9,012	4,102	2,599
Total non-current assets		**1,657,384**	**1,732,202**	**1,566,337**
Current assets				
Inventories	16	23,920	20,855	19,227
Other investments and financial assets	14	53,306	56,056	27,799
Current tax assets		5,568	5,300	6,426
Trade and other receivables	17	143,944	118,274	102,868
Cash and cash equivalents	18	61,917	59,815	74,480
Total current assets		**288,655**	**260,300**	**230,800**
Total assets		**1,946,039**	**1,992,502**	**1,797,137**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

(in millions of Russian roubles, unless otherwise stated)

	Notes	31 December 2013	31 December 2012 (restated)	31 December 2011 (restated)
EQUITY AND LIABILITIES				
Equity	19			
Share capital		163,154	49,947	45,039
Share premium		212,978	16,244	6,036
Treasury shares		(2,819)	(2,819)	(2,819)
Reserve for issue of shares		-	19,751	9,382
Other reserves		(6,265)	(4,046)	(1,354)
Retained earnings		398,711	807,577	777,104
Total equity attributable to equity holders of the Company		**765,759**	**886,654**	**833,388**
Non-controlling interest		295,932	335,765	325,731
Total equity		**1,061,691**	**1,222,419**	**1,159,119**
Non-current liabilities				
Loans and borrowings	21	492,229	381,868	296,759
Trade and other payables	23	14,487	15,061	30,063
Employee benefits	22	28,971	24,278	19,995
Deferred tax liabilities	15	38,715	72,818	67,339
Total non-current liabilities		**574,402**	**494,025**	**414,156**
Current liabilities				
Loans and borrowings	21	57,808	59,906	30,955
Trade and other payables	23	241,266	200,042	185,686
Provisions	24	10,397	14,566	6,419
Current tax liabilities		475	1,544	802
Total current liabilities		**309,946**	**276,058**	**223,862**
Total liabilities		**884,348**	**770,083**	**638,018**
Total equity and liabilities		**1,946,039**	**1,992,502**	**1,797,137**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2013	**Year ended 31 December 2012 (restated)**
OPERATING ACTIVITIES		
(Loss)/profit for the year	**(159,389)**	**43,855**
Adjustments for:		
Depreciation and amortization	115,942	97,795
Impairment of property, plant and equipment	239,446	4,706
Finance costs	50,618	41,425
Finance income	(9,049)	(9,885)
Loss on disposal of property, plant and equipment	3,245	1,332
Share of loss//(profit) of equity accounted investees (net of income tax)	11	(71)
Gain from disposal of subsidiaries	-	(56)
Other non-cash transactions	172	4,040
Income tax (benefit)/expense	(31,012)	15,753
Operating profit before changes in working capital and reserves	**209,984**	**198,894**
Change in trade and other receivables	(20,255)	(16,395)
Change in financial assets related to employee benefit fund	5	(310)
Change in inventories	(3,041)	(1,637)
Change in trade and other payables	15,823	5,817
Change in employee benefit liabilities	(869)	(1,676)
Change in provisions	(4,169)	8,147
Cash flows from operations before income tax and interest paid	**197,478**	**192,840**
Income tax paid	(9,050)	(9,929)
Interest paid	(37,448)	(29,937)
Net cash flows from operating activities	**150,980**	**152,974**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2013	**Year ended 31 December 2012 (restated)**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(268,452)	(285,894)
Proceeds from sale of property, plant and equipment	1,507	2,115
Acquisition of investments and placement of bank deposits	(97,447)	(91,261)
Proceeds from disposal of investments and withdrawal of bank deposits	101,904	68,249
Disposal of subsidiaries, net of cash disposed	-	144
Disposal of investment in equity accounted investees	-	800
Dividends received	47	33
Interest received	7,290	5,634
Net cash flows used in investing activities	**(255,151)**	**(300,180)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	293,076	172,796
Repayment of loans and borrowings	(185,484)	(55,080)
Proceeds from shares issued	4,295	25,485
Purchase of non-controlling interest in subsidiaries	(764)	(5,898)
Dividends paid	(3,469)	(1,506)
Repayment of finance lease liabilities	(1,381)	(3,256)
Net cash flows from financing activities	**106,273**	**132,541**
Net increase/(decrease) in cash and cash equivalents	**2,102**	**(14,665)**
Cash and cash equivalents at the beginning of year	**59,815**	**74,480**
Cash and cash equivalents at the end of year (Note 18)	**61,917**	**59,815**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2012, as previously reported	45,039	6,036	(1,786)	9,382	280	207,790	266,741	177,136	443,877
Impact of change in accounting policy	-	-	-	-	(2,152)	(2,205)	(4,357)	-	(4,357)
Effect of FGC acquisition (see note 2(g))	-	-	(1,033)	-	518	571,519	571,004	148,595	719,599
Balance at 1 January 2012 (restated)	45,039	6,036	(2,819)	9,382	(1,354)	777,104	833,388	325,731	1,159,119
Profit for the year	-	-	-	-	-	25,375	25,375	18,480	43,855
Other comprehensive income	-	-	-	-	(3,231)	-	(3,231)	(1,537)	(4,768)
Income tax on other comprehensive income	-	-	-	-	539	-	539	250	789
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(2,692)**	**25,375**	**22,683**	**17,193**	**39,876**
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares (see Note 19)	4,908	10,208	-	10,369	-	-	25,485	-	25,485
Dividends	-	-	-	-	-	(145)	(145)	(1,342)	(1,487)
Effect of employee share options	-	-	-	-	-	827	827	-	827
Total contributions and distributions	**4,908**	**10,208**	**-**	**10,369**	**-**	**682**	**26,167**	**(1,342)**	**24,825**
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries	-	-	-	-	-	5,316	5,316	(819)	4,497
Purchase of non-controlling interest in subsidiaries without a change in control	-	-	-	-	-	(900)	(900)	(4,998)	(5,898)
Total transactions with owners of the Company	**4,908**	**10,208**	**-**	**10,369**	**-**	**5,098**	**30,583**	**(7,159)**	**23,424**
Balance at 31 December 2012 (restated)	**49,947**	**16,244**	**(2,819)**	**19,751**	**(4,046)**	**807,577**	**886,654**	**335,765**	**1,222,419**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2013	49,947	16,244	(2,819)	19,751	(4,046)	807,577	886,654	335,765	1,222,419
Profit for the year	-	-	-	-	-	(132,113)	(131,133)	(27,276)	(159,389)
Other comprehensive income	-	-	-	-	(2,768)	-	(2,768)	(1,208)	(3,976)
Income tax on other comprehensive income	-	-	-	-	549	-	549	228	777
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(2,219)**	**(132,113)**	**(134,332)**	**(28,256)**	**(162,588)**
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares (see Note 19)	113,207	196,734	-	(19,751)	-	(282,565)	7,625	(7,092)	533
Dividends	-	-	-	-	-	(166)	(166)	(3,331)	(3,497)
Effect of employee share options	-	-	-	-	-	250	250	-	250
Total contributions and distributions	**113,207**	**196,734**	**-**	**(19,751)**	**-**	**(282,481)**	**7,709**	**(10,423)**	**(2,714)**
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries (see Note 19)	-	-	-	-	-	5,993	5,993	(655)	5,338
Purchase of non-controlling interest in subsidiaries without a change in control	-	-	-	-	-	(265)	(265)	(499)	(764)
Total transactions with owners of the Company	**113,207**	**196,734**	**-**	**(19,751)**	**-**	**(276,753)**	**13,437**	**(11,577)**	**1,860**
Balance at 31 December 2013	**163,154**	**212,978**	**(2,819)**	**-**	**(6,265)**	**398,711**	**765,759**	**295,932**	**1,061,691**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 72.

1 Background

(a) The Group and its operations

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

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding the decision was made to amend the Charter of JSC “IDGC Holding”, under which it was renamed JSC “Russian Grids” (hereinafter referred to as “JSC Russian Grids” or “the Company”). On 4 April 2013 the respective changes to the Charter of JSC “IDGC Holding” were registered by the Inter-Regional inspectorate of Federal Tax Service №46 of Moscow.

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

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

The group of companies «Russian Grids» (Russian Grids) (hereinafter referred to as “the Group”) comprises JSC Russian Grids and its subsidiaries presented in Note 5.

The Group’s principal activities are electricity distribution and technological connection services.

Power distribution companies of the Group sell electricity. In addition during 2013 some interregional distribution grid companies also performed function of electricity supplier.

(b) Russian business environment

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

(c) Relations with state and current regulations

The Group’s strategic business units (see Note 7) are regional natural monopolies. The Russian Government directly affects the Group’s operations through the system of regional tariffs.

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

As at 31 December 2013 the Russian Government owned 86.32% of the voting ordinary shares and 7.01 % of the preference shares of the Company (31 December 2012: 56.58% of the voting ordinary shares and 7.01 % of the preference shares). In 2013 the interest of the Russian Government in the share capital of the Company increased to 86.32% of the voting ordinary shares as a result of registration of the increase in share capital (see Note 19). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Russian Government supports the Group due to its strategic position for economy of the Russian Federation. The Group’s customer base includes a number of state-controlled entities.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Federal Law № 208 - FZ "About consolidated statements".

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

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

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

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

- Note 15 – deferred tax assets;
- Note 25 – allowances for trade and other receivables;
- Note 2 (e) – business combinations under common control in respect of consolidation of OJSC FGC UES.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in Note 13 – impairment of property, plant and equipment.

(e) Business combination under common control

In accordance with Decree No. 1567 of the President of the Russian Federation dated 22 November 2012 "On the Open Joint Stock Company Russian Grids", on 14 June 2013 the Federal Agency for the management of Federal Property contributed as payment for the additional share issue of JSC "Russian Grids" ordinary shares of OJSC FGC UES (hereinafter referred to as "FGC") in the amount of 1,009,146,315,079 shares, which constitutes 79.64% of the charter capital of OJSC FGC UES. As a result of this transaction the Group obtained control over OJSC FGC UES, stemming from the following:

- The majority of the voting shares in FGC belong to the Company;
- Its 79.64% interest in the share capital of FGC allows the Company to select the majority of the members of FGC's Board of Directors;
- Although the Shareholder Agreement prescribing the relationship between the Federal Agency for State Property Management ("the Agency") and the Company stipulates that instructions on a range of important issues of the competence of the governing bodies of FGC should be confirmed by the Agency, there is a mechanism that nevertheless allows the Group's management to exercise control over FGC. Thus, under the Shareholder Agreement, the Company’s representatives on the Board of Directors are obliged to vote as instructed by the Company on a broad list of items on the agenda at Board meetings.

In these consolidated financial statements the combination of the Group with the FGC Group was recognized in accordance with the accounting policy as a combination of entities under common control.

The assets and liabilities of the entities that participated in the combination are recognized at carrying amount recognised in the consolidated financial statements of the FGC Group prepared in accordance with IFRS and adjusted in accordance with the requirements of the IFRS accounting policy of the Group, including recognition of the property, plant and equipment at their historical cost.

Comparative data were revised as the above-mentioned transaction was recognised as if the combination had occurred at the beginning of the earliest comparative data presented in the financial statements. The effect of the restatement is presented in Note 2 (g).

(f) 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.

Changes in accounting policies and data presentation

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 12 Disclosure of Interests in Other Entities

(iii) IFRS 13 Fair Value Measurement

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

(v) 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 not expanded its disclosures about the offsetting of financial assets and financial liabilities due to immateriality.

(ii) Disclosure of interests in other entities

As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries (see Note 6).

(iii) 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. As a result, the Group has included additional disclosures in this regard (see note 25 (e)).

(iv) Presentation of items of 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.

(v) Post-employment defined benefit plans

The standard has been significantly amended in relation to defined benefits plans, including the following:

- the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur;
- remeasurements of the net defined benefit obligation (asset) are recognised only in other comprehensive income, the current ability to recognise all changes in the defined benefit obligation and plan assets in profit or loss is eliminated;
- the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation.

Besides, new disclosures, such as quantitative sensitivity analysis, are now required.

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 the full amount as an expense 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 a straight-line basis over the average period until the benefits become vested.

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

The quantitative impact of the change is set out in p. (g) below.

(in millions of Russian roubles, unless otherwise stated)

(g) Effect of the restatement

The application of the revised IAS 19 and acquisition of FGC had the following impact on the financial position of the Group:

1 January 2012	As previously reported	Effect of FGC acquisition	Effect of revised IAS 19	As restated
Property, plant and equipment	687,489	753,341	-	1,440,830
Intangible assets	4,368	6,972	-	11,340
Investments in equity accounted investees	1,280	611	-	1,891
Non-current accounts receivable	16,818	310	-	17,128
Other non-current investments and financial assets	9,837	82,712	-	92,549
Deferred tax assets	2,599	-	-	2,599
Total non-current assets	**722,391**	**843,946**	**-**	**1,566,337**
Inventories	12,907	6,320	-	19,227
Other current investments and financial assets	8,728	19,071	-	27,799
Current tax assets	4,516	1,910	-	6,426
Trade and other receivables	81,682	21,186	-	102,868
Cash and cash equivalents	48,853	25,627	-	74,480
Total current assets	**156,686**	**74,114**	**-**	**230,800**
Total assets	**879,077**	**918,060**	**-**	**1,797,137**
Share capital	45,039	-	-	45,039
Share premium	6,036	-	-	6,036
Treasury shares	(1,786)	(1,033)	-	(2,819)
Reserve for issue of shares	9,382	-	-	9,382
Reserves	280	518	(2,152)	(1,354)
Retained earnings	207,790	571,519	(2,205)	777,104
Total equity attributable to equity holders of the Company	**266,741**	**571,004**	**(4,357)**	**833,388**
Non-controlling interest	177,136	148,595		325,731
Total equity	**443,877**	**719,599**	**(4,357)**	**1,159,119**
Non-current loans and borrowings	168,831	127,928	-	296,759
Non-current trade and other payables	30,081	(18)	-	30,063
Employee benefits	9,660	5,044	5,291	19,995
Deferred tax liabilities	32,478	35,795	(934)	67,339
Total non-current liabilities	**241,050**	**168,749**	**4,357**	**414,156**
Current loans and borrowings	28,965	1,990	-	30,955
Current trade and other payables	158,689	26,997	-	185,686
Provisions	5,977	442	-	6,419
Current tax liabilities	519	283	-	802
Total current liabilities	**194,150**	**29,712**	**-**	**223,862**
Total liabilities	**435,200**	**198,461**	**4,357**	**638,018**
Total equity and liabilities	**879,077**	**918,060**	**-**	**1,797,137**

(in millions of Russian roubles, unless otherwise stated)

31 December 2012	**As previously reported**	**Effect of FGC acquisition**	**Effect of revised IAS 19**	**As restated**
Property, plant and equipment	760,857	878,880	-	1,639,737
Intangible assets	4,609	9,320	-	13,929
Investments in equity accounted investees	104	1,084	-	1,188
Non-current accounts receivable	12,424	135	-	12,559
Other non-current investments and financial assets	10,144	50,543	-	60,687
Deferred tax assets	3,711	391	-	4,102
Total non-current assets	**791,849**	**940,353**	**-**	**1,732,202**
Inventories	13,742	7,113	-	20,855
Other current investments and financial assets	35,105	20,951	-	56,056
Current tax assets	3,156	2,144	-	5,300
Trade and other receivables	93,193	25,081	-	118,274
Cash and cash equivalents	35,691	24,124	-	59,815
Total current assets	**180,887**	**79,413**	**-**	**260,300**
Total assets	**972,736**	**1,019,766**	**-**	**1,992,502**
Share capital	49,947	-	-	49,947
Share premium	16,244	-	-	16,244
Treasury shares	(1,786)	(1,033)	-	(2,819)
Reserve for issue of shares	19,751	-	-	19,751
Reserves	190	(1,284)	(2,952)	(4,046)
Retained earnings	225,583	584,857	(2,863)	807,577
Total equity attributable to equity holders of the Company	309,929	582,540	(5,815)	886,654
Non-controlling interest	184,757	150,732	276	335,765
Total equity	**494,686**	**733,272**	**(5,539)**	**1,222,419**
Non-current loans and borrowings	188,763	193,105	-	381,868
Non-current trade and other payables	18,868	(3,807)	-	15,061
Employee benefits	9,930	7,338	7,010	24,278
Deferred tax liabilities	36,653	37,636	(1,471)	72,818
Total non-current liabilities	**254,214**	**234,272**	**5,539**	**494,025**
Current loans and borrowings	40,098	19,808	-	59,906
Current trade and other payables	168,263	31,779	-	200,042
Provisions	14,106	460	-	14,566
Current tax liabilities	1,369	175	-	1,544
Total current liabilities	**223,836**	**52,222**	**-**	**276,058**
Total liabilities	**478,050**	**286,494**	**5,539**	**770,083**
Total equity and liabilities	**972,736**	**1,019,766**	**-**	**1,992,502**

(in millions of Russian roubles, unless otherwise stated)

The application of the revised IAS 19 and acquisition of FGC had the following impact on the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2012.

	As previously reported	Effect of FGC acquisition	Effect of revised IAS 19	As restated
Revenue and government subsidies	621,633	30,550	-	652,183
Operating expenses	(574,197)	7,628	2,099	(564,470)
Other income, net	2,252	1,112	-	3,364
Finance income	6,128	3,710	47	9,885
Finance costs	(11,769)	(28,291)	(1,365)	(41,425)
Share of profit of equity accounted investees (net of income tax)	70,	1	-	71
Income tax expense	(12,463)	(3,134)	(156)	(15,753)
Profit for the year	**31,654**	**11,576**	**625**	**43,855**
Change in fair value of available-for-sale financial assets	(73)	(33)	-	(106)
Change in fair value of available-for-sale financial assets transferred to profit or loss	(44)	27	-	(17)
Foreign currency translation differences	-	(50)	-	(50)
Income tax on items that are or may be reclassified subsequently to profit or loss	27	1	-	28
Remeasurements of the defined benefit liability	-	-	(4,595)	(4,595)
Income tax on items that will never be reclassified to profit or loss	-	-	761	761
Other comprehensive loss for the period, net of income tax	**(90)**	**(55)**	**(3,834)**	**(3,979)**
Total comprehensive (loss)/income for the year	**31,564**	**11,521**	**(3,209)**	**39,876**
Basic and diluted earnings per ordinary share (in RUB)	**0.35**	**(0.18)**	**-**	**0.17**

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.

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. 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 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 attributable 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.

(ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see Note 3 (a) (i)).

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(iii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iv) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the acquired entities. The components of equity of the acquired entities are added to the same components within Group equity, except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(v) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. 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.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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.

(ii) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the 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 has the following non-derivative financial assets: loans and receivables, cash and cash equivalents and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in Note 17 and cash and cash equivalents as presented in Note 18.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(k)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities and financial assets related to employee benefit fund.

(iii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

(d) Share capital

Ordinary shares and non-redeemable preference shares with the right to receive discretionary annual fixed dividends are both classified as equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, 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.

If significant 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.

The gain or loss 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 within other income/other expense in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

- buildings 7-50 years;
- transmission networks 5-40 years;
- equipment for electricity transmission 5-40 years;
- other 1-50 years.

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

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

For the measurement of goodwill at initial recognition, see Note 3(a)(ii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- licenses and certificates 1-10 years;
- software 1-15 years.

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

(g) Leased assets

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

Other leases are operating leases and the leased assets are not recognised in the consolidated statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost 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.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Advances given

Advances given are classified as non-current if they are connected with acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for acquisition of an asset are included in its carrying amount upon acquisition of control over the asset and when it is probable that the Group will obtain economic benefit from its usage.

(j) Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Amounts of VAT related to advances received and given as well as VAT prepayment are recognised in the consolidated statement of financial position on a net basis and disclosed as an asset within accounts receivable (VAT recoverable). Amounts of VAT to be paid to tax authorities are presented separately within short term accounts payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(k) Impairment

(i) Financial assets

A financial asset 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, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

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

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, 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.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

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. 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 CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) 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.

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Defined 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 the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations 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 and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability 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, taking into account any changes in the net defined benefit liability 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.

(iii) Other non-current employee benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. 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 using the projected unit credit method. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(n) Revenue

(i) Electricity distribution and sales of electricity

Revenue from electricity transmission is recognised based on acts of services rendered. The act is prepared in respect of each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the "boiler" tariffs. The tariffs for distribution of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

Revenue from the sale of electricity is recognized based on:

- monthly acts of acceptance of electricity under the electricity supply agreements (electricity sale agreements) of legal entities based on the meter readings and unregulated prices formed on the retail market in the settlement period;
- monthly documents (receipts) on the consumption of utilities services by individuals based on the meter readings and tariffs approved by the Regional Energy Commission.

Revenue from the resale of electricity and capacity which is sold under power supply contracts includes the part of revenue related to transmission of electricity. Tariff for sale of electricity under power supply contracts is calculated taking into account transmission fee.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue for connection to the power network is recognised when an act of acceptance is signed by the customer and the customer is connected to the grid network or, for the contract where connection services are performed in stages, revenue is recognised in proportion to the stage of completion.

(iii) Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(o) Government subsidies

Government subsidies that compensate the Group for low electricity tariffs are recognised in profit or loss in the same periods in which the respective revenue is earned.

(p) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, discount on financial instruments, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, foreign currency losses, discount on financial instruments and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(r) Income tax expense

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) 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. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

(t) Guarantees

The Group's policy is to provide financial guarantees only in respect of loans issued to the Group's lessors.

(u) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Management Board, which is the Group's chief operating decision making body.

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 Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly parent company revenue, expenses, assets and liabilities.

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

Inter-segment pricing is determined on an arm's length basis.

(v) 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.

- 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 amendments 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 on or after 1 July 2014. Entities are permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Measurement of fair values

A number of the Group’s accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 25.

(in millions of Russian roubles, unless otherwise stated)

5 Significant subsidiaries

	Country of incorporation	31 December 2013 Ownership/voting, %	31 December 2012 Ownership/voting, %
JSC "FGC UES"	Russian Federation	80.60**	79.55***
JSC "MOESK"	Russian Federation	50.9	50.9
JSC "Tyumenenergo"	Russian Federation	100	100
JSC "Lenenergo"	Russian Federation	53.71 / 60.56**	53.71 / 60.56
JSC "IDGC of Centre"	Russian Federation	50.23	50.23
JSC "IDGC of Urals"	Russian Federation	51.52	51.52
JSC "IDGC of Centre and Volga region"	Russian Federation	50.4	50.4
JSC "Kubanenergo"	Russian Federation	92.24	82.08
JSC "IDGC of Siberia"	Russian Federation	55.59	55.59
JSC "IDGC of Volga"	Russian Federation	67.63	67.63
JSC "IDGC of North-West"	Russian Federation	55.38	55.38
JSC "IDGC of North Caucasus"	Russian Federation	93.20	81.33
JSC "Chechenenergo"	Russian Federation	51**	51
JSC "IDGC of South"	Russian Federation	51.66	51.66
JSC "TDC"	Russian Federation	85.77 / 85.77	77.90 / 85.52
JSC "Yantarenergo"	Russian Federation	100	100
JSC "Karachaevo-Cherkesskenergo"	Russian Federation	100	100
JSC "Kalmenergosbyt"	Russian Federation	100	100
JSC "Kabbalkenergo"	Russian Federation	65.27	65.27
JSC "Tyvaenergosbyt"	Russian Federation	100	100
JSC "Ingushenergo"	Russian Federation	49*	49*
JSC "Sevkavkazenergo"	Russian Federation	55.94	55.94
JSC "Dagestan Power Sales Company"	Russian Federation	51	51

* The Group exercises control over these entities stemming from majority representation on the Board of Directors.
** Ownership is indicated excluding the effect of the shares issue incomplete as at period end.
*** Ownership of FGC is indicated retrospectively.

(in millions of Russian roubles, unless otherwise stated)

6 Non-controlling interests

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations.

31 December 2013

	FGC	MOESK	Lenenergo	IDGC Centre	IDGC Urals	IDGC Centre and Privolzhye	IDGC Siberia	Other individually immaterial subsidiaries	Total
NCI percentage	19.40	49.10	46.29	49.77	48.48	49.60	44.41		
Non-current assets	791,708	267,285	102,956	79,333	59,670	60,949	44,071		
Current assets	131,459	26,349	18,747	16,713	11,092	15,940	11,214		
Non-current liabilities	(265,876)	(75,168)	(34,676)	(39,422)	(20,181)	(29,823)	(14,463)		
Current liabilities	(105,561)	(58,761)	(36,563)	(14,871)	(10,690)	(12,610)	(16,844)		
Net assets	551,730	159,705	50,464	41,753	39,891	34,456	23,978		
Carrying amount of NCI	109,114	78,885	18,279	20,850	20,040	17,676	10,828	20,260	295,932
Revenue	160,530	130,762	42,322	93,532	65,523	77,636	63,764		
Profit/(loss)	(184,319)	19,012	4,152	266	(1,197)	1,752	(1,029)		
OCI	(105)	(546)	7	(291)	(395)	(102)	(169)		
Total comprehensive income	(184,424)	18,466	4,159	(25)	(1,592)	1,650	(1,198)		
Profit/(loss) allocated to NCI	(37,685)	9,403	1,766	149	(550)	868	(457)	(770)	(27,276)
OCI allocated to NCI	(21)	(268)	2	(145)	(192)	(51)	(75)	(230)	(980)
Cash flows from operating activities	61,568	32,145	11,602	10,265	6,305	9,561	2,088		
Cash flows used in investment activities	(137,458)	(38,535)	(19,615)	(15,433)	(10,114)	(7,367)	(6,294)		
Cash flows from financing activities (dividends to NCI: nil)	73,461	(346)	8,219	5,311	3,207	(1,510)	4,109		
Net increase (decrease) in cash and cash equivalents	(2,429)	(6,736)	206	143	(602)	684	(97)		

(in millions of Russian roubles, unless otherwise stated)

31 December 2012

	FGC	MOESK	Lenenergo	IDGC Centre	IDGC Urals	IDGC Centre and Privolzhye	IDGC Siberia	Other individually immaterial subsidiaries	Total
NCI percentage	20.45	49.10	46.29	49.77	48.48	49.60	44.41		
Non-current assets	944,372	246,474	88,116	72,835	56,519	59,154	41,774		
Current assets	99,423	30,496	11,234	16,736	10,507	14,155	9,644		
Non-current liabilities	(237,740)	(73,899)	(25,164)	(33,370)	(15,930)	(29,775)	(11,067)		
Current liabilities	(70,088)	(57,537)	(30,572)	(13,560)	(9,433)	(10,249)	(14,886)		
Net assets	735,967	145,534	43,614	42,641	41,663	33,285	25,465		
Carrying amount of NCI	150,536	71,859	21,805	21,275	20,883	17,097	11,487	20,823	335,765
Revenue	140,891	125,324	37,902	69,955	59,431	60,082	49,515		
Profit	13,044	18,355	4,597	4,585	266	1,625	886		
OCI	(1,795)	(550)	(27)	(170)	(233)	(276)	(127)		
Total comprehensive income	11,249	17,805	4,570	4,415	33	1,349	759		
Profit allocated to NCI	2,990	9,274	2,377	2,346	224	947	438	(116)	18,480
OCI allocated to NCI	(367)	(270)	(13)	(67)	(113)	(140)	(90)	(227)	(1,287)
Cash flows from operating activities	58,648	35,667	7,777	10,550	5,846	4,867	4, 341		
Cash flows used in investment activities	(145,711)	(38,703)	(13,615)	(16,495)	(6,813)	(7,145)	(5,037)		
Cash flows from financing activities (dividends to NCI: nil)	85,492	7,422	2,243	4,270	2,131	956	(159)		
Net increase (decrease) in cash and cash equivalents	(1,571)	4,386	(3,595)	(1,675)	1,164	(1,322)	(855)		

7 Operating segments

The Group has fourteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity distribution services including technological connection services in a separate geographical region of the Russian Federation and is managed separately.

The "other" segment includes insignificant operating segments such as electricity sales, rent services and repair and maintenance services. For each of the strategic business units, the Management Board reviews internal management reports on at least a quarterly basis. Unallocated items comprise assets and balances of the Group's headquarter which exercises management activity on remuneration basis.

The Management Board assesses performance, assets and liabilities of operating segments based on internal management accounting which is based on the information reported in statutory accounts. Performance is measured based on earnings or loss before interest expense, income tax and depreciation and amortisation (EBITDA). Management believes that EBITDA is the most relevant measurement to evaluate the results of operating segments of the Group.

The reconciliation of operating segments measurements with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for the financial statements to be presented in accordance with IFRS.

Information regarding reportable segments is included below.

(in millions of Russian roubles, unless otherwise stated)

(i) Information about reportable segments

As at and for the year ended 31 December 2013

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanenergo**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**FGC**	**Other**	**Total**
Revenue from external customers	68,921	51,920	52,183	49,117	27,052	33,898	8,218	77,644	39,267	39,813	287	92,802	124,254	33,648	61,956	760,980
Inter-segment revenue	801	32	5,261	63	374	6	4,284	27	2,783	89	3,520	145	477	121,703	31,090	170,655
Total segment revenue	69,722	51,952	57,444	49,180	27,426	33,904	12,502	77,671	42,050	39,902	3,807	92,947	124,731	155,351	93,046	931,635
Including																
Electricity transmission	56,240	50,637	55,258	39,968	25,882	30,505	11,152	61,225	29,650	33,207	3,408	61,396	110,981	152,429	8,561	730,499
Connection services	1,828	975	1,884	527	1,424	3,336	1,190	828	955	6,515	208	923	13,231	986	2,010	36,820
Resale of electricity and power	11,513	-	-	8,407	-	-	-	15,375	10,798	-	-	29,770	-	-	53,167	129,030
Other revenue	141	340	302	278	120	63	160	243	647	180	191	858	519	1,936	29,308	35,286
Finance income	13	301	90	13	46	475	62	116	16	644	-	108	378	5,000	312	7,574
Finance costs	(616)	(537)	(732)	(677)	(1,853)	(1,535)	(189)	(2,089)	(1,039)	(2,217)	(189)	(2,112)	(2,448)	(1,448)	(443)	(18,124)
Depreciation	4,433	7,411	3,664	5,035	2,734	1,712	1,766	5,390	3,511	8,171	345	7,561	18,737	70,845	3,126	144,441
EBITDA	**4,226**	**12,121**	**5,486**	**5,995**	**4,975**	**980**	**2,773**	**10,956**	**5,283**	**11,832**	**68**	**11,602**	**36,809**	**54,621**	**(10,165)**	**157,562**
Segment assets	**60,202**	**133,390**	**56,622**	**65,319**	**46,659**	**62,672**	**32,696**	**89,280**	**55,201**	**148,483**	**7,420**	**104,988**	**299,675**	**1,214,291**	**106,827**	**2,483,725**
Including property, plant and equipment and construction in progress	47,415	125,503	45,439	56,900	31,618	40,746	25,895	71,609	39,648	124,823	4,846	85,253	250,818	1,039,897	50,712	2,041,122
Capital expenditure	6,858	11,043	8,868	8,671	3,849	11,300	2,740	9,507	6,314	19,313	556	14,630	51,212	170,663	5,899	331,423
Segment liabilities	**25,155**	**21,682**	**24,827**	**22,660**	**34,636**	**31,284**	**12,636**	**40,325**	**27,754**	**72,142**	**5,659**	**52,012**	**121,186**	**371,316**	**132,034**	**995,308**

(in millions of Russian roubles, unless otherwise stated)

As at and for the year ended 31 December 2012:

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanenergo**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**FGC**	**Other**	**Total**
Revenue from external customers	56,076	46,946	46,803	45,761	23,089	28,118	7,803	59,873	28,416	36,211	185	69,372	117,990	27,046	53,947	647,636
Inter-segment revenue	8	123	4,532	3	376	-	3,448	16	2,753	62	3,242	25	18	111,790	30,187	156,583
Total segment revenue	56,084	47,069	51,335	45,764	23,465	28,118	11,251	59,889	31,169	36,273	3,427	69,397	118,008	138,836	84,134	804,219
Including																
Electricity transmission	54,631	45,260	49,692	45,124	21,362	27,194	9,982	58,376	29,278	28,816	3,207	67,487	100,281	136,662	7,894	685,246
Connection services	1,332	1,231	1,268	417	1,954	843	1,119	1,220	1,412	7,282	220	1,178	17,386	1,077	721	38,660
Resale of electricity and power	-	-	-	-	-	-	-	-	200	-	-	-	-	-	47,689	47,889
Other revenue	121	578	375	223	149	81	150	293	279	175	-	732	341	1,097	27,830	32,424
Finance income	135	204	50	44	18	447	21	69	24	296	-	157	320	4,199	392	6,376
Finance costs	(464)	(541)	(488)	(478)	(1,622)	(1,463)	(122)	(1,889)	(498)	(1,788)	(193)	(1,637)	(3,923)	-	(391)	(15,497)
Depreciation	3,912	6,549	3,207	4,448	2,422	1,431	1,781	4,874	3,005	6,364	327	6,304	16,687	60,241	2,656	124,208
EBITDA	**5,760**	**8,431**	**4,917**	**7,056**	**583**	**726**	**2,893**	**9,783**	**3,926**	**10,306**	**(338)**	**12,428**	**41,539**	**46,009**	**(8,218)**	**145,801**
Segment assets	**57,905**	**141,401**	**50,259**	**60,818**	**43,843**	**42,974**	**32,410**	**84,374**	**45,488**	**131,740**	**6,258**	**99,114**	**286,747**	**1,122,995**	**101,793**	**2,308,119**
Including property, plant and equipment and construction in progress	45,265	126,198	40,359	53,047	31,302	31,207	28,337	68,927	37,001	115,075	4,639	79,221	216,883	881,379	42,324	1,801,164
Capital expenditure	5,789	7,005	7,360	9,246	5,151	7,574	5,475	9,335	6,826	745	477	16,146	36,095	187,551	3,120	307,895
Segment liabilities	**24,050**	**27,644**	**18,662**	**17,923**	**31,847**	**26,393**	**12,086**	**37,477**	**18,324**	**55,323**	**4,174**	**45,567**	**115,603**	**273,393**	**112,929**	**821,395**

(in millions of Russian roubles, unless otherwise stated)

(ii) Major customer

In 2013 INTER RAO UES Group (consisting of primarily electricity sales companies within the INTER RAO UES Group) was a major customer of the Group. Total revenues from companies of INTER RAO UES Group amounted to RUB 139,899 million for the year ended 31 December 2013 (RUB 130,208 million for the year ended 31 December 2012).

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities

Reconciliation of key segment items measured as reported to the Management Board with similar items in these financial statements is presented in the tables below.

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Total segment revenues	**931,635**	**804,219**
Intersegment revenue elimination	(170,655)	(156,583)
Reclassification from other income	4,116	9,053
Other adjustments	(5,328)	(4,716)
Unallocated revenues	11	210
Revenues per consolidated statement of profit or loss and other comprehensive income	**759,779**	**652,183**

Reconciliation of reportable segment EBITDA is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
EBITDA of reportable segments	**157,562**	**145,801**
Adjustment for disposal of property, plant and equipment	(182)	276
Adjustment for inventories valuation	406	(100)
Discounting of financial instruments	(156)	2,347
Trade and other receivables’ allowance adjustment	17,356	6,023
Adjustments for financial lease	3,119	4,973
Impairment of property, plant and equipment	(239,446)	(4,706)
Accrued salaries and wages	424	(581)
Retirement benefit obligations recognition	(813)	620
Financial assets related to employee benefit fund	157	378
Provisions	(2,714)	2,820
Adjustments for deferred expenses	(121)	725
Adjustment of available-for-sale financial assets	1,869	3,929
Reversal of impairment of intercompany promissory notes	9,983	6,904
Other adjustments	(3,477)	(2,272)
Unallocated	(2,541)	1,712
	(58,574)	**168,849**
Depreciation and amortization	(115,942)	(97,795)
Interest expenses on financial liabilities	(15,500)	(10,450)
Interest expenses on financial leasing	(385)	(996)
Income tax benefit/(expense)	31,012	(15,753)
(Loss)/profit for the year per consolidated statement of profit or loss and other comprehensive income	**(159,389)**	**43,855**

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of reportable segment total assets is presented below:

	31 December 2013	31 December 2012
Total segment assets	**2,483,725**	**2,308,119**
Intersegment balances	(109,257)	(95,963)
Intersegment investments	(34,715)	(40,557)
Net-off trade and other receivables and payables	(386)	(4,364)
Adjustment for net book value of property, plant and equipment	(203,720)	(214,688)
Impairment of property, plant and equipment	(239,446)	(4,706)
Recognition of assets related to employee benefits	6,716	6,560
Investments in equity accounted investees	533	496
Adjustments for impairment of account receivables	27,769	7,089
Inventories written-off	(661)	1,723
Adjustment for deferred tax calculation	(11,681)	(9,641)
Advances given	(14,045)	(17,310)
Other adjustments	24,430	8,720
Unallocated assets	16,777	47,024
Total assets per consolidated statement of financial position	**1,946,039**	**1,992,502**

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2013	31 December 2012
Total segment liabilities	**995,308**	**821,395**
Intersegment balances	(107,343)	(95,168)
Net-off trade and other receivables and payables	(386)	(4,364)
Adjustment for deferred tax calculation	(23,585)	28,789
Retirement benefit obligations	28,971	24,278
Finance lease liabilities	1,431	2,622
Accrued salaries and wages	191	718
Other provisions and accruals	1,870	(2,987)
Other adjustments	(13,008)	(5,831)
Unallocated liabilities	899	631
Total liabilities per consolidated statement of financial position	**884 348**	**770,083**

(in millions of Russian roubles, unless otherwise stated)

8 Revenue and government subsidies

	Year ended 31 December 2013	**Year ended 31 December 2012**
Electricity transmission	584,629	554,066
Technological connection services	37,005	45,531
Sales of electricity and capacity	127,063	42,057
Other revenues	11,009	10,369
	759,706	**652,023**
Government subsidies	73	160
	759,779	**652,183**

In 2013 some companies of the Group – IDGC Siberia, IDGC North-West, IDGC Centre, IDGC Centre and Privolzhye and IDGC Volga - started to perform the functions of electricity supplier in Bryansk, Oryol, Kursk, Tver, Smolensk, Murmansk, Omsk, Novgorod, Ivanov, Tula, Penza regions and Republic of Buryatia. Hence, in addition to performing power transmission services, these companies commenced to purchase electricity on the wholesale market and sell it on the retail market . The period within which the functions of electricity supplier are to be performed was established prior to the effective date of the decision to provide the tender winner with the electricity supplier status in the abovementioned operating areas, but not more than 12 months. In 2014 the function of electricity supplier in some regions was transferred from the Group to other companies (see Note 30).

Other revenue is comprised of rental income, repair and maintenance services, etc.

(in millions of Russian roubles, unless otherwise stated)

9 Operating expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Impairment of property, plant and equipment (see Note 13)	239,446	4,706
Personnel costs (see Note 10)	148,268	132,010
Electricity transmission	124,197	105,222
Depreciation and amortization	115,942	97,795
Purchased electricity for compensation of technological losses	92,795	87,620
Purchased electricity for resale	68,616	22,741
Raw materials and supplies	24,312	21,637
Impairment of trade and other receivables	15,986	6,369
Repairs, maintenance and installation services	15,581	16,953
Taxes other than income tax	9,237	5,010
Rent	7,312	6,741
Consulting, legal and audit services	7,178	6,533
Security services	5,056	4,632
Insurance	3,994	3,465
Electricity and heat power for own needs	3,276	2,875
Loss on disposal of property, plant and equipment	3,245	1,332
Information services	2,964	2,717
Transportation	2,577	2,341
Provisions	1,665	9,213
Other expenses	22,848	24,558
	914,495	**564,470**

An increase in allowance for impairment of trade and other receivables is mainly due to recognition of impairment of trade receivables from regional distribution entities which lost status of electricity supplier that resulted in cease of their operating activity and insolvency.

Other expenses are comprised mainly of bank charges, travel allowance, labour safety expense and training expense.

(in millions of Russian roubles, unless otherwise stated)

10 Personnel costs

	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	112,096	101,308
Social security contributions	30,446	26,495
Expense in respect of post-employment defined benefit plan	1,653	424
Expense in respect of long-term service benefits provided	57	54
Other	4,016	3,729
	148,268	**132,010**

The amount of contributions to defined contribution plan was RUB 23,112 million for the year ended 31 December 2013 (2012: RUB 24,460 million).

11 Finance income and costs

	Year ended 31 December 2013	Year ended 31 December 2012
Recognised in profit or loss		
Finance income		
Interest income on loans, bank deposits and promissory notes	7,733	6,919
Gain on disposal of financial assets	652	380
Other finance income	664	2,586
	9,049	**9,885**
Finance costs		
Interest expenses on financial liabilities measured at amortised cost	(15,500)	(10,450)
Interest expense on financial leasing	(385)	(996)
Impairment loss on available-for-sale financial assets	(28,757)	(18,941)
Other finance costs	(5,976)	(11,038)
	(50,618)	**(41,425)**

As a result of a further decline in the fair value of equity investments in OJSC "INTER RAO UES" below their cost the Group recognized an impairment loss on available-for-sale financial assets of RR 28,757 million (2012: RUB 18,941 million).

(in millions of Russian roubles, unless otherwise stated)

12 Income tax benefit / (expense)

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax expense		
Current year	(11,752)	(15,503)
Adjustment for prior years	4,528	4,483
	(7,224)	**(11,020)**
Deferred tax expense		
Origination and reversal of temporary differences	44,022	211
Derecognition of deferred tax assets	(1,925)	(855)
Change in tax base of property, plant and equipment	(3,861)	(4,089)
	38,236	**(4,733)**
	31,012	**(15,753)**

The Group’s applicable tax rate in 2013 and 2012 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

In 2013 and 2012 some of the Group companies recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognised. Accordingly the tax value of property, plant and equipment was decreased, which resulted in an increase of deferred tax liabilities.

Income tax recognised in other comprehensive income

	2013			2012		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	(123)	25	(98)	(123)	28	(95)
Foreign currency translation differences	26	-	26	(50)	-	(50)
Remeasurements of the defined benefit liability	(3,879)	752	(3,127)	(4,595)	761	(3,834)
	(3,976)	**777**	**(3,199)**	**(4,768)**	**789**	**(3,979)**

Reconciliation of effective tax rate:

	Year ended 31 December 2013	%	Year ended 31 December 2012	%
(Loss)/profit before income tax	(190,401)	100	59,608	100
Income tax at applicable tax rate	38,080	(20)	(11,922)	(20)
Effect of income taxed at lower rates	78	-	24	-
Non-deductible expenses	(5,888)	3	(3,394)	(6)
Change in tax base of property, plant and equipment	(3,861)	2	(4,089)	(7)
Over provided in prior years	4,528	(2)	4,483	8
Derecognition of deferred tax assets	(1,925)	1	(855)	(1)
	31,012	**(16)**	**(15,753)**	**(26)**

(in millions of Russian roubles, unless otherwise stated)

13 Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost / Deemed cost						
Balance at 1 January 2012	145,242	603,625	463,709	144,367	497,792	1,854,735
Reclassification between PPE groups	(912)	355	875	(318)	-	-
Additions	5,308	7,809	5,174	10,188	277,175	305,654
Transfer	19,816	130,965	131,940	26,514	(309,235)	-
Disposals	(1,042)	(1,043)	(3,429)	(1,506)	(2,404)	(9,424)
Balance at 31 December 2012	**168,412**	**741,711**	**598,269**	**179,245**	**463,328**	**2,150,965**
Balance at 1 January 2013	168,412	741,711	598,269	179,245	463,328	2,150,965
Reclassification between PPE groups	(270)	419	(47)	(102)	-	-
Additions	4,103	7,729	4,772	11,735	286,885	315,224
Transfer	22,925	132,073	116,315	28,203	(299,516)	-
Disposals	(520)	(1,073)	(4,383)	(1,497)	(2,468)	(9,941)
Balance at 31 December 2013	**194,650**	**880,859**	**714,926**	**217,584**	**448,229**	**2,456,248**
Depreciation						
Balance at 1 January 2012	(23,198)	(187,245)	(135,703)	(60,516)	(7,243)	(413,905)
Reclassification between PPE groups	332	(95)	(285)	48	-	-
Depreciation charge	(6,942)	(36,643)	(32,227)	(20,637)	-	(96,449)
Disposals	192	487	2,109	1,044	-	3,832
Impairment	(640)	(1,301)	(834)	(237)	(1,694)	(4,706)
Balance at 31 December 2012	**(30,256)**	**(224,797)**	**(166,940)**	**(80,298)**	**(8,937)**	**(511,228)**
Balance at 1 January 2013	(30,256)	(224,797)	(166,940)	(80,298)	(8,937)	(511,228)
Reclassification between PPE groups	(70)	11	2,	57	-	-
Depreciation charge	(7,801)	(42,569)	(41,494)	(22,219)	-	(114,083)
Disposals	187	437	2,499	1,248	-	4,371
Impairment	(2,051)	(74,253)	(77,368)	(6,535)	(79,239)	(239,446)
Balance at 31 December 2013	**(39,991)**	**(341,171)**	**(283,301)**	**(107,747)**	**(88,176)**	**(860,386)**
Net book value						
At 1 January 2012	**122,044**	**416,380**	**328,006**	**83,851**	**490,549**	**1,440,830**
At 31 December 2012	**138,156**	**516,914**	**431,329**	**98,947**	**454,391**	**1,639,737**
At 31 December 2013	**154,659**	**539,688**	**431,625**	**109,837**	**360,053**	**1,595,862**

As at 31 December 2013 construction in progress includes advance payments for property, plant and equipment of RUB 52,327 million (31 December 2012: RUB 61,648 million) which are stated net of impairment provision of RUB 1,357 million (31 December 2012: RUB 893 million).

Capitalised borrowing cost for the year ended 31 December 2013 amounted to RUB 23,426 million (2012: RUB 18,859 million) with capitalisation rates of 7.5% (2012: 6.8-10.4%).

As at 31 December 2013 property, plant and equipment with a carrying amount of RUB 0 million are pledged as collateral for loans (31 December 2012: RUB 42 million) (see Note 21).

Impairment of property plant and equipment

In connection with the publication in 2013 of the action plan of the Russian Government to limit the cost of the goods and services of natural monopolies, which, inter alia, stipulates the abolition of the indexation of tariffs for electricity transmission services in 2014 and imposes subsequent limitations on their indexation during 2014-2016 within the limits of inflation, the Group performed an impairment test of the property, plant and equipment, and revised downwards the long-term forecasts of electricity prices compared to previous estimates broken down into the cash generating units (CGU). The recoverable amount of CGUs was estimated based on the value in use. As a result, in 2013 the Group recognized an impairment loss on property, plant and equipment in the amount of RUB 239,446 million (2012: RUB 4,706 million).

The most significant amounts of the recognition and reversal of impairment losses on property, plant and equipment (in the consolidated statement of profit or loss and other comprehensive income recorded within line "Operating expenses"), are presented below.

FGC

As a result of the impairment testing, an impairment loss of RUB 236,100 million has been recognised for the year ended 31 December 2013.

The following major assumptions have been made as part of the value-in-use calculation:

- Forecast period is determined as 17 years – from 2014 to 2030;
- A nominal pre-tax discount rate of 10,45% was determined based on the weighted average cost of capital.
- Revenue projections are based on:
  - Restriction of transmission tariff growth in 2014-2016 in accordance with forecast of social and economic development of Russian Federation published by Ministry of Economic Development of Russian Federation on 23 October 2013;
  - Restriction of transmission tariff growth after in 2017-2030 by consumer price index in accordance with long-term forecast of social and economic development of Russian Federation published by Ministry of Economic Development of Russian Federation on 8 November 2013;
  - the Group's expectations of a decrease of the rate of return on "old" and "new" capital employed – down to 0.1% and 9.3% respectively;
  - Decrease in volume of contracted capacity:
    - 2014: based on the contracted capacity of some large customers in accordance with 2014 electricity and capacity balance approved by Federal Tariff Service;
    - 2015 and onwards: relating to the transfer to the new methodology of calculation of volumes to direct customers based on actual capacity;

(in millions of Russian roubles, unless otherwise stated)

  - Increase of revenue from technological connection services.
- The amount of expenditure for the period from 2014 through 2030 required for the maintenance of the current property, plant and equipment is assumed to be equal to the amount of such expenditure determined as allowable for the purpose of tariff regulation.
- Terminal value was determined based on Gordon growth model with terminal growth rate of 2.04% (in line with long-term consumer price index forecast published by Ministry of Economic Development)

If the discount rate would be 0.5% higher, the recoverable amount of property, plant and equipment would be RUB 57,880 million lower.

IDGC of Center and Volga Region

As a result of impairment testing as at 31 December 2013 the Group recognized an impairment loss of RUB 1,294 million. Value in use was determined using the nominal pre-tax discount rate of 13.12% as at 31 December 2013.

IDGC of Ural

As a result of impairment testing as at 31 December 2013 the Group recognized an impairment loss (net of reversal of impairment loss) of RUB 1,441 million. Value in use was determined using the nominal pre-tax discount rate of 13.66% as at 31 December 2013.

The remainder of the impairment loss of RUB 611 million recognised for the year ended 31 December 2013 relates to other Group companies.

14 Other investments and financial assets

	31 December 2013	**31 December 2012**
Non-current		
Available-for-sale financial assets related to defined benefit plans	6,716	6,560
Promissory notes	874	5,395
Available-for-sale financial assets	19,719	48,691
Other non-current assets	-	41
	27,309	**60,687**
Current		
Bank deposits	51,682	35,079
Promissory notes	1,551	20,977
Other current assets	73	-
	53,306	**56,056**

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

Available-for-sale financial assets are mainly represented by marketable securities stated at fair value, most of them are represented by equity investments in OJSC "INTER RAO UES".

(in millions of Russian roubles, unless otherwise stated)

Bank deposits with original maturity more than 3 months were placed with a number of banks bearing an interest of 5.27-10.5% per annum.

The Group's exposure to credit risk and impairment losses related to other investments and financial assets are disclosed in Note 25.

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Property, plant and equipment	3,685	2,655	(51,545)	(82,973)	(47,860)	(80,318)
Intangible assets	614	637	(42)	(1)	572	636
Investments	3,829	3,863	(325)	(6,513)	3,504	(2,650)
Inventories	585	505	(47)	(15)	538	490
Trade and other receivables and prepayments	8,952	7,643	(1,042)	(1,200)	7,910	6,443
Financial lease liability	649	2,515	-	-	649	2,515
Loans and borrowings	-	-	(296)	(443)	(296)	(443)
Provisions	1,434	2,273	-	-	1,434	2,273
Employee benefits	3,604	2,875	(101)	(178)	3,503	2,697
Trade and other payables	1,787	1,845	575	(288)	2,362	1,557
Tax loss carry-forwards	6,522	4,753	(22)	-	6,500	4,753
Other	1,173	1,121	(246)	(269)	927	852
Tax assets/(liabilities)	32,834	30,685	(53,091)	(91,880)	(20,257)	(61,195)
Set off of tax	(14,376)	(19,062)	14,376	19,062	-	-
Derecognition of deferred tax assets	(9,446)	(7,521)	-	-	(9,446)	(7,521)
Net tax assets/(liabilities)	**9,012**	**4,102**	**(38,715)**	**(72,818)**	**(29,703)**	**(68,716)**

(b) Unrecognised deferred tax liabilities

At 31 December 2013 a deferred tax liability for temporary differences of RUB 129,574 million (31 December 2012: 119,828 RUB million) related to an investment in subsidiaries was not recognised because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(in millions of Russian roubles, unless otherwise stated)

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2013	31 December 2012
Deductible temporary differences	23,058	20,510
Tax losses	24,171	17,095
Total	**47,229**	**37,605**
Unrecognized deferred tax assets at applicable tax rate	**9,446**	**7,521**

The deductible temporary differences do not expire under current tax legislation. Tax losses expire in 2020-2022, which is 10 years after their origination. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which some loss-making group companies can utilise the benefits there from.

(d) Movement in temporary differences during the year

	1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2013
Property, plant and equipment	(80,318)	32,458	-	(47,860)
Intangible assets	636	(64)		572
Investments	(2,650)	6,129	25	3,504
Inventories	490	48	-	538
Trade and other receivables and prepayments	6,443	1,467	-	7,910
Financial lease liability	2,515	(1,866)	-	649
Loans and borrowings	(443)	147	-	(296)
Provisions	2,273	(839)	-	1,434
Employee benefits	2,697	54	752	3,503
Trade and other payables	1,557	805	-	2,362
Tax loss carry-forwards	4,753	1,747	-	6,500
Other	852	75	-	927
Derecognition of deferred tax assets	(7,521)	(1,925)	-	(9,446)
	(68,716)	**38,236**	**777**	**(29,703)**

(in millions of Russian roubles, unless otherwise stated)

	1 January 2012	**Acquired in business combinations**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2012**
Property, plant and equipment	(67,067)	16	(13,267)	-	(80,318)
Intangible assets	585	-	51	-	636
Investments	(8,143)	(14)	5,479	28	(2,650)
Inventories	346	-	144	-	490
Trade and other receivables and prepayments	4,510	-	1,933	-	6,443
Financial lease liability	2,603	-	(88)	-	2,515
Loans and borrowings	(222)	-	(221)	-	(443)
Provisions	906	-	1,367	-	2,273
Employee benefits	2,454	-	(518)	761	2,697
Trade and other payables	1,510	-	47	-	1,557
Tax loss carry-forwards	4,296	(34)	491	-	4,753
Other	148	-	703	-	852
Derecognition of deferred tax assets	(6,666)	-	(855)	-	(7,521)
	(64,740)	**(32)**	**(4,733)**	**789**	**(68,716)**

16 Inventories

	31 December 2013	**31 December 2012**
Raw materials and consumables	20,443	16,864
Other inventories	4,291	4,879
Allowance for obsolescence of inventories	(814)	(888)
Net book value	**23,920**	**20,855**

(in millions of Russian roubles, unless otherwise stated)

17 Trade and other receivables

	31 December 2013	31 December 2012
Non-current accounts receivable		
Trade receivables	612	476
Trade receivables impairment allowance	(142)	(80)
Other receivables	197	576
Other receivables impairment allowance	(1)	(1)
Loans	39	49
Total financial assets	**705**	**1,020**
Advances given	15,162	15,484
Advances given impairment allowance	(9,828)	(5,736)
VAT recoverable	1403	1,791
	7,442	**12,559**
Current accounts receivable		
Trade receivables	136,485	101,257
Trade receivables impairment allowance	(41,678)	(28,397)
Other receivables	13,011	10,288
Other receivables impairment allowance	(3,846)	(3,143)
Receivables from equity accounted investees	21	-
Loans	147	73
Total financial assets	**104,140**	**80,078**
Advances given	6,771	6,921
Advances given impairment allowance	(1,529)	(1,808)
VAT recoverable	31,606	31,057
Prepaid taxes, other than income tax and VAT	2,956	2,026
	143,944	**118,274**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 25.

18 Cash and cash equivalents

	31 December 2013	31 December 2012
Cash at bank and in hand	51,918	52,357
Cash equivalents	9,999	7,458
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**61,917**	**59,815**

(in millions of Russian roubles, unless otherwise stated)

Cash equivalents represent primarily bank deposits with original maturity less than 3 months placed with a number of banks bearing an interest of 5.27-10.5% per annum.

Bank deposits are mainly placed with banks which were designated as highly rated banks.

19 Equity

(a) Share capital

Number of shares unless otherwise stated	**Ordinary shares**		**Preference shares**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	47,871,694,416	42,964,067,081	2,075,149,384	2,075,149,384
Issued for cash	9,387,293,206 4/31	4,907,627,335	-	-
Issued for FGC acquisition	103,819,865,687 27/31	-	-	-
On issue at end of year, fully paid	161,078,853,310	47,871,694,416	2,075,149,384	2,075,149,384

(b) Ordinary and preference shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings

Holders of preference shares are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

Preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of Company Charter amendments that limit their rights, including reorganisation and liquidation.

In the event of liquidation preference shareholders receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(c) Issue of shares

On 20 November 2012 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 16,885,114,442 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 2.16 roubles per share. This share issuance was registered by the Federal Service for Financial Markets on 3 December 2012. Advances received as prepayment for share issue as at 31 December 2012 in the amount of RUB 19,751 million were recognised as a reserve for issue of shares within equity.

On 4 March 2013 the share issue was completed and 9,375,608,049 shares were subscribed. The increase in share capital was registered on 2 April 2013. The amount of RUB 9,375 million and RUB 10,876 million was recognised as share capital and share premium within equity as at 31 December 2013, respectively.

On 6 May 2013 the Extraordinary General Meeting of Shareholders of the Company approved an increase in the Company's charter capital through issuance of 161,066,440,775 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 2.79 roubles per share. On 3 September 2013 the share issue was completed and 103,831,550,845 shares were subscribed. The increase in share capital was registered on 12 December 2013. The amount of RUB 103,832 million and RUB 185,858 million was recognised as share capital and share premium within equity as at 31 December 2013, respectively. 1,021,359,045,392 ordinary shares of FGC at a price of RUB 0,2836 for the total amount of RUB 289,657 million were received as the payment for the issuance of 103,819,865,687 27/31 shares of the Company. Out of this amount 102,578,447,100 shares were subscribed by Federal Agency for the Management of Federal Property in exchange for 1,009,146,513,079 ordinary shares of FGC. 1,241,418,587 27/31 shares of the Company were subscribed by non-controlling shareholders of FGC in exchange for 12,212,532,313 shares of FGC. As a result of this transaction the Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 7,092 million.

(d) Changes in ownership interests of subsidiaries

Shares issued by subsidiaries

On 5 June 2013 an Extraordinary General Meeting of Shareholders of JSC "Chechenenergo", the Group's subsidiary, approved an increase in charter capital through issuance of an additional 8,383,427,634 ordinary shares with a par value of 1 rouble each under a closed subscription. The approved offering price was RUB 1. This share issuance was registered by the Federal Service for Financial Markets on 18 July 2013. In 2013, 4,275,548,093 shares were subscribed by the Company. As at 31 December 2013Republic of Chechnya transferred property, plant and equipment to JSC "Chechenenergo" as a prepayment for 1,581,437,865 shares of additional issued. Additional capital of RUB 1,581 million attributable to non-controlling shareholders was recognized as a non-controlling interest as at 31 December 2013. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 307 million.

On 20 June 2013 an Annual General Meeting of Shareholders of JSC "Lenenergo", the Group's subsidiary, approved an increase in charter capital through issuance of an additional 926,876,304 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 6.06. This share issuance was registered by The Bank of Russia financial markets service on 10 September 2013. In 2013, 495,049,505 shares were subscribed by the Company for RUB 3,000 million. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 5,074 million.

On 18 March 2013 an Extraordinary General Meeting of Shareholders of JSC "Kubanenergo", the Group's subsidiary, approved an increase in charter capital through issuance of an additional 214,877,270 ordinary shares with a par value of 100 roubles each under an open subscription. The approved offering price was RUB 121.82. This share issuance was registered by the Federal Service for Financial Markets on 6 May 2013. During 2013, 139,922,022 shares were subscribed by the Group and 3,280 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 17,046 million. Additional capital of RUB 0.4 million attributable to non-controlling shareholders was recognized as a non-controlling interest as at 31 December 2013. The Group recognized a decrease in retained earnings and an increase in non-controlling interest in the amount of RUB 447 million. As a result of the subscription of shares the Company’s ownership interest in JSC “Kubanenergo” increased from 84.65% to 92.24%.

On 15 March 2013 an Extraordinary General Meeting of Shareholders of JSC “IDGC of North Caucasus”, the Group’s subsidiary, approved an increase in charter capital through issuance of an additional 125,722,698 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 25.94. This share issuance was registered by the Federal Service for Financial Markets on 30 May 2013. In 2013, 98,441,239 shares were subscribed by the Company and 28,548 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 2,554 million. Additional capital of RUB 0.7 million attributable to non-controlling shareholders was recognized as a non-controlling interest as at 31 December 2013. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 673 million. As a result of the subscription of shares the Company’s ownership interest in JSC “IDGC of North Caucasus” increased from 81.33% to 93.20%.

On 18 March 2013 the Board of Directors of FGC, the Group’s subsidiary, approved an increase in charter capital through issuance of an additional 9,431,399,773 ordinary shares with a par value of 0.5 rouble each under an open subscription. The approved offering price was RUB 0.5. This share issuance was registered by The Bank of Russia financial markets service on 21 November 2013. In 2013, 7,524,307,067 shares were subscribed by existing non-controlling shareholders who paid RUB 3,762 million. Additional capital of RUB 3,762 million attributable to non-controlling shareholders was recognized as a non-controlling interest as at 31 December 2013. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 380 million.

(e) Dividends

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

At the annual shareholders meeting held on 28 June 2013 the decision was made not to declare dividends for ordinary and preference shares according to the results of 2012 and to declare dividends for preference shares in the amount of RUB 0.08 per share from the previous year`s retained earnings.

20 (Loss)/earnings per share

The calculation of basic earnings per share at 31 December 2013 was based on the loss attributable to ordinary shareholders of RUB (130,408) million (31 December 2012: profit of RUB 25,025 million), and a weighted average number of ordinary shares outstanding of 158,693 million (31 December 2012: 148,513 million), calculated as shown below. The Company has no dilutive ordinary shares.

In millions of shares	2013	2012
Issued shares at 1 January	47,872	42,964
Effect of own shares held	(1,516)	(1,516)
Effect of shares issued for FGC*	102,578	102,578
Effect of shares issue	9,759	4,487
Weighted average number of shares for the year ended 31 December	**158,693**	**148,513**

*- The effect of shares issued for FGC acquisition was recognised retrospectively.

	Year ended 31 December 2013	Year ended 31 December 2012
Weighted average number of ordinary shares for the year ended 31 December (million of shares)	158,693	148,513
Total (loss)/profit attributable to holders of ordinary shares	(130,408)	25,025
(Loss)/earnings per ordinary share (in RUB) – basic and diluted	**(0.82)**	**0.17**

21 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 loans	201,588	197,148
Unsecured bonds issued	289,893	183,576
Promissory notes	-	7
Financial lease liabilities	748	1,137
	492,229	**381,868**
Current liabilities		
Current portion of unsecured long-term loans and bonds	53,148	55,716
Current portion of secured long-term loans and bonds	-	20
Unsecured loans	3,592	2,289
Promissory notes	375	479
Loans from other related parties, including current portion of long-term loans	50	76
Current portion of long-term financial lease liabilities	643	1,326
	57,808	**59,906**

(in millions of Russian roubles, unless otherwise stated)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	31 December 2013 Effective interest rate	31 December 2012 Effective interest rate	31 December 2013 Face value	31 December 2013 Carrying amount	31 December 2012 Face value	31 December 2012 Carrying amount
Unsecured loans								
Unsecured bank loans	RUB	2013	-	9.75%	-	-	100	100
Unsecured bank loans *	RUB	2014-2025	6.87-11.2%	6.87-11%	148,421	148,421	106,623	106,623
Unsecured bank loans	RUB	2014-2017	7.31-11.2%	7.31-11.8%	3,054	3,054	17,948	17,948
Unsecured bank loans*	RUB	2014-2018	7.64-12%	7.64-11%	29,329	29,329	57,747	57,747
Unsecured bank loans	RUB	2013	-	9.13%	-	-	1,900	1,900
Unsecured bank loans	RUB	2015	8%	7.2-8%	3,800	3,800	6,079	6,079
Unsecured bank loans *	RUB	2014-2019	7.11-9.8%	7.11-10.17%	21,893	21,893	7,399	7,399
Unsecured bank loans *	RUB	2013	-	MosPrime+2.83%	-	-	2,128	2,128
Unsecured bank loans *	RUB	2016	MosPrime+2.4212%	MosPrime+2.4212%	6,000	6,000	6,003	6,003
Unsecured bank loans	RUB	2013	-	7.65%	-	-	2,000	2,000
Unsecured bank loans *	RUB	2014-2015	7.92-8.45%	8-10.1%	4,336	4,336	7,632	7,632
Unsecured bank loans	RUB	2016	8.75%	7.5-9.5%	4,025	4,025	6,061	6,061
Unsecured bank loans	RUB	2014-2016	7.65-12.75%	7.65-10.5%	1,166	1,166	1,337	1,337
Unsecured bank loans	RUB	2014-2015	11-12%	9.5-11%	732	732	800	800
Unsecured bank loans*	RUB	2013	-	10.08%	-	-	6,164	6,164
Unsecured bank loans	RUB	2013	-	10.22-10.52%	-	-	1,000	1,000
Unsecured bank loans	RUB	2014	11.3%	11.3%	400	400	400	400
Unsecured bank loans	RUB	2014-2015	13.5%	13.5%	76	76	112	112
Unsecured bank loans	RUB	2013	-	12.5%	-	-	20	20
Unsecured bank loans*	RUB	2014-2018	13-14%	13-16%	6	6	5	5
Unsecured bank loans	RUB	2014	12.5%	-	60	60	-	-
Unsecured bank loans	RUB	2014	7.94%	-	52	52	-	-
Unsecured loans	RUB	2014	0-8.25%	0-10%	14	14	51	51
					223,364	**223,364**	**231,509**	**231,509**

(in millions of Russian roubles, unless otherwise stated)

	Currency	Year of maturity	31 December 2013 Effective interest rate	31 December 2012 Effective interest rate	31 December 2013 Face value	31 December 2013 Carrying amount	31 December 2012 Face value	31 December 2012 Carrying amount
Promissory notes								
Promissory notes	RUB	On demand	0%	0%	368	368	368	368
Promissory notes	RUB	2014	0%	0%	7	7	7	7
Promissory notes	RUB	2013	-	10.00%	-	-	108	108
Promissory notes	RUB	2013	-	0-9%	-	-	3	3
					375	**375**	**486**	**486**
Bonds								
Unsecured bonds	RUB	2014-2028	7.5-8.75%	7.95-9%	112,128	112,128	102,479	101,728
Unsecured bonds	RUB	2014-2048	CPI+1-2.5%	CPI+1-2.5%	111,091	111,091	10,358	10,358
Unsecured bonds	RUB	2019	8.45%	8.45%	17,943	17,943	17,709	17,578
Unsecured bonds	RUB	2014	8.10%	8.10%	4,685	4,685	4,684	4,684
Unsecured bonds	RUB	2014-2024	0%	0%	981	717	1,167	709
Unsecured bonds	RUB	2014-2016	8.5-8.8%	7.15-8.8%	61,037	61,019	60,629	61,047
Unsecured bonds	RUB	2014-2015	9.044%	9.044%	4,075	4,066	4,074	4,062
Unsecured bonds	RUB	2014-2015	9.15%	9.15%	4,014	4,014	4,013	4,013
Unsecured bonds	RUB	2014-2017	8.53-8.75%	8.5%	6,102	6,089	3,049	3,041
Unsecured bonds	RUB	2014-2016	8.4%	-	3,105	3,105	-	-
					325,161	**324,857**	**208,162**	**207,220**
Financial lease liabilities	RUB	2014-2016	8%	8%	**1,391**	**1,391**	**2,898**	**2,463**
Secured loans	RUB	2013	-	12.6-14.5%	**-**	**-**	**20**	**20**
Loans from related parties *					**50**	**50**	**76**	**76**
Total debt					**550,341**	**550,037**	**443,151**	**441,774**

* Loans from government-related entities.

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2013 bank loans are not secured over property, plant and equipment. At 31 December 2012 bank loans in the amount of RUB 20 million are secured over property, plant and equipment in the amount of RUB 42 million (see Note 13).

The effective interest rate is the market interest rate applicable to the loans at the date of origination 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.

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

Financial lease liabilities are payable as follows:

	2013			**2012**		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	782	139	643	1,662	336	1,326
Between one and five years	911	163	748	1,505	375	1,130
More than five years	-	-	-	9	2	7
	1,693	**302**	**1,391**	**3,176**	**713**	**2,463**

The financial lease liabilities are secured by the leased assets (see Note 13).

22 Employee benefits

The Group has defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, jubilee benefits.

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

Amounts recognised in the consolidated statement of financial position:

	31 December 2013	**31 December 2012**	**1 January 2012**
Present value of post-employment benefits obligation	27,883	23,272	18,912
Present value of other long-term employee benefit obligation	1,088	1,006	1,083
Total present value of benefit obligation	**28,971**	**24,278**	**19,995**

(in millions of Russian roubles, unless otherwise stated)

Movements in net defined benefit liability are as follows:

	Year ended 31 December 2013		Year ended 31 December 2012	
	Post-employment benefits obligation	**Other long-term employee benefit obligation**	**Post-employment benefits obligation**	**Other long-term employee benefit obligation**
Benefit obligations as at the beginning of the year	23,272	1,006	18,912	1,083
Current service cost	1,307	103	1,106	88
Past service cost	253	(10)	(592)	(178)
Interest cost	1,611	70	1,499	73
Remeasurement loss (gain) of the defined benefit liability arising from:				
– actuarial loss arising from demographic assumptions	3,367	7	1,123	2
– actuarial (gain)/loss arising from financial assumptions	(2,017)	(75)	1,646	55
– actuarial loss arising from experience adjustment	2,529	125	1,826	(3)
Benefits paid	(2,439)	(138)	(2,248)	(114)
Benefit obligations as at the end of the year	**27,883**	**1,088**	**23,272**	**1,006**

Amounts recognised in profit or loss are as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Service cost	1,653	424
Remeasurement of other long-term employee benefit obligation	57	54
Interest expenses	1,681	1,572
Total expenses recognised in profit or loss	**3,391**	**2,050**

(in millions of Russian roubles, unless otherwise stated)

Amounts recognised in other comprehensive income are as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Actuarial loss arising from demographic assumptions	3,367	1,123
Actuarial (gain)/ loss arising from financial assumptions	(2,017)	1,646
Actuarial loss arising from experience adjustment	2,529	1,826
Total actuarial loss recognised in other comprehensive income	**3,879**	**4,595**

Movements in amount of restatement of employee benefit obligation that was recognised in other comprehensive income during the year are as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Remeasurements at 1 January	6,802	2,207
Movement in amount of restatement	3,879	4,595
Remeasurements at 31 December	**10,681**	**6,802**

The significant actuarial assumptions are as follows:

	2013	**2012**
Financial actuarial assumptions		
Discount rate, annual (nominal)	8.00%	7.10%
Future inflation rate	5.00%	5.00%
Future Salary increase (nominal)	5.00%	5.00%
Demographic actuarial assumptions		
The expected age of retirement:		
Men	60	60
Women	55	55
The average level of staff movement	7.00%	7.00%

The sensitivity of employee benefits obligation to changes in fundamental actuarial assumptions are as follows:

	Change in the assumption	**Impact on obligation**
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 3.94%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by 2.04%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 2.12%
Average level of staff movement	Increase/decrease by 10%	Decrease/increase by 1.74%
Mortality	Increase/decrease by 10%	Decrease/increase by 1.02%

(in millions of Russian roubles, unless otherwise stated)

23 Trade and other payables

	31 December 2013	31 December 2012
Non-current accounts payable		
Trade payables	168	-
Other payables	1,218	982
Total financial liabilities	**1,386**	**982**
Advances from customers	13,101	14,079
	14,487	**15,061**
Current accounts payable		
Trade payables	127,762	91,015
Other payables and accrued expenses	6,665	5,830
Payables to employees	16,242	13,440
Dividends payable	69	41
Total financial liabilities	**150,738**	**110,326**
Advances from customers	80,270	82,441
	231,008	**192,767**
Taxes payable		
Value added tax	5,294	3,301
Property tax	1,851	827
Social security contributions	2,132	2,140
Other taxes payable	981	1,007
	10,258	**7,275**
	241,266	**200,042**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 25.

24 Provisions

	31 December 2013	31 December 2012
Balance at 1 January	14,566	6,419
Provisions raised during the year	8,170	11,717
Provisions reversed during the year	(6,505)	(2,504)
Provisions used during the year	(5,834)	(1,066)
Balance at 31 December	**10,397**	**14,566**

Provisions relate to legal proceedings and unsettled claims against the Group.

25 Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

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. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring 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 internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group's Audit Committee oversees how management monitors compliance with the Group's internal control procedures.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

To manage credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by contract and depends on the amount of capacity to be connected.

The Group does not require collateral in respect of trade and other receivables and other financial assets.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

(in millions of Russian roubles, unless otherwise stated)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2013	**31 December 2012**
Promissory notes	2,425	26,372
Loans and receivables	104,845	81,098
Bank deposits, cash and cash equivalents	113,599	94,894
Financial assets related to employee benefit fund	6,716	6,560
	227,585	**208,924**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	31 December 2013	**31 December 2012**
North-West region	11,619	8,381
Central region	59,488	39,298
Ural and Volga region	9,307	8,770
South region	10,442	9,073
Siberian region	3,999	7,428
Other regions	422	306
	95,277	**73,256**

The Group's ten most significant debtors account for RUB 26,058 million of the trade receivables carrying amount at 31 December 2013 (2012: RUB 47,964 million).

Impairment losses

The aging of receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
	31 December 2013	**31 December 2013**	**31 December 2012**	**31 December 2012**
Not past due	65,040	(940)	56,597	(1,457)
Past due less than 3 months	24,025	(2154)	17,206	(3,561)
Past due more than 3 months and less than 6 months	8,745	(2,818)	7,906	(2,835)
Past due more than 6 months and less than 1 year	19,799	(12,025)	9,632	(4,171)
Past due more than 1 year	32,717	(27,730)	21,256	(19,597)
	150,326	**(45,667)**	**112,597**	**(31,621)**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

(in millions of Russian roubles, unless otherwise stated)

	31 December 2013	**31 December 2012**
Balance at 1 January	(31,621)	(27,705)
Increase during the period	(26,315)	(18,030)
Amounts written off against trade and other receivables	1,940	2,453
Decrease due to reversal	10,329	11,661
Balance at 31 December	**(45,667)**	**(31,621)**

The allowance accounts in respect of trade and other receivables and bank deposits are used to record impairment losses, unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable and written off against the financial asset directly.

No other financial assets are past due or impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The contractual maturities of financial liabilities presented including estimated interest payments and excluding the impact of netting agreements:

(in millions of Russian roubles, unless otherwise stated)

31 December 2013

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	223,413	278,150	38,523	54,385	99,120	22,040	57,179	6,903
Bond issued	324,858	647,759	59,178	65,485	57,474	40,704	33,728	391,190
Promissory notes	375	375	375	-	-	-	-	-
Financial leasing	1,391	1,693	782	279	174	150	308	-
Trade and other payables	152,124	161,389	160,848	415	70	16	17	23
	702,161	**1,089,366**	**259,706**	**120,564**	**156,838**	**62,910**	**91,232**	**398,116**
Financial guarantees	**-**	**878**	**878**	**-**	**-**	**-**	**-**	**-**

31 December 2012

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	231,605	288,174	53,167	92,145	59,272	41,657	26,431	15,502
Bond issued	207,220	274,033	39,583	52,498	46,269	33,497	34,406	67,780
Promissory notes	486	486	480	6	-	-	-	-
Financial leasing	2,463	3,176	1,662	552	363	326	264	9
Trade and other payables	111,308	111,883	106,613	5,055	140	28	9	38
	553,082	**677,752**	**201,505**	**150,256**	**106,044**	**75,508**	**61,110**	**83,329**
Financial guarantees	**-**	**87**	**87**	**-**	**-**	**-**	**-**	**-**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings 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.

The majority of the Group's revenues and expenditures, assets and liabilities are denominated in RUB, accordingly operating profits are insignificantly impacted by changes in exchange rates.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rate and is subject to the limited risk of interest rate changes.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings management gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for early repayment of loans on borrower's initiative which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

As at 31 December 2013 variable rate financial liabilities of the Group were RUB 116,000 million (31 December 2012: 18,121 million) A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss (net of taxes) by RUB 928 million (2012: RUB 145 million) . This analysis assumes that all other variables remain constant.

(iii) Other market price risk

Equity price risk arises from available-for-sale equity securities. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by management of the Group. As at 31 December 2013 available for sale investments exposed to equity price risk of the Group were RUB 19,719 million (31 December 2012: 48,691 million). A change of 10% in interest rates at the reporting date would have increased (decreased) equity and profit or loss (net of taxes) by RUB 1,576 million (2012: RUB 3,895 million) . This analysis assumes that all other variables remain constant.

(in millions of Russian roubles, unless otherwise stated)

(e) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

		31 December 2013		31 December 2012	
	Note	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables	17	104,845	104,845	81,098	81,098,
Available-for-sale financial assets	14	19,719	19,719	48,691	48,691
Promissory notes	14	2,425	2,425	26,372	26,372
Bank deposits, cash and cash equivalents	14, 18	113,599	113,599	94,894	94,894
Financial assets related to employee benefit fund	14	6,716	6,716	6,560	6,560
Non-current and current debt	21	(550,037)	(618,692)	(441,774)	(443,151)
Trade and other payables	23	(152,124)	(152,124)	(111,308)	(111,308)
		(454,857)	**(523,512)**	**(295,467)**	**(296,844)**

The basis for determining fair values is disclosed in Note 4.

The interest rate used to discount estimated cash flows for non-current and current debt for determination of fair value as at 31 December 2013 was 11.46-11.48% (31 December 2012: 11.17%).

The estimated fair value of non-current debt (including the current portion) with fixed rates was RUB 173,627 million (as at 31 December 2012: RUB 202,893 million), which was measured using the market prices for quoted FGC bonds (Level 1 inputs) as at 31 December 2013. Carrying amount of this non-current debt was RUB 172,349 million (as at 31 December 2012: RUB 202,500 million).

The estimated fair value of non-current debt (including the current portion) with variable rates was RUB 10,139 million (as at 31 December 2012: RUB 10,050 million), which was measured using the market prices for quoted FGC bonds (Level 1 inputs) as at 31 December 2013. Carrying amount of this non-current debt was RUB 10,000 million (as at 31 December 2012: RUB 10,000 million).

(in millions of Russian roubles, unless otherwise stated)

(f) Fair value hierarchy

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

	Level 1	Level 2	Level 3	Total
31 December 2013				
Available-for-sale financial assets	19,719	-	-	19,719
	19,719	**-**	**-**	**19,719**
31 December 2012				
Available-for-sale financial assets	48,691	-	-	48,691
	48,691	**-**	**-**	**48,691**

(g) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity. The Board of Directors monitors the level of dividends to ordinary shareholders. The Board of Directors aims to ensure annual growth of dividends per share, and is developing a proposal on the level of dividends to be paid to shareholders, to be approved at the annual shareholders meeting in accordance with the Dividend Policy.

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

The Group's debt to capital ratio at the end of the reporting period was as follows:

	Carrying amount	
	31 December 2013	**31 December 2012**
Total liabilities	884,348	770,083
Less: cash and cash equivalents	(61,917)	(59,815)
Net debt	**822,431**	**710,268**
Total equity	1,061,691	1,222,419
Debt to capital ratio at 31 December	**77.46%**	**58.10%**

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

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

26 Operating leases

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

(in millions of Russian roubles, unless otherwise stated)

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 5 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

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

Non-cancellable operating lease rentals are payable as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Less than one year	4,418	4,915
Between one and five years	9,352	8,527
More than five years	44,644	42,319
	58,414	**55,761**

During the year RUB 7,312 million was recognised in the statement of comprehensive income in respect of operating leases (2012: RUB 6,741 million).

27 Commitments

As at 31 December 2013 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 293,833 million (as at 31 December 2012: RUB 322,097 million).

28 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Environmental matters

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

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

(e) Guarantees

The Group provided the following financial guarantees for loans granted by the following banks:

	Amount on contract 31 December 2013	**Amount on contract 31 December 2012**
OJSC "Gasprombank"	878	79
OJSC "Sberbank"	-	8
	878	**87**

(f) Other contingencies

Management believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of previously effective legislation that regulated the lease of Unified National Electricity Network property by the Group ("last-mile") there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim has individual legal circumstances and respective estimation should be based on variety of assumptions and judgments, which makes it impracticable. No provision was recognised by the Group as management believes that the outflow of economic benefits under current and potential proceedings is not probable.

(in millions of Russian roubles, unless otherwise stated)

29 Related party transactions

(a) Control relationships

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

(b) Management remuneration

The Group identifies members of Management Board and Board of Directors of the Company as key management personnel. The remuneration for members of the Management Committee and Board of Directors consists of the salary stipulated by the employment contract, non-monetary benefits, and also bonuses determined based on the results for the period and other payments. The remuneration or compensation is not payable to members of the Board of Directors, who are government employees.

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

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

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries and bonuses	**303**	**258**

(c) Transactions with government-related entities

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

Revenues from government-related entities for the year ended 31 December 2013 constitute 30% (2012: 30%) of total Group revenues, including 35% (2012: 33%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2013 constitute 35% (2012: 26%) of total transmission costs.

Significant loans from government-related entities are disclosed in Note 21.

(d) Pricing policies

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

30 Events after the reporting period

(a) Bonds issue

On 12 March 2014 the Board of Directors of the Company approved issuance of 100 million interest-bearing non-convertible bearer bonds with par value of RUB 1,000 each for total nominal amount of RUB 100,000 million. Maturity period of the bonds is 10 years.

On 30 January 2014 the Board of Directors of JSC IDGC of North-West, the Group's subsidiary, approved offering circular for issue of 15 million interest-bearing non-convertible bearer bonds with par value of RUB 1,000 each for total nominal amount of RUB 15,000 million. Maturity period of the bonds is 10 years.

(b) Function of electricity supplier

During January-April 2014, pursuant to orders of the Russian Ministry of Energy JSC IDGC of Volga, JSC IDGC of Siberia, JSC IDGC of North-West, JSC IDGC of Centre, JSC IDGC of Centre and Volga Region, JSC IDGC of Volga transferred to third parties the functions of electricity supplier in Oryol, Kursk, Omsk, Novgorod, Tula, Penza, Tver regions.