Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

International Financial Reporting Standards
Consolidated Financial Statements for SIX MONTHS ended 30 June 2014
(not audited)

Contents

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

(in thousands of Russian Roubles)

	Notes	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	128 638 987	130 188 242
Investment property		88 779	91 753
Intangible assets		431 495	450 588
Investments in associatesand joint ventures	7	452 929	441 861
Deferred income tax assets		326 942	367 153
Other non-current assets	8	281 462	199 902
Total non-current assets		**130 220 594**	**131 739 499**
Current assets			
Cash and cash equivalents	9	1 923 857	243 005
Short-term investments	10	15 812	16 800
Trade and other receivables	12	14 016 522	15 866 038
Current income tax prepayments		785 769	69 721
Inventories	13	2 555 516	2 608 380
		19 297 476	**18 803 944**
Non-current assets held for sale	11	681 696	58 325
Total current assets		**19 979 172**	**18 862 269**
TOTAL ASSETS		**150 199 766**	**150 601 768**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	38 543 414	38 543 414
Share premium	14	22 913 678	22 913 678
Merger reserve	14	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		37 001	37 001
Retained earnings		37 639 034	34 575 950
Equity attributable to the Company's owners		**91 837 167**	**88 774 083**
Non-controlling interest		8 389 954	8 340 797
TOTAL EQUITY		**100 227 121**	**97 114 880**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		11 708 954	10 982 905
Long-term borrowings	15	22 624 939	21 070 249
Other non-current liabilities	16	377 523	139 958
Post-employment benefits obligations		853 480	854 296
Total non-current liabilities		**35 564 896**	**33 047 408**
Current liabilities			
Short-term borrowings	17	6 583 406	11 678 565
Trade and other payables	18	6 685 961	7 556 813
Current income tax payable		-	24 807
Other taxes payable	19	1 138 382	1 179 295
Total current liabilities		**14 407 749**	**20 439 480**
TOTAL LIABILITIES		**49 972 645**	**53 486 888**
TOTAL EQUITY AND LIABILITIES		**150 199 766**	**150 601 768**

Approved for issue and signed on 18 August 2014.

General Director A.N. Filippov

Chief Accountant R.V. Stanishevskaya

The accompanying notes 1 to 25 form an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue			
Sales of electricity		20 933 884	22 227 060
Sales of heat		15 451 028	14 541 729
Other sales	20	252 035	219 598
Total revenue		**36 636 947**	**36 988 387**
Government grants	21	313 674	432 720
Operating expenses	22	(31 277 908)	(30 670 208)
Other operating income	23	248 629	186 108
Total operating expenses		**(30 715 605)**	**(30 051 380)**
Operating profit		**5 921 342**	**6 937 007**
Finance income	24	56 486	53 241
Finance costs	24	(1 070 141)	(1 373 633)
Finance costs, net		**(1 013 655)**	**(1 320 392)**
Profit before income tax		**4 907 687**	**5 616 615**
Income tax expense		(1 151 817)	(1 259 547)
Profit		**3 755 870**	**4 357 068**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income		**3 755 870**	**4 357 068**
Profit is attributable to:			
Owners of the TGC-1		3 706 713	4 227 464
Non-controlling interests		49 157	129 604
Profit		**3 755 870**	**4 357 068**
Total comprehensive income is attributable to:			
Owners of the TGC-1		3 706 713	4 227 464
Non-controlling interests		49 157	129 604
Total comprehensive income		**3 755 870**	**4 357 068**

(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Effect of remeasurements of post-employment benefits obligations	Share premium	Merger reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	**38 543 414**	**11 989**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**28 721 743**	**82 894 864**	**7 899 038**	**90 793 902**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**6 323 685**	**6 323 685**	**443 854**	**6 767 539**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	32 353	-	-	-	-	**32 353**	(2 619)	29 734
Income tax on other comprehensive income	-	(7 341)	-	-	-	-	(7 341)	524	(6 817)
Total other comprehensive income	**-**	25 012	**-**	**-**	**-**	**-**	**25 012**	(2 095)	**22 917**
Total comprehensive income for the year	**-**	**25 012**	**-**	**-**	**-**	**6 323 685**	**6 348 697**	**441 759**	**6 790 456**
Transactions with owners									
Dividends	-	-	-	-	-	(469 478)	**(469 478)**	-	**(469 478)**
Total transactions with owners	-	-	-	-	-	**(469 478)**	**(469 478)**	-	**(469 478)**
Balance at 31 December 2013	**38 543 414**	**37 001**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**34 575 950**	**88 774 083**	**8 340 797**	**97 114 880**
Comprehensive income									
Profit	-	-	-	-	-	**3 706 713**	**3 706 713**	**49 157**	**3 755 870**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	-	-	-	-	-	**-**	-	-
Income tax on other comprehensive income	-	-	-	-	-	-	**-**	-	-
Total other comprehensive income	-	-	-	-	-	-	**-**	-	-
Total comprehensive income	-	-	-	-	-	**3 706 713**	**3 706 713**	**49 157**	**3 755 870**
Transactions with owners									
Dividends	-	-	-	-	-	(643 629)	(643 629)	-	(643 629)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(643 629)**	**(643 629)**	**-**	**(643 629)**
Balance at 30 June 2014	**38 543 414**	**37 001**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**37 639 034**	**91 837 167**	**8 389 954**	**100 227 121**

(in thousands of Russian Roubles)

	Six months ended 30 June 2014	Six months ended 30 June 2013
Cash flows from operating activities		
Profit before income tax	4 907 687	5 616 615
Adjustments to non-cash items	4 449 357	4 453 069
Operating cash flows before working capital changes	**9 357 044**	**10 069 684**
Capital changes	697 262	(1 004 304)
Cash generated from operations	**10 054 306**	**9 065 380**
Income taxes paid and Interest paid	(2 431 008)	(1 455 707)
Net cash from operating activities	**7 623 298**	**7 609 673**
Net cash used in investing activities	**(2 416 463)**	**(2 738 305)**
Net cash from financing activities	**(3 525 983)**	**(4 842 831)**
Cash and cash equivalents at the beginning of the period	**243 005**	**719 975**
Cash and cash equivalents at the end of the period	**1 923 857**	**748 512**

(in thousands of Russian Roubles)

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for three months ended 30 June 2014 for Open Joint-Stock Company (OJSC) Territorial Generating Company № 1(here in after “TGC-1”, or the “Company”) and its subsidiaries (the “Group”).

The Company was incorporated and is domiciled in the Russian Federation. It is an open joint stock company and was established in accordance with Russian law.

“TGC-1” was established on 25 March 2005 as part of the restructuring of Russia’s electricity sector in accordance with Board of Directors Resolution No. 181 of RAO UES of Russia (here in after “RAO UES”) on 26 November 2004. The structure and founding principles of TGC-1 were adopted by the RAO UES Board of Directors on 23 April 2004 (Resolution No. 168).

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

	% of ownership as at 30 June		
Subsidiary	**2014**	**2013**	**Immediate parent**
JSC Murmanskaya TPP	90.34	90.34	JSC TGC-1
OJSC St Petersburg Heating Grid	75.00	75.00	JSC TGC-1

As the operator of 55 power plants, the Group is principally engaged in electricity, capacity and heat generation. The Group’s generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia region.

The Company’s registered office is located at 6 Bronevaya Str., litera B, St. Petersburg, Russia 198188.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is subject to varying interpretations, which contributes to the challenges faced by companies operating in the Russia.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management has determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. These standards also require recognition of impairment losses for property, plant and equipment that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Russia's future economic development depends on external factors as well as domestic measures undertaken by the government aimed at promoting growth and to changing the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Government relations and current regulation

As at 30 June 2014 and 31 December 2013 the Group was controlled by the Gazprom Group (51.75% stake) via its subsidiary Gazprom Energoholding LLC. The Group's other significant shareholder as at 30 June 2014 and 31 December 2013 was Fortum Power and Heat Oy (25.66% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 30 June 2014 and 31 December 2013.

The Group's customer base also includes a large number of state-controlled entities. Furthermore, the government also controls a number of the Group's suppliers of fuel and other materials.

The Russian government directly affects the Group's operations through the Federal Tariff Service ("FTS"), which regulates its wholesale energy purchases, and by the St Petersburg Tariff and Leningrad Regional Tariff Service, which regulate its retail electricity, capacity and heat sales. The operations of all generating facilities are coordinated by OJSC System Operator of Unified Energy System, a state-controlled company.

Tariffs which the Group may charge for electricity, capacity and heat sales are governed by regulations specific to the electricity, capacity and heat industry and that apply to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning the cost of service plus a margin.

The government's economic, social and other policies could have a material effect on Group operations.

Financial condition

As at 30 June 2014, the Group's current assets exceeded its current liabilities by RUB 5 571 423 thousand (as at 31 December 2013 the Group's current liabilities exceeded its current assets by RUB 1 577 211 thousand).

Note 2. Operating environment of the Group (continued)

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Polices

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill, bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Note 3. Summary of Significant Accounting Polices (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Presentation currency

These consolidated financial statements are presented in Russian Roubles (RUB), unless otherwise stated.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles (RUB).

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Revenue is translated into each entity's functional currency using the official exchange rate of the CBRF at the respective date of transaction.

At 30 June 2014, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 33.6306 (31 December 2013: USD 1 = RUB 32.7292), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 45.8251 (31 December 2013: EUR 1 = RUB 44.9699).

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Note 3. Summary of Significant Accounting Polices (continued)

Disposals of subsidiaries, associates or joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the 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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

Note 3. Summary of Significant Accounting Polices (continued)

Financial instruments - key measurement terms (continued)

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

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The Group does not have the following categories of financial assets: financial assets at fair value through profit or loss, financial assets held to maturity and available-for-sale financial assets.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

The Group does not have financial liabilities relate to category held for trading which also includes financial derivatives.

Initial recognition of financial instruments

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's establishment in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by its predecessor entity RAO UES.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognized for an asset in prior periods is reversed if there has been a positive change in the estimates used to determine the asset's recoverable amount.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not included in property, plant and equipment as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or for internally constructed assets, from the time the asset is completed and ready for use.

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

Type of facility	Useful lives, years
Production buildings	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated disposal costs, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Note 3. Summary of Significant Accounting Polices (continued)

Investment property (continued)

Investment property is initially recognised at cost. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance lease liabilities

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

Intangible assets

The Group’s intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 22).

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licences	2-15
Capitalised internal software development costs	2-15
Other licences	4-10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes

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

Current tax is the amount expected to be paid to, or recovered from, the tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the reporting date.

Note 3. Summary of Significant Accounting Polices (continued)

Income taxes (continued)

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

Deferred tax is not provided for the undistributed earnings of the subsidiaries, as the Group controls the subsidiaries' dividend policy and requires profits to be reinvested. Only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on a weighted average basis. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. The Group established a provision for potential losses from obsolescent and slow moving inventories based on their expected use and estimated selling prices. The provision is recognised in profit or loss.

Trade and other receivables

Accounts receivable are recorded inclusive of VAT. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and liquidity of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty is experiencing a significant financial difficulty as evidenced by its financial data that the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, has significantly decreased as a result of deteriorating market conditions.

Note 3. Summary of Significant Accounting Polices (continued)

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after more than one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid short-term investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as “non-current assets held for sale” if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period’s consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as a share premium.

Note 3. Summary of Significant Accounting Polices (continued)

Merger reserve

Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve. Merger reserve is not distributable to shareholders and not taxable for income tax purposes.

Other reserves

Difference between the carrying value of the net assets merged into the Group in 2011 as a result of contribution in OJSC St Petersburg Heating Grid's share capital, and the nominal value of the shares issued is recorded in equity, as other reserves.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed in subsequent events note when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax

Output value added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the 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. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the compensation of income in relation to companies providing heating services per tariffs that don't cover expenses for the costs are deferred and recognised as deferred income in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Trade and other payables

Trade payables and accounts payable for capital construction are accrued when the counterparty performs its contractual obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale (a qualifying asset) are capitalised as part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining acquiring a qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Note 3. Summary of Significant Accounting Polices (continued)

The commencement date for capitalisation is when the Group (i) incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Revenue recognition

Revenue is recognised on the delivery of electricity, capacity and heat. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods. Correspondingly, when in accordance with the utilities market regulation in the Russian Federation, utilities companies are required to conclude transactions for the sale and repurchase of electricity (for bilateral contracts concluded or for electricity consumed in the production process) or when these transactions are performed for the purpose of the price risk hedging, these transactions are recorded on a net basis. Capacity sales are recognized when the capacity obligations have been fulfilled.

Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue amounts are presented net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Mutual cancellations

A portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of cancellation of mutual balances.

Sales and purchases that are expected to be settled by mutual settlements or non-cash settlements are recognised based on management’s estimate of the fair value to be received or given up in non-cash settlements.

Non-cash transactions have been excluded from the Consolidated Statement of Cash Flow. Investing and financing activities and the total of operating activities represent actual cash flows.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme defined by the Russian Federation on behalf of its employees. Mandatory contributions (social insurance contributions) to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. For some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners’ bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method.

Note 3. Summary of Significant Accounting Polices (continued)

Pension and post-employment benefits (continued)

The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Remeasurement of defined benefit liability is the actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and recognized in other comprehensive income at a time.

The cost of services of past periods is a change in the present value of defined benefit obligation as a result of adjustments of plan that recognises in the period of changes in plan's conditions.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Earnings per share

Earnings per share are determined by dividing the profit attributable to the Company's ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The primary activity of the Group is production of electric and heat power and capacity.

The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments.

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts, recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year, include:

Provision for impairment of property, plant and equipment

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed.

Useful lives of property, plant and equipment

The estimation of the useful life based on an item of property, plant and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

Note 5. Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later. The next standards were adopted in Russia:

IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9. The amendments made by International Accounting Standards Board (IASB) in November 2013 have not been adopted in Russia yet.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group does not expect the amendment to have any impact on its financial statements.

Certain new standards and interpretations issued by IASB have not been adopted in Russia yet:

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).

The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. IFRS 14 is not relevant to these consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s financial statements.

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2013	**23 174 563**	**16 718 287**	**56 139 009**	**44 171 440**	**14 451 519**	**37 493 908**	**192 148 726**
Effect of reclassifications	2 301	-	-	34 413	-	(36 714)	-
Balance as at 31 December 2013 including reclassifications	**23 176 864**	**16 718 287**	**56 139 009**	**44 205 853**	**14 451 519**	**37 457 194**	**192 148 726**
Additions	460	-	4 204	337 423	2 284 140	22 581	2 648 808
Transfers	244 641	26	364 765	932 617	(1 883 444)	341 395	-
Disposals	(15 136)	-	(42 902)	(9 006)	(31 588)	(503 988)	(602 620)
Reclassification to non-current assets held for sale	(141 347)	(876 390)	(88 708)	-	-	(237 615)	(1 344 059)
Balance as at 30 June 2014	**23 265 482**	**15 841 923**	**56 376 368**	**45 466 887**	**14 820 627**	**37 079 567**	**192 850 854**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2013	**(7 314 707)**	**(7 889 372)**	**(16 265 797)**	**(17 955 664)**	**(183 063)**	**(12 351 881)**	**(61 960 484)**
Effect of reclassifications	(2 301)	-	-	(6 883)	-	9 184	-
Balance as at 31 December 2013 including reclassifications	**(7 317 008)**	**(7 889 372)**	**(16 265 797)**	**(17 962 547)**	**(183 063)**	**(12 342 697)**	**(61 960 484)**
Charge for the year	(297 236)	(136 476)	(1 032 857)	(715 061)	-	(1 079 059)	(3 260 689)
Disposals	9 176	-	42 199	8 785	-	230 426	290 586
Reclassification to non-current assets held for sale	62 149	413 226	58 390	-	-	184 955	718 720
Balance as at 30 June 2014	**(7 542 919)**	**(7 612 622)**	**(17 198 065)**	**(18 668 823)**	**(183 063)**	**(13 006 375)**	**(64 211 867)**
Net book value as at 31 December 2013	**15 859 856**	**8 828 915**	**39 873 212**	**26 215 776**	**14 268 456**	**25 142 027**	**130 188 242**
Net book value as at 30 June 2014	**15 722 563**	**8 229 301**	**39 178 303**	**26 798 064**	**14 637 564**	**24 073 192**	**128 638 987**

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2012	**22 963 755**	**16 871 063**	**54 462 504**	**41 586 103**	**14 115 102**	**34 844 560**	**184 843 087**
Additions	-	-	192	208 047	2 354 197	66 624	2 629 060
Transfers	52 027	2 237	136 781	1 223 187	(1 705 988)	291 756	-
Disposals	(3 197)	(86 761)	(50 761)	(444 531)	(18 967)	(17 708)	(621 925)
Reclassification to non-current assets held for sale	(505)	-	-	-	-	(37 443)	(37 948)
Balance as at 30 June 2013	**23 012 080**	**16 786 539**	**54 548 716**	**42 572 806**	**14 744 344**	**35 147 789**	**186 812 274**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2012	**(6 500 760)**	**(7 553 883)**	**(14 329 655)**	**(17 062 483)**	**(20 664)**	**(10 319 108)**	**(55 786 553)**
Charge for the year	(294 745)	(141 080)	(1 077 536)	(653 179)	-	(1 092 254)	(3 258 794)
Disposals	836	54 047	43 904	249 294	-	12 041	360 122
Reclassification to non-current assets held for sale	126	-	-	-	-	23 469	23 595
Balance as at 30 June 2013	**(6 794 543)**	**(7 640 916)**	**(15 363 287)**	**(17 466 368)**	**(20 664)**	**(11 375 852)**	**(58 661 630)**
Net book value as at 31 December 2012	**16 462 995**	**9 317 180**	**40 132 849**	**24 523 620**	**14 094 438**	**24 525 452**	**129 056 534**
Net book value as at 30 June 2013	**16 217 537**	**9 145 623**	**39 185 429**	**25 106 438**	**14 723 680**	**23 771 937**	**128 150 644**

(in thousands of Russian Roubles)

Note 6. Property, Plant and Equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

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

As at 30 June 2014 the advances given to contractors, which amounted to RUB 765 225 thousand, net of VAT (as at 31 December 2013: RUB 742 249 thousand), are recognised within the construction in progress balance. The respective input VAT is recognized within accounts receivable and prepayments (Note 12).

As at 30 June 2014 and 31 December 2013 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using a 7.9% capitalization rate for three months ended 30 June 2014 is RUB 290 468 thousand (9% capitalization rate for three months ended 30 June 2013: RUB 299 445 thousand).

Other property, plant and equipment include assets held under finance leases with a carrying value of RUB 68 830 thousand (as at 31 December 2013: RUB 77 930 thousand).

Note 7. Investments in Associates

LLC «TGC Service» and «JSC Hibinskaya Heating Company» are the associates for the Group. LLC «TGC Service» specializes in repairing of the capital and service equipment of the power enterprises and also provides maintenance, support, diagnostics and technical reequipment of power industry objects. JSC Hibinskaya Heating Company» specializes in production, transportation and sales of heat energy.

Information about Group’s investments in associates is presented below:

	30 June 2014	31 December 2013
Investments in LLC TGC Service	9 994	9 841
Investments in JSC HHC	442 935	432 020
Total investments	**452 929**	**441 861**

As at 30 June 2014 and 31 December 2013 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

Note 8. Other Non-Current Assets

	30 June 2014	31 December 2013
Long-term receivables, net of provision for impairment of RUB 92 624 thousand (31 December 2013: RUB 104 789 thousand)	270 396	188 145
Loan issued	11 066	11 757
Total other non-current assets	**281 462**	**199 902**

Note 9. Cash and Cash Equivalents

	30 June 2014	31 December 2013
Cash in bank and in hand in RUB	1 895 737	167 016
Foreign currency accounts in EUR	28 120	75 989
Total cash and cash equivalents	**1 923 857**	**243 005**

(in thousands of Russian Roubles)

Note 10. Short-term Investments

	30 June 2014	31 December 2013
Loan issued	15 812	16 800
Total short-term investments	**15 812**	**16 800**

Note 11. Non-current Assets Held for Sale

As at 30 June 2014 the property, plant and equipment with a total net book value amounting to RUB 625 339 thousand were classified as assets held for sale (31 December 2013: RUB 58 325 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

30 June 2014	Sale	Classification as assets held for sale	31 December 2013
681 696	1 968	625 339	58 325

30 June 2013	Sale	Classification as assets held for sale	31 December 2012
40 438	620	14 353	26 705

Note 12. Trade and other receivables

	30 June 2014	31 December 2013
Trade receivables, net of provision for impairment of RUB 2 449 927 (31 December 2013: RUB 2 655 749 thousand)	11 911 539	14 228 323
Other receivables, net of provision for impairment of RUB 32 721 (31 December 2013: RUB 14 220 thousand)	1 409 281	518 423
Total financial receivables	**13 320 820**	**14 746 746**
Value-added tax receivables	462 836	489 853
Advances to suppliers	94 795	390 490
Other taxes receivable	138 071	238 949
Total trade and other receivables	**14 016 522**	**15 866 038**

Note 13. Inventories

	30 June 2014	31 December 2013
Fuel	1 695 456	1 918 934
Spare parts	250 175	195 428
Raw materials and other supplies	609 885	494 018
Total inventories	**2 555 516**	**2 608 380**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 1 771 thousand (31 December 2013: RUB 1 893 thousand). Movements in the impairment provision are due to implication into production and sale of inventories.

Note 14. Share capital

Share capital

The Group's share capital as at 30 June 2014 and as at 31 December 2013 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

Share premium represents the excess of contributions received over the nominal value of shares issued.

(in thousands of Russian Roubles)

Note 14. Share capital (continued)

Merger reserve

As at 30 June 2014 and as at 31 December 2013 the merger reserve amounted to RUB 6 086 949 thousand.

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution.

Note 15. Long-term Borrowings

	30 June 2014	31 December 2013
Bank borrowings and bonds issued	22 624 939	21 070 249
Total long-term borrowings	**22 624 939**	**21 070 249**

	Currency	Contractual interest rate	Maturity	30 June 2014	31 December 2013
Long-term bonds (01)	RUB	7.6%	2014	-	409 998
Long-term bonds (02)	RUB	7.25%	2014	125 833	125 780
Long-term bonds (03)	RUB	8%	2021	2 002 640	2 003 100
Long-term bonds (04)	RUB	8%	2022	2 055 240	2 056 380
Gazprom	RUB	8%	2016	10 000 000	10 000 000
Sberbank RF	RUB	8.2-8.8%	2015-2016	3 064 213	4 203 545
AKB ROSBANK	RUB	9.3-9.5%	2015-2016	1 340 596	3 806 931
Gazprom Energoholding	RUB	8.5%	2015	2 013 973	2 014 438
VTB	RUB	8.65-8.85%	2015-2016	897 570	1 605 877
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2019	1 171 781	1 359 741
Alfabank	RUB	7.4%	2014	-	700 852
Bank Saint-Petersburg	RUB	7.65%	2014	-	700 000
VBRR	RUB	8.15%	2015	186 333	186 374
Nordic Environment Finance Corporation	EUR	ЕВРИБОР + 2%	2015	23 075	33 962
Alfabank	EUR	ЕВРИБОР + 3.5%	2014	12 507	12 274
Bank Rossiya	RUB	8.4%	2017	5 000 000	-
				27 893 761	**29 219 252**
Less: current portion					
Long-term bonds (01)	RUB	7.6%	2014	-	(409 998)
Long-term bonds (02)	RUB	7.25%	2014	(125 833)	(125 780)
Long-term bonds (03)	RUB	8%	2014	(2 640)	(3 100)
Long-term bonds (04)	RUB	8%	2014	(55 240)	(56 380)
Sberbank RF	RUB	7.8-8.95%	2015	(2 043 764)	(2 680 802)
AKB ROSBANK	RUB	9.5%	2014	(583 273)	(2 388 942)
VTB	RUB	8.65-8.85%	2014	(2 155)	(710 462)
Alfabank	RUB	7.4%	2014	-	(700 852)
Bank Saint-Petersburg	RUB	7.65%	2014	-	(700 000)
NORDIC Investment Bank	EUR	ЕВРИБОР + 3%	2014	(220 029)	(321 974)
Nordic Environment Finance Corporation	EUR	ЕВРИБОР+ 2%	2015	(23 075)	(22 720)
Gazprom Energoholding	RUB	8.5%	2014	(2 013 973)	(14 438)
Alfabank	EUR	ЕВРИБОР+ 3.5%	2014	(12 507)	(12 274)
VBRR	RUB	8.15%	2014	(186 333)	(1 281)
Total long-term bank borrowings and bonds issued				**22 624 939**	**21 070 249**

(in thousands of Russian Roubles)

Note 15. Long-term Borrowings (continued)

Compliance with covenants (continued)

Under long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants.

The most significant and most important of these being:

- to maintain particular ratios, i.e. the EBITDA to Finance Charges, the total debt to equity and the Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment.

Note 16. Other Non-Current Liabilities

	30 June 2014	31 December 2013
Long-term trade accounts payable	177 890	139 958
Accrued liabilities and other payables	199 633	-
Total other non-current liabilities	**377 523**	**139 958**

Note 17. Short-Term Borrowings

	30 June 2014	31 December 2013
Bank borrowings and bonds issued	6 583 406	11 678 565
Total short-term borrowings	**6 583 406**	**11 678 565**

Name of lender	Currency	Contractual interest rate	30 June 2014	31 December 2013
MDM Bank	RUB	7.25%	-	1 210 964
Bank Rossiya	RUB	7.5%	-	1 000 000
Gazprombank	RUB	10-12%	853 584	500 973
VTB	RUB	11.57%	280 400	339 687
Vozrozhdenie	RUB	11.9%	135 600	100 000
Alfabank	RUB	6%	-	377 938
Sobinbank	RUB	10%	45 000	-
Current portion of long-term borrowings:				
Long-term bonds (01)	RUB	7.6%	-	409 998
Long-term bonds (02)	RUB	7.25%	125 833	125 780
Long-term bonds (03)	RUB	8%	2 640	3 100
Long-term bonds (04)	RUB	8%	55 240	56 380
Sberbank RF	RUB	7.8-8.95%	2 043 764	2 680 802
AKB ROSBANK	RUB	9.5%	583 273	2 388 942
VTB	RUB	8.65-8.85%	2 155	710 462
Alfabank	RUB	7.4%	-	700 852
Bank Saint-Petersburg	RUB	7.65%	-	700 000
NORDIC Investment Bank	EUR	ЕВРИБОР+3%	220 029	321 974
Nordic Environment Finance Corporation	EUR	ЕВРИБОР +2%	23 075	22 720
Gazprom Energoholding	RUB	8.5%	2 013 973	14 438
Alfabank	EUR	ЕВРИБОР+ 3.5%	12 507	12 274
VBRR	RUB	8.15%	186 333	1 281
Total bank borrowings and bonds issued			**6 583 406**	**11 678 565**

(in thousands of Russian Roubles)

Note 18. Trade and other payables

	30 June 2014	31 December 2013
Trade accounts payable	2 021 912	2 926 698
Accounts payable for capital construction	1 493 940	2 543 069
Accrued liabilities and other payables	1 179 585	434 660
Total financial payables	**4 695 437**	**5 904 427**
Advances from customers	1 410 698	1 115 278
Current employee benefits	579 826	537 108
Total trade and other payables	**6 685 961**	**7 556 813**

Note 19. Other Taxes Payable

	30 June 2014	31 December 2013
VAT payable	765 314	900 900
Property tax	156 295	98 543
Employee taxes	148 261	112 214
Personal Income Tax	50 130	50 486
Water usage tax	11 905	9 717
Other taxes	6 477	7 435
Total taxes payable	**1 138 382**	**1 179 295**

As at 30 June 2014 and as at 31 December 2013 the Group had no past due tax liabilities.

Note 20. Other Sales

	Six months ended 30 June 2014	Six months ended 30 June 2013
Connection of customers to heating network	76 437	61 779
Revenue from transit of rail cars	39 114	31 113
Handling of heating oil	20 533	17 007
Maintenance of electrical facilities	20 219	21 422
Installation of heating meters	-	17 986
Other	95 732	70 291
Total other sales	**252 035**	**219 598**

Note 21. Government Grants

In accordance to Murmansk region law № 919-01-3MO «About budget process in Murmansk region» Group received a grant in six months 2014 for the compensation of income in relation to providing heating services (sales to consummers of heat) per tariffs that don’t cover expenses from Murmansk Region budget for a total amount of RUB 313 674 thousand (in six months 2013 – RUB 432 720 thousand).

(in thousands of Russian Roubles)

Note 22. Operating Expenses

	Six months ended 30 June 2014	Six months ended 30 June 2013
Fuel	15 698 327	16 117 128
Employee benefits	3 614 843	3 527 142
Depreciation of property, plant and equipment	3 260 689	3 258 794
Electricity, capacity and heat purchases	2 803 370	2 776 956
Water usage expenses	1 171 867	1 127 147
Repairs and maintenance	975 806	887 018
Heat distribution	675 497	323 653
Taxes other than income tax	484 520	608 411
Fees of electricity market operators	420 405	399 725
Other materials	297 238	292 575
Security expenses	237 660	205 297
IT services	164 104	162 680
Operating lease expenses	153 398	174 984
Acceptance of payments	144 352	147 223
Insurance cost	136 034	127 328
Telecommunication expenses	121 236	124 011
Loss/(Gain) on disposal of property, plant and equipment	114 956	5 708
Amortisation of intangible assets	77 106	59 227
Consulting, legal and audit expenses	43 252	22 031
Reversal of provision for inventory obsolescence	(122)	-
Provision/(release) for impairment of accounts receivable	(12 104)	(205 968)
Amortisation of investment property	2 514	3 561
Other operating expenses	692 960	525 577
Total operating expenses	**31 277 908**	**30 670 208**

Note 23. Other Operating Income

	Six months ended 30 June 2014	Six months ended 30 June 2013
Fines and penalties	73 387	79 345
Operating lease income	79 425	68 635
Insurance	30 623	689
Other operating income	65 194	37 439
Total other operating income	**248 629**	**186 108**

Note 24. Finance Income and Finance Costs

	Six months ended 30 June 2014	Six months ended 30 June 2013
Interest income	(24 365)	(36 410)
Effect of discounting of financial instruments	(32 121)	(16 831)
Finance income	**(56 486)**	**(53 241)**
Interest expense	965 140	1 218 920
Effect of discounting of financial instruments	59 335	13 005
Exchange differences (net)	45 666	141 708
Finance costs	**1 070 141**	**1 373 633**

Note 25. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received short-term loans of RUB 517 100 thousand.

In July 2014 the Group repaid document credit with OJSC «Alfabank" for the total amount of EUR 272 930.

Also in July 2014, the Group transferred funds for a total amount of RUB 125 780 thousand for the repayment of bonds of series 02.

Note 25. Events after the Reporting Period (continued)

During the period between reporting date and signing date, the Group repaid borrowings of RUB 299 300 thousand.

Also during the period between reporting date and signing date, the Group has paid dividends for a total amount of RUB 643 629 thousand.

Government Grants

In July-August 2014 JSC Murmanskaya TPP received a grant for the compensation of income in relation to providing heating services per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 107 301 thousand.