JSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF NORTHERN CAUCASUS
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
AND AUDITORS' REPORT

Contents

Notes to the Consolidated Financial Statements

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Auditors' Report

To the Shareholders and Board of Directors

JSC Interregional Distribution Grid Company of Northern Caucasus

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: : JSC Interregional Distribution Grid Company of Northern Caucasus

Registered in the Unified State Register of Legal Entities on 4 August 2006 by Inspectorate of the Federal tax service in Pyatigorsk, Registration No. 1062632029778, Certificate series 26 No. 002707986.

18 Podstancionnaya street, Energetik village, Pyatigorsk, Stavropol region, Russia, 357506.

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.

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

Opinion

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

Krasnikhina T.E.

Director, (power of attorney dated 1 October 2013 No. 74/13)

ZAO KPMG

1 April 2014

Moscow, Russian Federation

(thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	7	19,184,368	17,580,658	13,725,032
Intangible assets	8	77,500	63,272	9,942
Accounts receivables and loans issued	12	456,062	126,584	139,407
Deferred tax assets	9	970,948	759,365	704,195
Other non-current assets	10	249,282	229,154	212,603
Total non-current assets		**20,938,160**	**18,759,033**	**14,791,179**
Current assets				
Inventories	11	749,091	702,438	772,226
Income tax receivable		197	665	233,863
Trade and other receivables	12	3,290,484	2,673,972	2,299,193
Prepayments for current assets	13	51,784	65,995	114,573
Cash and cash equivalents	14	1,975,262	1,201,108	368,921
Non-current assets held for sale	15	14,009	6,919	12,095
Total current assets		**6,080,827**	**4,651,097**	**3,800,871**
TOTAL ASSETS		**27,018,987**	**23,410,130**	**18,592,050**
EQUITY AND LIABILITIES				
Equity				
Share capital	16	154,562	56,092	29,532
Additional paid-in capital		5,052,502	2,596,665	165,323
Reserves		(122,725)	(80,883)	(41,836)
Retained earnings		3,689,148	5,905,919	6,150,900
Total equity		**8,773,487**	**8,477,793**	**6,303,919**
Non-current liabilities				
Loans and borrowings	17	4,533,217	2,466,752	854,347
Trade and other payables	19	306,368	268,038	234,418
Employee benefits	18	581,614	471,958	382,330
Total non-current liabilities		**5,421,199**	**3,206,748**	**1,471,095**
Current liabilities				
Loans and borrowings	17	2,041,089	2,928,503	2,663,534
Trade and other payables	19	9,905,442	8,273,555	7,769,238
Provisions	21	428,656	114,760	25,752
Other taxes payable	20	331,843	371,675	356,760
Current tax liabilities		117,271	37,096	1,752
Total current liabilities		**12,824,301**	**11,725,589**	**10,817,036**
Total liabilities		**18,245,500**	**14,932,337**	**12,288,131**
TOTAL EQUITY AND LIABILITIES		**27,018,987**	**23,410,130**	**18,592,050**

These consolidated financial statements were approved by management on 1 April 2014 year and were signed on its behalf by:

First Deputy General Director - Chief Engineer B. K. Misirov

Chief accountant N. V. Larionova

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 10 to 51.

(thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Revenue	22	13,711,657	14,554,113
Operating expenses	23	(15,625,121)	(14,339,111)
Other operating income, net	24	53,756	7,290
Operating (loss)/profit		**(1,859,708)**	**222,292**
Finance income	26	117,918	103,102
Finance costs	26	(78,262)	(116,406)
(Loss)/profit before income tax		**(1,820,052)**	**208,988**
Income tax expense	27	(236,373)	(453,969)
Loss for the year		**(2,056,425)**	**(244,981)**
Total comprehensive profit/(loss)			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit liability		(52,302)	(48,809)
Related income tax		10,460	9,762
Total items that will never be reclassified to profit or loss		*(41,842)*	*(39,047)*
Other comprehensive loss, net of income tax		**(41,842)**	**(39,047)**
Total comprehensive loss for the year		**(2,098,267)**	**(284,028)**
Loss per share - basic and diluted (in RUB)	16	**(18.41)**	**(5.10)**

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 10 to 51.

(thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
OPERATING ACTIVITIES:			
(Loss) / profit before income tax		**(1,820,052)**	**208,988**
Adjustments for:			
Depreciation and amortisation	7,8,23	1,374,767	1,266,146
Allowance for impairment of accounts receivable	23,28	1,437,538	1,746,261
Allowance for obsolescence of inventories	11	23,586	(4,098)
Impairment loss on property, plant and equipment	7,23	-	301,189
Provision for unused vacation		75,368	20,074
Provision for legal processes	21	383,607	90,514
Finance income	26	(117,918)	(103,102)
Finance costs	26	78,262	116,406
(Gain)/loss on disposal of property, plant and equipment	24	(12,084)	6,682
Other non-cash transactions		84	86
Operating profit before working capital changes		**1,423,158**	**3,649,146**
Change in accounts receivable		(2,231,691)	(2,090,108)
Change in prepayments for current assets		10,738	48,578
Change in inventories		(70,239)	73,886
Change in financial assets related to the employee benefit obligations		(19,271)	(16,405)
Change in accounts payable		2,583,760	900,385
Change in employee benefits		25,253	10,654
Change in other taxes payable		(39,832)	14,915
Cash flows from operations before income tax and interest paid		**1,681,876**	**2,591,051**
Interest paid		(295,025)	(147,141)
Income tax paid in cash		(359,878)	(230,837)
Net cash flows from operating activities		**1,026,973**	**2,213,073**
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(2,747,160)	(4,925,966)
Proceeds from disposal of property, plant and equipment		9,964	43,252
Proceeds from disposal of assets held for sale		2,017	24,033
Acquisition of intangible assets		(51,187)	(71,341)
Purchase of promissory notes		(742,383)	(671,788)
Loans issued		(332,329)	-
Interest received		51,522	21,002
Net cash flows used in investing activities		**(3,809,556)**	**(5,580,808)**
FINANCING ACTIVITIES:			
Issue of shares	16	2,554,307	2,457,902
Proceeds of loans and borrowings		2,066,465	3,021,632
Repayment of loans and borrowings		(906,722)	(1,274,360)
Dividends paid		(154,249)	-
Repayment of finance lease liabilities		(3,064)	(5,252)
Net cash flows from financing activities		**3,556,737**	**4,199,922**
Net increase in cash and cash equivalents		**774,154**	**832,187**
Cash and cash equivalents at the beginning of the year	14	**1,201,108**	**368,921**
Cash and cash equivalents at the end of the year	14	**1,975,262**	**1,201,108**

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 10 to 51.

(thousands of Russian Roubles, unless otherwise stated)

	Share capital	Additional paid in capital	Reserves	Retained earnings	Total equity
As at 1 January 2012 (previously reported)	**29,532**	**165,323**	-	**6,236,217**	**6,431,072**
Changes in accounting policy (Note 3(s))	-	-	*(41,836)*	*(85,317)*	*(127,153)*
As at 1 January 2012 (restated)	**29,532**	**165,323**	**(41,836)**	**6,150,900**	**6,303,919**
Loss for the year	-	-	-	(244,981)	(244,981)
Remeasurement of defined benefit liability	-	-	(48,809)	-	(48,809)
Related income tax	-	-	9,762	-	9,762
Total comprehensive loss for the year	**-**	**-**	**(39,047)**	**(244,981)**	**(284,028)**
Transactions with owners of the Company recognized in equity					
Issue of shares	26,560	2,431,342	-	-	2,457,902
Total transactions with owners of the Company recognized in equity	**26,560**	**2,431,342**	-	-	**2,457,902**
As at 31 December 2012	**56,092**	**2,596,665**	**(80,883)**	**5,905,919**	**8,477,793**

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 10 to 51.

(thousands of Russian Roubles, unless otherwise stated)

	Share capital	Additional paid in capital	Reserves	Retained earnings	Total equity
As at 1 January 2013 (previously reported)	**56,092**	**2,596,665**	-	**6,012,815**	**8,665,572**
Changes in accounting policy (Note 3(s))	-	-	*(80,883)*	*(106,896)*	*(187,779)*
As at 1 January 2013 (restated)	**56,092**	**2,596,665**	**(80,883)**	**5,905,919**	**8,477,793**
Loss for the year	-	-	-	(2,056,425)	(2,056,425)
Remeasurement of defined benefit liability	-	-	(52,302)	-	(52,302)
Related income tax	-	-	10,460	-	10,460
Total comprehensive loss for the year	-	-	**(41,842)**	**(2,056,425)**	**(2,098,267)**
Transactions with owners of the Company recognized in equity					
Issue of shares	98,470	2,455,837	-	-	2,554,307
Dividends	-	-	-	(160,346)	(160,346)
Total transactions with owners of the Company recognized in equity	98,470	2,455,837	-	(160,346)	2,393,961
As at 31 December 2013	**154,562**	**5,052,502**	**(122,725)**	**3,689,148**	**8,773,487**

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 10 to 51.

(thousands of Russian Roubles, unless otherwise stated)

Note 1. Background

(a) The Group and its operations

Joint-Stock Company Interregional Distribution Grid Company of Northern Caucasus (hereafter, the "Company" or "JSC IDGC of Northern Caucasus") and its subsidiaries (together referred to as the "Group") comprise Russian joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 14 June 2006 based on Resolution no. 223 of 14 June 2006 of the Russian Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES"). On 21 July 2006 the Board of Directors of the Company and its Articles were approved by the Board of Directors' decision of the Russian Joint-Stock Company RAO UES (Board of Directors' Meeting Minutes no. 186-r of 21 July 2006). Until 1 August 2007 the Company was named JSC Southern Grid Company.

On 1 April 2008 the reorganization of the Company was completed through the merger of the grid companies of JSC Stavropolenergo, JSC Dagenergo, and JSC Caucasian Energy Management Company.

The Company's registered office is 18, Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, Russian Federation, 357506.

The Group consists of the Company and its subsidiaries:

	Ownership, %	
Name	**31 December 2013**	**31 December 2012**
JSC Dagenergoset	100.0	100.0
JSC Energoservice	100.0	100.0

The Group's principal activity is the transmission of electricity and the connection of customers to the electricity grid.

As at 31 December 2012 the Russian Government owned 56.58% of the voting ordinary shares and 7.01% of the preference shares of JSC IDGC Holding (which later was renamed to JSC Russian Grids), which in turn owned 78.01% of the Company.

On 23 March 2013 at the 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 to Joint Stock Company Russian Grids (hereinafter, JSC Russian Grids).

As at 31 December 2013 the Russian Government owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of JSC Russian Grids, which in turn owned 92.00% of the Company.

(b) Relations with the state and regulation of the Group

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation influences the Group's activities through setting distribution and technological connection tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and the regional executive authorities of the Russian Federation in the field of state regulation on tariffs.

The Group's customer base includes a number of entities controlled by or related to the Government of the Russian Federation. The state also controls a number of the Group's suppliers, providing electricity transmission services through a federal network, such as JSC FGC UES which is the subsidiary of JSC Russian Grids, and hence a related party.

(c) Russian business environment

The Group's operations are primarily 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.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2010.

(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 thousand, except when otherwise indicated.

(d) Going concern

These consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2013 the Group had a net working capital deficit of RUB 6,743,474 thousand (as at 31 December 2012: RUB 7,074,492 thousand), and incurred a net loss of RUB 2,056,425 thousand for the year ended 31 December 2013 (for the year ended 31 December 2012: RUB 244,981 thousand), primarily attributable to carrying amounts of JSC Dagenergoset.

Of the accounts payable, as at 31 December 2013 RUB 5,606,143 thousand (as at 31 December 2012: RUB 4,410,225 thousand) is due to JSC Dagestan Power Sales Company (hereinafter, "JSC DPSC"), a subsidiary of JSC Russian Grids, and hence a related party. In January 2014 JSC DPSC filed a court claim against JSC Dagenergoset in the amount of RUB 6,321,847 thousand to collect accounts payable for the compensation of electricity losses. Management believes that failure to pay the related party debt will not result in bankruptcy procedures being taken out against the Company.

Management anticipates that any additional repayments required will be met out of operating and financing cash flows. Management believes that the Group has adequate resources to continue in operational existence for the foreseeable future and there is no significant uncertainty regarding the Group's ability to continue as going concern.

Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 31 December 2013 the Group had unused credit lines in the amount of RUB 666,784 thousand (as at 31 December 2012: RUB 2,439,758 thousand). Management considers that the Group has the ability to raise additional loans and borrowings.

In order to increase efficiency of working capital management the Group is focused on an increased collection of trade receivables, including doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables with regional sales companies and customers. The issues regarding collection of receivables are considered by the Management Board on a regular basis.

(e) 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 7 – Property, plant and equipment
- Note 9 – Deferred tax assets
- Note 11 – Inventories
- Note 12 –Trade and other receivables

- Note 18 – Employee benefits

(f) Change in presentation

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

Note 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.

(a) Basis of consolidation

(i) Business combinations including 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 Group's controlling shareholder's consolidated financial statements. 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 recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(ii) 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 accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) 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 Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments classified as financial assets available-for-sale 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, trade and other payables.

(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 trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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.

The Group has the following non-derivative financial assets: trade and other receivables, cash and cash equivalents.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 12.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Cash and cash equivalents as presented in Note 14.

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 above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(iii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

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.

(d) Share capital

Ordinary shares

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

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

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.

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

Any gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within "other operating income, net" 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 and investment property are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is 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. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an assets is completed and ready for use. Land is not depreciated.

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

Type of property, plant and equipment	Useful lives (years)
Production buildings	10–80
Transmission network	10–60
Equipment for electricity transformation	10–40
Other	5–20

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

(f) Intangible assets

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets 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:

Type of intangible assets	Useful lives (years)
Licenses and certificates	1-10
Software	1-15
Other	1-10

Amortisation methods, useful lives and residual values are reviewed at each financial year 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 finance 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. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term

(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) Impairment

(i) Non-derivative 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, 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.

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. 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 estimated recoverable amount.

The recoverable amount of an asset CGU 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 CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs 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 CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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.

(iii) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) 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 (independent) 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. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(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 any unrecognised past services are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The actuarial gain or loss related to the defined benefit obligation is recognised in the statement of other comprehensive income.

(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. Any actuarial gains or losses 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.

(k) 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.

(l) Revenue

(i) Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for distribution and sales 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.

(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 is recognized 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.

(m) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets and discounts on financial instruments. 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, discounts 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 cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax expense

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

Current tax 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

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 related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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.

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 deductable 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.

(o) Earnings per share

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

(p) Dividends

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

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's 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 financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the consolidated financial statements (Note 6).

(r) Related parties

As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of Russian Federation has control, joint control or significant influence both over them and the Group.

(thousands of Russian Roubles, unless otherwise stated)

(s) Changes in accounting policies

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IAS 19 (Revised 2011) *Employee Benefits*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements.*

According to IFRS 7 *Financial Instruments: Disclosure*, companies are required to identify and disclose not only financial assets and liabilities that have been offset in the statement of financial position but also those assets and liabilities that have been offset if future events, such as bankruptcy or the termination of the contracts, were to arise.

The nature and the impact of each new standard/amendment is described below.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group.

Amendment to IAS 1 *Presentation of items of other comprehensive income*

The Amendment requires an entity to present separately items of other comprehensive income that could be reclassified in the future to profit or loss from those items that will never be reclassified to profit or loss. In addition, according to the Amendment the title of statement of comprehensive income was changed to statement of profit or loss and other comprehensive income. However, use of other titles is permitted.

IAS 19 (2011) *Employee Benefits*

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;
- remeasurement 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 full amount as expense as at the earlier of the following dates: (a) the date of plan amendment or plan curtailment, and (b) the date when the related restructuring costs or termination benefits are recognised. Previously the entity recognised past service costs as an expense on the straight-line basis over the average period until the benefits become vested.

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

The application of the revised standard had the following impact on the financial position of the Group:

	1 January 2012 (as previously reported)	Effect of changes in accounting policies	1 January 2012 (restated)
Employee benefits	223,387	158,943	382,330
Total liabilities	**12,129,188**	**158,943**	**12,288,131**
Deferred tax assets	672,405	31,790	704,195
Total assets	**18,560,260**	**31,790**	**18,592,050**
Reserves	-	(41,836)	(41,836)
Retained earnings	6,236,217	(85,317)	6,150,900
Total equity	**6,431,072**	**(127,153)**	**6,303,919**

(thousands of Russian Roubles, unless otherwise stated)

	31 December 2012 (as previously reported)	Effect of changes in accounting policies	31 December 2012 (restated)
Employee benefits	237 235	234 723	471 958
Total liabilities	**14 697 614**	**234 723**	**14 932 337**
Deferred tax assets	712 421	46 944	759 365
Total assets	**23 363 186**	**46 944**	**23 410 130**
Reserves	-	(80 883)	(80 883)
Retained earnings	6 012 815	(106 896)	5 905 919
Total equity	**8 665 572**	**(187 779)**	**8 477 793**

The application of the revised standard had the following impact on the financial performance for the year ended 31 December 2012.

	For the year ended 31 December 2012 (as previously reported)	Effect of changes in accounting policies	For the year ended 31 December 2012 (restated)
Operating expenses	(14,389,630)	50,519	(14,339,111)
Other operating income, net	54,575	(47,285)	7,290
Finance costs	(86,199)	(30,207)	(116,406)
Profit before income tax	**235,961**	**(26,973)**	**208,988**
Income tax expense	(459,363)	5,394	(453,969)
Loss for the year	**(223,402)**	**(21,579)**	**(244,981)**
Other comprehensive loss			
Remeasurement of defined benefit liability	-	(48,809)	(48,809)
Related income tax	-	9,762	9,762
Other comprehensive loss for the year	-	**(39,047)**	**(39,047)**
Total comprehensive loss for the year	**(223,402)**	**(60,626)**	**(284,028)**
Weighted average loss per ordinary share – basic and diluted (in RUB)	**(4.65)**	**(0.45)**	**(5.10)**

IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*

IFRS 10 introduces a single control model that applies to all entities including special purpose entities. IFRS 10 supersedes a part of previously effective IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. The new standard changes the definition of control such that an investor controls an investee when:

- it has power over the investee;
- it is exposed, or has rights, to variable returns from its involvement with the investee, and
- it has the ability to affect those returns through its power over the investee (i.e. there is a link between power and returns).

This standard had no impact on the consolidation of the Group's investees.

IFRS 13 *Fair Value Measurement* supersedes the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. Comparative disclosure information is not required for periods before the date of initial application.

The application of IFRS 13 has not had a significant impact on the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures of fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures.* The Group has presented those disclosures in Note 28.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Note 4. 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. The Group has not yet analysed the likely impact of the new Standards on its financial position and performance. The Group plans to adopt the following 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.
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.
- 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.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets.* The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.
- IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes,* fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date,

even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted.

- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.

- 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 January 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.

Note 5. Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 6. Operating segments

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

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation and segments relating to other activities.

The Management Board regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

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

- Transmission Segments: Dagestan, North Ossetia-Alania, Stavropol region, Kabardino-Balkaria and Karachaevo-Cherkessia Republics, Republic Ingushetia (since May 2013), the main activity of which is the provision of electricity transmission services within the Russian Federation;
- Other includes operation of JSC "Energoservice" which doesn't meet any of the quantitative thresholds for determining reportable segments.

Before May 2013 the Ingush branch was included in Other segment as it didn't perform economic activity ant its transmissions assets were leased to related party. In May 2013 the Ingush branch started to provide the transmission of electricity and the connection of customers to the electricity grids services and was included in Electricity transmission segment.

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. The reconciliation of items measured as reported to the Management Board with similar items in these Consolidated Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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

(thousands of Russian Roubles, unless otherwise stated)

(i) *Information about reportable segments*

For the year ended 31 December 2013

	Transmission							
	Stavropol region	**Dagestan Republic**	**North Ossetia-Alania**	**Kabardino-Balkarian Republic**	**Karachayevo-Cherkessian Republic**	**Ingushetia**	**Other**	**Total**
Revenue:								
Revenue from external counterparties	7,385,631	2,084,953	1,428,193	1,782,100	1,386,746	423,668	9,929	14,501,220
Total segment revenue	**7,385,631**	**2,084,953**	**1,428,193**	**1,782,100**	**1,386,746**	**423,668**	**9,929**	**14,501,220**
Including:								
Electricity transmission	*6,175,933*	*2,076,811*	*1,422,765*	*1,768,764*	*1,378,395*	*405,743*	-	13,228,411
Connection to the electricity network	*1,170,266*	*5,469*	*2,110*	*9,183*	*5,405*	*3,384*	-	1,195,817
Other revenue	*39,432*	*2,673*	*3,318*	*4,153*	*2,946*	*14,541*	*9,929*	76,992
Finance income	40,042	-	6,480	7,813	5,625	2,215	-	62,175
Finance costs	(59,318)	(17,111)	(30,049)	(34,279)	(44,319)	(3,738)	-	(188,814)
Depreciation	(686,509)	(500,148)	(157,231)	(181,169)	(207,049)	(37,422)	(786)	(1,770,314)
Profit / (loss) before income tax	**1,340,535**	**(2,830,028)**	**(261,262)**	**29,170**	**124,823**	**(120,244)**	**(8,654)**	**(1,725,660)**

(thousands of Russian Roubles, unless otherwise stated)

For the year ended 31 December 2012

	Transmission						
	Stavropol region	**Dagestan Republic**	**North Ossetia-Alania**	**Kabardino-Balkarian Republic**	**Karachayevo-Cherkessian Republic**	**Other**	**Total**
Revenue:							
Revenue from external counterparties	6,573,310	2,141,669	1,559,613	1,626,845	1,385,448	21,474	**13,308,359**
Inter-segment revenue	-	-	-	-	-	42,820	**42,820**
Total segment revenue	**6,573,310**	**2,141,669**	**1,559,613**	**1,626,845**	**1,385,448**	**64,294**	**13,351,179**
Including:							
Electricity transmission	*5,444,152*	*2,076,772*	*1,553,851*	*1,611,550*	*1,373,031*	-	***12,059,356***
Connection to the electricity network	*1,091,187*	*61,144*	*4,057*	*12,752*	*11,290*	-	***1,180,430***
Other revenue	*37,971*	*3,753*	*1,705*	*2,543*	*1,127*	*64,294*	***111,393***
Finance income	14,384	-	2,217	2,318	2,083	-	**21,002**
Finance costs	(27,205)	(24,508)	(15,968)	(16,735)	(34,988)	(2,107)	**(121,511)**
Depreciation	(531,023)	(512,613)	(206,811)	(223,251)	(242,444)	(66,329)	**(1,782,471)**
Profit / (loss) before income tax	**1,428,287**	**(2,227,942)**	**(394,489)**	**3,151**	**144,191**	**(42,324)**	**(1,089,126)**

(thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2013

	Transmission							
	Stavropol region	**Dagestan Republic**	**North Ossetia-Alania**	**Kabardino-Balkarian Republic**	**Karachayevo-Cherkessian Republic**	**Ingushetia**	**Other**	**Total**
Segment assets	**9,044,340**	**10,734,194**	**3,201,858**	**3,290,830**	**2,272,152**	**1,716,874**	**7,737**	**30,267,985**
Including property, plant and equipment	*7,593,564*	*8,317,966*	*2,267,011*	*2,549,842*	*2,114,072*	*1,232,109*	*2,556*	*24,077,120*
Segment liabilities	**1,280,285**	**8,959,652**	**498,613**	**512,406**	**404,271**	**298,119**	**3,675**	**11,957,021**
Capital expenditure	1,014,388	305,182	406,053	433,107	426,786	139,528	-	2,725,044

As at 31 December 2012

	Transmission							
	Stavropol region	**Dagestan Republic**	**North Ossetia-Alania**	**Kabardino-Balkarian Republic**	**Karachayevo-Cherkessian Republic**	**Ingushetia**	**Other**	**Total**
Segment assets	**9,145,677**	**10,856,148**	**2,577,193**	**2,644,805**	**2,030,466**	**1,282,414**	**20,605**	**28,557,308**
Including property, plant and equipment	*7,221,641*	*8,778,180*	*1,990,086*	*2,298,913*	*1,883,107*	*1,163,021*	*3,342*	***23,338,290***
Segment liabilities	**2,191,186**	**6,817,205**	**459,123**	**555,137**	**301,235**	**211,121**	**12,933**	**10,547,940**
Capital expenditure	1,408,194	1,727,393	268,699	377,058	314,385	414,718	1,455	**4,511,902**

(thousands of Russian Roubles, unless otherwise stated)

(ii) Reconciliation of reportable segment revenue, profit / (loss) before income tax 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
Segment revenues	**14,501,220**	**13,351,179**
Inter-segment revenue elimination	-	(42,820)
Reclassification from Other income	42,108	256,331
Revenue from connection services	(893,959)	953,426
Reversal of accrued revenue on disagreements	-	(39,022)
Unallocated revenues	62,288	75,019
Revenues per consolidated statement of profit or loss and other comprehensive income	**13,711,657**	**14,554,113**

The Group performs its activities mainly in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Segment loss before income tax	**(1,725,660)**	**(1,089,126)**
Adjustment on property, plant and equipment	613,920	283,267
Adjustment for inventories valuation	3,799	25,297
Accrued salaries and wages	(8,548)	1,422
Bad debt allowance adjustment	203,019	141,178
Other provisions adjustment	41,880	(16,127)
Retirement benefit obligations recognition	(37,145)	(24,226)
Reclassified expenses for the purposes of IFRS	(19,726)	(40,892)
Discounting of long-term receivables	17,916	19,749
Discounting of long-term payables	(38,329)	(33,620)
Reversal of accrued revenue and expenses on disagreements	62,107	(62,107)
Revenue from connection services	(893,959)	953,426
Discounting of long-term promissory notes	-	(21,569)
Other adjustments	991	3,470
Unallocated profit/(loss)	(40,317)	68,846
(Loss)/profit before income tax per consolidated statement of profit or loss and other comprehensive income	**(1,820,052)**	**208,988**

(thousands of Russian Roubles, unless otherwise stated)

Reconciliation of reportable segment total assets is presented below:

	31 December 2013	31 December 2012 (restated)
Total segment assets	**30,267,985**	**28,557,308**
Adjustment for net book value of property, plant and equipment	(7,035,901)	(7,647,946)
Adjustments for impairment of account receivables	779,603	576,584
Adjustments for discounting account receivables	(68,953)	(86,868)
Inventories written-off	(26,610)	(8,914)
Recognition of assets related to employee benefits	249,075	228,866
Adjustment for deferred tax calculation	(1,281,505)	(679,950)
Reversal of accrued revenue	-	(46,046)
Other adjustments	16,897	50,800
Unallocated assets*	4,118,396	2,466,296
Total assets per Consolidated Statement of Financial Position	**27,018,987**	**23,410,130**

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2013	31 December 2012 (restated)
Total segment liabilities	**11,957,021**	**10,547,940**
Adjustments for discounting account payables	(770,230)	(808,560)
Employee benefits	581,614	471,958
Adjustment for deferred tax calculation	(854,178)	(563,022)
Accrued salaries and wages	-	(8,548)
Accrued other liabilities	-	41,880
Adjustment for advances for connection services	-	(882,632)
Other adjustments	(63,085)	(4,654)
Unallocated liabilities*	7,394,358	6,137,975
Total liabilities per Consolidated Statement of Financial Position	**18,245,500**	**14,932,337**

*Mainly consist of loans, cash and certain property, plant and equipment.

(thousands of Russian Roubles, unless otherwise stated)

Note 7. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Cost						
Balance at 1 January 2012	1,804,574	5,785,550	4,183,365	4,070,363	1,741,980	**17,585,832**
Additions	210,528	120,941	257,851	4,545,445	363,854	**5,498,619**
Transfers	492,153	243,515	1,475,557	(2,499,292)	288,067	**-**
Disposals	(29,836)	(64,880)	(1,662)	(40)	(18,664)	**(115,082)**
Reclassifications	(911,645)	355,294	874,556	-	(318,205)	**-**
Transfer to non-current assets for sale	(120)	-	-	-	(7,177)	**(7,297)**
Balance at 31 December 2012	**1,565,654**	**6,440,420**	**6,789,667**	**6,116,476**	**2,049,855**	**22,962,072**
Balance at 1 January 2013	1,565,654	6,440,420	6,789,667	6,116,476	2,049,855	**22,962,072**
Additions	41,242	125,102	90,293	2,481,846	244,192	**2,982,675**
Transfers	109,467	618,394	1,055,812	(2,013,020)	229,347	**-**
Disposals	(342)	(1,330)	(4,840)	(708)	(38,701)	**(45,921)**
Reclassifications	(444,158)	464,553	(53,532)	-	33,137	**-**
Transfer to non-current assets for sale	(8,817)	-	-	-	(135)	**(8,952)**
Balance at 31 December 2013	**1,263,046**	**7,647,139**	**7,877,400**	**6,584,594**	**2,517,695**	**25,889,874**
Accumulated depreciation and impairment						
Balance at 1 January 2012	(510,476)	(1,908,604)	(845,355)	(99,765)	(496,600)	**(3,860,800)**
Depreciation for the year	(52,628)	(566,858)	(369,769)	-	(258,881)	**(1,248,136)**
Impairment loss	(670)	(73,840)	(77,821)	(148,631)	(227)	**(301,189)**
Disposals	2,571	11,376	391	-	13,901	**28,239**
Reclassifications	331,558	(94,651)	(284,661)	-	47,754	**-**
Transfer to non-current assets for sale	41	-	-	-	431	**472**
Balance at 31 December 2012	**(229,604)**	**(2,632,577)**	**(1,577,215)**	**(248,396)**	**(693,622)**	**(5,381,414)**
Balance at 1 January 2013	(229,604)	(2,632,577)	(1,577,215)	(248,396)	(693,622)	**(5,381,414)**
Depreciation for the year	(72,716)	(455,572)	(440,024)	-	(377,546)	**(1,345,858)**
Impairment loss	(956)	(7,567)	(8,487)	2,692	-	**(14,318)**
Disposals	281	1,167	2,260	13	31,227	**34,948**
Reclassifications	5,615	(4,253)	5,183	-	(6,545)	**-**
Transfer to non-current assets for sale	1,001	-	-	-	135	**1,136**
Balance at 31 December 2013	**(296,379)**	**(3,098,802)**	**(2,018,283)**	**(245,691)**	**(1,046,351)**	**(6,705,506)**
Net book value						
At 1 January 2012	**1,294,098**	**3,876,946**	**3,338,010**	**3,970,598**	**1,245,380**	**13,725,032**
At 31 December 2012	**1,336,050**	**3,807,843**	**5,212,452**	**5,868,080**	**1,356,233**	**17,580,658**
At 31 December 2013	**966,667**	**4,548,337**	**5,859,117**	**6,338,903**	**1,471,344**	**19,184,368**

As at 31 December 2013 construction in progress includes advance payments for acquisition of property, plant and equipment of RUB 776,405 thousand (as at 31 December 2012: RUB 1,169,201 thousand).

As at 31 December 2013 advances for acquisition of property, plant and equipment with a carrying amount of RUB 22,875 thousand were impaired (as at 31 December 2012: RUB 8,558 thousand). The impairment loss was recognised in operating expenses.

As at 31 December 2013 construction in progress includes construction materials of RUB 29 thousand (as at 31 December 2012: RUB 17,101 thousand).

Borrowing costs totalling RUB 309,856 thousand with a capitalisation rate of 8.4% were included in the cost of property, plant and equipment and represent interest on loans (2012 - RUB 230,126 thousand with a capitalisation rate of 8.1%).

Determination of recoverable amount of property, plant and equipment

At the end of the reporting period the Group assesses whether there are any indications of impairment of property, plant and equipment. For those CGUs where such indications exist, the Group performs impairment testing in order to estimate the recoverable amount of the CGU.

As at 31 December 2013 the assessment of property, plant and equipment was performed in order to detect any indications of impairment. The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2013 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the use of property, plant and equipment in the business to its ultimate disposal to determine the recoverable amount of the assets.

As the result of impairment testing no impairment loss was recognized in 2013.

As a result of testing as at 31 December 2012 the Group recognized an impairment loss of RUB 342,914 thousand with respect to property, plant and equipment of Dagenergo branch.

The following key assumptions were used in determining the recoverable amounts of each of the CGU:

- cash flows were projected based on actual operating results for 2012 and the Company's business plan for 2013. Cash flows for the period 2014-2022 (for North Osetia-Alania) and for 2014-2024 (for Dagenergo) were forecast as follows:
    - distribution tariffs for the period from 2013 to 2017 were estimated using a tariff growth rate of 10% in accordance with the limitation of tariff growth set by the Federal Tariff Service as per Executive order of the Government of the Russian Federation #1178 as of 29 December 2011. An exception was made for Dagenergo which is forecast to have a higher tariff growth in 2014 as currently the tariffs in Dagestan are lower than the average tariff for the Russian Federation (which is supported by short-term Ministry of Economical Development forecast for 2013-2015). Post 2017 distribution tariffs were estimated based on the Regulatory Asset Base (RAB) methodology in accordance with the Federal Tariff Service Order N228-e dated 30.03.2012. As per RAB regulated gross revenue should cover all operating expenses (excluding depreciation), tax payments, payback of invested capital and regulatory return on the invested capital (up to 11%). This resulted in annual tariff growing of 2.6% for the remainder of the forecast period for Dagenergo and 2.2% for the remainder of the forecast period for North Osetia-Alania);
    - forecasted transmission volumes for North Osetia-Alania were determined based on the Company's one year business plan for 2013 and historical transmission volumes with the level of production fixed over the forecast period. Forecasted transmission volumes for Dagenergo were determined based on management's one year business plan for 2013 and Executive order #387 of the Ministry of Energy of the Russian Federation as of 13 August 2012 that implies certain growth (ranging from 2.9% to 5.6% p.a.) in volumes for Dagestan region in 2013-2017;
    - forecasted transmission volumes for the period after 2017 were assumed to be flat based on the 2018 level;
    - operating costs were assumed to increase in line with the consumer price index. For tariff setting purposes under the RAB regulation optimisation decrease of operating costs of 1% was assumed. For Dagenergo this decrease was also reflected in cash flows based on the analysis of historical and planned data;

(thousands of Russian Roubles, unless otherwise stated)

- the cash flow forecasts were discounted to their present value at a nominal pre-tax cost of capital of 16.80%;
- the terminal growth rate of the net cash flows was set at 3.2% for Severnaya Ossetia-Alania and 3.1% for Dagenergo and in the post-forecasted period.

An increase of one percentage point in the post-tax discount rate used would have caused the recognition of an impairment loss of RUB 740,462 thousand. A decrease of 0.75% in the post-tax discount rate used would have resulted in no impairment.

If distribution tariffs for 2014 would have been increased by 23.99% compared to the set distribution tariffs for 2013 the recoverable amount of the tested property, plant and equipment for Dagenergo would be equal to its book value.

If transmission volumes for 2013 would have been increased by 15.7%, the recoverable amount of the tested property, plant and equipment for Dagenergo would be equal to its book value.

Transfer to non-current assets held for sale

For the year ended 31 December 2013 some items of property, plant and equipment in the amount of RUB 7,816 thousand (2012 – RUB 6,825 thousand) were classified as "Non-current assets held for sale" (Note 15).

Note 8. Intangible assets

	Certificates and licences	Software	Other	Total
Cost				
Balance at 1 January 2012	27,589	12,561	-	**40,150**
Additions	32,376	14,818	24,146	**71,340**
Disposals	(26,432)	(5,948)	-	**(32,380)**
Balance at 31 December 2012	**33,533**	**21,431**	**24,146**	**79,110**
Balance at 1 January 2013	33,533	21,431	24,146	**79,110**
Additions	29,652	9,807	11,729	**51,188**
Disposals	(15,507)	(654)	(8,066)	**(24,227)**
Balance at 31 December 2013	**47,678**	**30,584**	**27,809**	**106,071**
Amortisation				
Balance at 1 January 2012	(27,025)	(3,183)	-	**(30,208)**
Amortisation charge	(13,738)	(4,032)	(240)	**(18,010)**
Disposals	26,432	5,948	-	**32,380**
Balance at 31 December 2012	**(14,331)**	**(1,267)**	**(240)**	**(15,838)**
Balance at 1 January 2013	(14,331)	(1,267)	(240)	**(15,838)**
Amortisation charge	(20,961)	(7,937)	(11)	**(28,909)**
Disposals	15,507	654	15	**16,176**
Balance at 31 December 2013	**(19,785)**	**(8,550)**	**(236)**	**(28,571)**
Net book value				
At 31 January 2012	**564**	**9,378**	**-**	**9,942**
At 31 December 2012	**19,202**	**20,164**	**23,906**	**63,272**
At 31 December 2013	**27,893**	**22,034**	**27,573**	**77,500**

Other intangible assets include contracts for development of new equipment.

(thousands of Russian Roubles, unless otherwise stated)

Note 9. Deferred tax assets

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets			Liabilities			Net		
	31 December 2013	31 December 2012	1 January 2012	31 December 2013	31 December 2012	1 January 2012	31 December 2013	31 December 2012	1 January 2012
Property, plant and equipment	172,615	554,948	627,352	(457)	(193)	(77)	**172,158**	**554,755**	**627,275**
Other non-current assets	5,052	2,884	24,786	-	-	-	**5,052**	**2,884**	**24,786**
Investments	-	-	-	(41)	(8)	-	**(41)**	**(8)**	-
Inventories	2,801	1,237	5,704	-	(68)	(109)	**2,801**	**1,169**	**5,595**
Trade and other receivables	1,032,757	521,450	184,619	-	-	-	**1,032,757**	**521,450**	**184,619**
Loans and borrowings	-	-	-		-	(22,724)	-	-	**(22,724)**
Provisions	85,731	8,376	-	-	-	-	**85,731**	**8,376**	-
Employee benefit obligations	66,508	48,618	34,012	-	-	-	**66,508**	**48,618**	**34,012**
Trade and other payables	7,188	8,692	5,399	(110,434)	(282,996)	(125,855)	**(103,246)**	**(274,304)**	**(120,456)**
Tax loss carry-forwards	1,022,786	704,381	415,057	-	-	-	**1,022,786**	**704,381**	**415,057**
Deferred tax assets / (liabilities)	**2,395,438**	**1,850,586**	**1,296,929**	**(110,932)**	**(283,265)**	**(148,765)**	**2,284,506**	**1,567,321**	**1,148,164**
Set-off	*(110,932)*	*(283,265)*	*(148,706)*	*110,932*	*283,265*	*148,706*	-	-	-
Unrecognized deferred tax assets	*(1,313,558)*	*(807,956)*	*(444,028)*	-	-	*59*	*(1,313,558)*	*(807,956)*	*(443,969)*
Net deferred tax assets / (liabilities)	**970,948**	**759,365**	**704,195**	-	-	-	**970,948**	**759,365**	**704,195**

(thousands of Russian Roubles, unless otherwise stated)

(b) Movement in temporary differences during the year

	1 January 2013	Recognised in profit or loss	Recognised in equity	31 December 2013
Property, plant and equipment	554,755	(382,597)	-	172,158
Other non-current assets	2,884	2,168	-	5,052
Investments	(8)	(33)	-	(41)
Inventories	1,169	1,632	-	2,801
Trade and other receivables	521,450	511,307	-	1,032,757
Provisions	8,376	77,355	-	85,731
Employee benefit obligations	48,618	7,430	10,460	66,508
Trade and other payables	(274,304)	171,058	-	(103,246)
Tax loss carry-forwards	704,381	318,405	-	1,022,786
Unrecognized deferred tax assets	(807,956)	(505,602)	-	(1,313,558)
Net deferred tax assets	**759,365**	**201,123**	**10,460**	**970,948**

	1 January 2012	Recognised in profit or loss	Recognised in equity	31 December 2012
Property, plant and equipment	627,275	(72,520)	-	554,755
Other non-current assets	24,786	(21,902)	-	2,884
Investments	-	(8)	-	(8)
Inventories	5,595	(4,426)	-	1,169
Trade and other receivables	184,619	336,831	-	521,450
Loans and borrowings	(22,724)	22,724	-	-
Provisions	-	8,376	-	8,376
Employee benefit obligations	34,012	4,844	9,762	48,618
Trade and other payables	(120,456)	(153,848)	-	(274,304)
Tax loss carry-forwards	415,057	289,324	-	704,381
Unrecognized deferred tax assets	(443,969)	(363,987)	-	(807,956)
Net deferred tax assets	**704,195**	**45,408**	**9,762**	**759,365**

Management believes that the Company will have pre-tax income in the future enough to utilize the deferred tax assets.

(c) Unrecognised deferred tax assets

As at 31 December 2013 unrecognised deferred tax assets include deferred tax in the amount RUB 1,022,786 thousand (as at 31 December 2012: RUB 704,381 thousand) on losses carried forward and deferred tax in the amount of RUB 290,772 thousand (as at 31 December 2012: RUB 103,575 thousand) on temporary differences arising in respective of a loss-making subsidiary. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available for this subsidiary against which the deferred tax assets can be utilized.

The deductible temporary differences do not expire under current tax legislation. Tax losses expire in 10 years from their origination in 2023-2024. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available in this subsidiary against which benefits could be utilised.

(thousands of Russian Roubles, unless otherwise stated)

Note 10. Other non-current assets

	31 December 2013	31 December 2012	1 January 2012
Financial assets related to the employee benefit obligations	249,075	228,866	212,273
Other	207	288	330
Total	**249,282**	**229,154**	**212,603**

Financial assets related to the employee benefit obligations relate to the Group 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. The Group's exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in Note 28.

Note 11. Inventories

	31 December 2013	31 December 2012	1 January 2012
Raw materials and consumables	779,771	708,925	782,357
Other inventories	1,820	2,427	2,881
Allowance for obsolescence of inventories	*(32,500)*	(8,914)	(13,012)
Total	**749,091**	**702,438**	**772,226**

Note 12. Trade and other receivables

	31 December 2013	31 December 2012	1 January 2012
Non-current accounts receivable and loans issued			
Trade receivables	111,470	125,460	137,942
Other receivables	1,610	1,124	1,465
Loans issued	342,982	-	-
Total	**456,062**	**126,584**	**139,407**
Current accounts receivable			
Trade receivables	6,986,695	4,799,291	2,644,462
Trade receivables impairment allowance	*(4,440,545)*	*(3,081,535)*	*(1,377,686)*
Other receivables	149,723	51,829	35,070
Other receivables impairment allowance	*(111,170)*	*(36,115)*	*(23,079)*
VAT recoverable	134,835	313,961	154,420
VAT on advances from customers	187,795	400,536	624,318
Prepaid taxes, other than income tax	383,151	226,005	241,688
Total	**3,290,484**	**2,673,972**	**2,299,193**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 28.

(thousands of Russian Roubles, unless otherwise stated)

Note 13. Prepayments for current assets

	31 December 2013	31 December 2012	1 January 2012
Advances given	61,257	71,995	138,885
Advances given impairment allowance	*(9,473)*	*(6,000)*	*(24,312)*
Total	**51,784**	**65,995**	**114,573**

Note 14. Cash and cash equivalents

	31 December 2013	31 December 2012	1 January 2012
Cash at bank and in hand	1,975,262	1,201,108	368,677
Cash equivalents	-	-	244
Total	**1,975,262**	**1,201,108**	**368,921**

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

Note 15. Non-current assets held for sale

For the year ended 31 December 2013 some items of property, plant and equipment in the amount of RUB 7,816 thousand are classified as "Non-current assets held for sale" (2012 - RUB 6,825 thousand). The movement in the non-current assets held for sale during the year was as follows:

	2013	2012
Balance at 1 January	6 919	12 095
Additions	7 816	6 825
Disposals	(726)	(12 001)
Balance at 31 December	**14 009**	**6 919**

Note 16. Equity

Share capital

	31 December 2013	31 December 2012	1 January 2012
Number of ordinary shares authorised, issued and fully paid	154,562,277	56,092,488	29,532,052
Par value (in RUB)	1.0	1.0	1.0
Total share capital (in RUB)	**154 562,277**	**56,092,488**	**29,532,052**

Issuance of additional shares

On 23 November 2011 an Extraordinary General Meeting of Shareholders of the Company approved an increase in charter capital through issuance of additional 44,632,214 ordinary shares with a par value of 1.0 rouble each under an open subscription. The approved offering price was RUB 92.54. This share issuance was registered by the Federal Service for Financial Markets on 28 February 2012. On 20 July 2012 the issuance was completed and 26,560,436 shares were subscribed. The increase in share capital was registered on 3 October 2012. The amount of RUB 26,560 thousand and RUB 2,431,342 thousand, respectively, were recognised as share capital and additional paid in capital within equity for the year ended 31 December 2012.

On 15 March 2013 an Extraordinary General Meeting of Shareholders of the Company approved an increase in charter capital through issuance of additional 125,722,698 ordinary shares with a par value of 1.0 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 June, July and September 2013 the issuance was completed and 98,469,789 shares were subscribed and fully paid. The amount of RUB 98,470 thousand and RUB 2,455,837 thousand, respectively, were recognised as share capital and additional paid in capital within equity for the year ended 31 December 2013.

(thousands of Russian Roubles, unless otherwise stated)

Dividends paid and declared

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

At the annual general meeting of shareholders of JSC IDGC of Northern Caucasus held on 19 June 2013 the decision was made to declare dividends of RUB 160,346 thousand (2.8596 RUB per ordinary share) for the year ended 31 December 2012.

During the year ended 31 December 2013 the Group paid dividends of RUB 154,249 thousand and income tax related to dividends of RUB 3,025 thousand (2012 – no dividends were declared and paid). As at 31 December 2013 dividends payable of the Group amounted to RUB 3,362 thousand (as at 31 December 2012: RUB 1,491 thousand). For the year ended 31 December 2013 dividends payable of RUB 1,201 thousand was written-off.

Loss per share

The calculation of loss per share is based upon the loss for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2013	**Year ended 31 December 2012**
Weighted average number of ordinary shares issued	111,675,275	48,037,787
Loss for the period	(2,056,425)	(244,981)
Weighted average loss per ordinary share – basic and diluted (in RUB)	**(18.41)**	**(5.10)**

(thousands of Russian Roubles, unless otherwise stated)

Note 17. Loans and borrowings

Non-current loans and borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2013	31 December 2012
Loans					
JSC Sberbank*	8.2 – 7.9	RUB	2018-2016	2,095,509	1,494,711
JSC Gazprombank*	10.1 – 9.5	RUB	2016	2,456,557	978,433
Finance lease liability				-	2,505
Total non-current debt				**4,552,066**	**2,475,649**
Less current portion of long-term debt and finance lease liability				(18,849)	(8,897)
Total				**4,533,217**	**2,466,752**

Current loans and borrowings

	Effective interest rate,%	Currency	31 December 2013	31 December 2012
Borrowings				
JSC Russian Grids**	-	RUB	30,000	30,000
Total borrowings			**30,000**	**30,000**
Promissory notes				
JSC Russian Grids**	-	RUB	1,541,035	1,541,035
JSC FGC UES**	9.0	RUB	325,937	316,581
JSC FGC UES**	-	RUB	125,268	125,268
Total promissory notes			**1,992,240**	**1,982,884**
Loans				
JSC Sberbank*	9.9	RUB	-	906,722
Total loans			**-**	**906,722**
Current portion of long-term debt			18,849	6,392
Current portion of finance lease liability			-	2,505
Total			**2,041,089**	**2,928,503**

*- Loans from government-related entities.

**- Borrowings and promissory notes from the parent company and its subsidiary.

All loans listed above are bank loans with fixed interest rate.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 31 December 2013 and 31 December 2012 all loans and borrowings were unsecured.

Financial lease liabilities are payable as follows:

	2013			2012		
	Minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	-	-	-	2,760	255	2,505

(thousands of Russian Roubles, unless otherwise stated)

Note 18. Employee benefits

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

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

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

	31 December 2013	31 December 2012	1 January 2012
Present value of defined benefit obligation	535,264	445,661	349,840
Present value of other long-term employee benefit obligation	46,350	26,297	32,490
Net defined benefit liability	**581,614**	**471,958**	**382,330**

Movements in net defined benefit liability are as follows:

	For the year ended 31 December 2013		For the year ended 31 December 2012	
	Post employment benefits	Other long-term employee benefits	Post employment benefits	Other long-term employee benefits
Benefit obligations as at 1 January	445,661	26,297	349,840	32,490
Current service cost	31,122	3,293	16,940	3,837
Past service cost and curtailments	4,286	991	43,036	(15,823)
Interest expenses	30,742	1,359	28,981	1,184
Remeasurement loss/(gain) arising from:				
- changes in demographic acturial assumptions	65,808	5,611	-	-
- changes in financial acturial assumptions	(36,706)	(3,085)	(64,818)	17,646
- experience adjustments	23,200	23,324	113,627	(6,459)
Contributions	(28,849)	(11,440)	(41,945)	(6,578)
	535,264	**46,350**	**445,661**	**26,297**

Expenses recognized in profit or loss for the period are as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2012
Service cost	39,692	47,990
Remeasurement of other long-term defined benefit liabilities	25,850	11,187
Interest expenses	32,101	30,165
Total expenses recognized in profit or loss	**97,643**	**89,342**

(thousands of Russian Roubles, unless otherwise stated)

Expenses recognized in other comprehensive income for the period are as follows:

	For the year ended 31 December 2013	31 December 2012
Loss on changes in demographic acturial assumptions	65,808	-
Gain on changes in financial acturial assumptions	(36,706)	(64,818)
Loss on experience adjustments	23,200	113,627
Total expenses recognized in other comprehensive income	**52,302**	**48,809**

Movements in liability remeasurement recognized in other comprehensive income for the period are as follows:

	2013	2012
As at 1 January	101,104	52,295
Movements in remeasurement	52,302	48,809
As at 31 December	**153,406**	**101,104**

Principal actuarial assumptions are as follows:

	31 December 2013	31 December 2012
Financial assumptions		
Discount rate	8.00%	7.10%
Potential increase in salary and wages	5.00%	5.00%
Inflation rate	5.00%	5.00%
Demographic assumptions		
Expected retirement age (years)		
Males	62	62
Females	59	59
Average employee turnover	2.50%	2.50%

The sensitivity of the defined benefit liability to changes in the weighted principal acturial assumptions is presented below:

	Changes in assumptions	Effects on liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 4.70%
Potential increase in salary and wages	Increase/decrease by 0.5%	Increase/decrease by 0.00%
Potential increase in pensions (inflation)	Increase/decrease by 0.5%	Increase/decrease by 4.83%
Employee turnover level	Increase/decrease by 10%	Decrease/increase by 1.69%
Mortality level	Increase/decrease by 10%	Decrease/increase by 1.56%

Note 19. Trade and other payables

	31 December 2013	31 December 2012	1 January 2012
Non-current accounts payable			
Trade payables	306,368	268,038	234,418
Total	**306,368**	**268,038**	**234,418**
Current accounts payable			
Trade payables	8,776,541	7,122,262	4,640,475
Other payables and accrued expenses	252,815	292,228	268,748
Payables to employees	521,144	452,930	335,297
Dividends payable	3,362	1,491	1,491
Advances from customers	351,580	404,644	2,523,227
Total	**9,905,442**	**8,273,555**	**7,769,238**

(thousands of Russian Roubles, unless otherwise stated)

During the period trade payables in the amount of RUB 778,939 thousand were settled by promissory notes issued by JSC Gazprombank (2012 - RUB 733,907 thousand).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28.

Note 20. Other taxes payable

	31 December 2013	31 December 2012	1 January 2012
Value added tax payable	149,506	118,464	144,286
Payments to social funds	105,852	97,985	74,987
Property tax	29,250	12,303	10,106
Other taxes	47,235	142,923	127,381
Total	**331,843**	**371,675**	**356,760**

Note 21. Provisions

	2013	2012
Balance as at 1 January	114,760	25,752
Provisions raised during the period	427,094	99,513
Provisions used during the period	(69,711)	(1,506)
Provisions reversed during the period	(43,487)	(8,999)
Balance as at 31 December	**428,656**	**114,760**

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

Note 22. Revenue

	Year ended 31 December 2013	Year ended 31 December 2012
Electricity transmission	13,228,411	12,020,334
Connection services	301,858	2,133,856
Rental income	42,108	256,331
Other revenue	139,280	143,592
Total	**13,711,657**	**14,554,113**

Other revenue is comprised of installation, repair and maintenance services, transportation services and other sales.

(thousands of Russian Roubles, unless otherwise stated)

Note 23. Operating expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Personnel costs (Note 25)	4,839,523	4,232,862
Purchased electricity for compensation of technological losses	3,363,263	2,986,485
Allowance for impairment of trade and other receivables	1,558,271	1,746,261
Depreciation and amortization	1,374,767	1,266,146
Electricity transmission	1,226,214	1,068,369
Raw materials and supplies	759,487	653,662
Repairs, maintenance and installation services	574,201	640,745
Rent	403,293	334,591
Other provisions	383,607	90,514
Security services	230,880	215,742
Electricity and heat power for own needs	193,463	197,469
Taxes other than income tax	139,963	60,672
Business trip expenses	74,880	37,569
Management services	69,702	98,512
Consulting, legal and audit services	47,121	42,604
Social expenditures and charity expenses	41,784	22,357
Telecommunication and information services	39,701	36,875
Transportation	25,660	26,003
Technological connection services	847	837
Loss on impairment of property, plant and equipment	-	351,471
Other expenses	278,494	229,365
Total	**15,625,121**	**14,339,111**

Note 24. Other operating income, net

	Year ended 31 December 2013	Year ended 31 December 2012
Gain/ (loss) on disposal of property, plant and equipment	12,084	(6,682)
Fines and penalties	33,033	3,394
Insurance payments	3,126	1,984
Non-contractual electricity consumption	365	439
Other income	5,148	8,155
Total	**53,756**	**7,290**

(thousands of Russian Roubles, unless otherwise stated)

Note 25. Personnel costs

	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	3,569,834	3,153,675
Payment to social funds	1,079,341	911,915
Expenses in respect of defined benefit plan (Note 18)	35,408	59,976
Expenses in respect of other long-term employee benefits (Note 18)	4,284	(11,986)
Remeasurment of net defined liabilities on other long-term employee benefits, net of deferred taxes (Note 18)	25,850	11,187
Other personnel costs	124,806	108,095
Total	**4,839,523**	**4,232,862**

Note 26. Finance income and costs

	Year ended 31 December 2013	Year ended 31 December 2012
Finance income		
Interest income on current accounts and loans issued	62,175	21,002
Discounting of financial instruments	18,123	19,749
Gain on disposal of financial assets	36,681	62,119
Other finance income	939	232
Total	**117,918**	**103,102**
Finance costs		
Unwinding of discount of financial instruments	38,537	55,189
Interest expenses on financial liabilities measured at amortised cost	7,284	29,890
Interest expense on defined post-employment benefits (Note 18)	30,742	28,981
Interest expense on defined other long-term benefits (Note 18)	1,359	1,184
Financial leasing	257	1,120
Other finance costs	83	42
Total	**78,262**	**116,406**

Note 27. Income tax expense

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax expenses		
Current income tax charge	(703,082)	(525,669)
Over provided in prior years	265,586	26,292
	(437,496)	**(499,377)**
Deferred tax expenses		
Deferred income tax charge	201,123	45,408
	201,123	**45,408**
Total	**(236,373)**	**(453,969)**

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 the Group recalculated income tax for 2012-2011 related to the deductibility for tax purposes of certain amounts which were previously capitalized in the tax value of property, plant and equipment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities in February 2014, amounted to RUB 263,336 thousand.

(thousands of Russian Roubles, unless otherwise stated)

Reconciliation of effective tax rate:

	Year ended 31 December 2013	%	Year ended 31 December 2012	%
(Loss)/profit before income tax	**(1,820,052)**	**100**	**208,988**	**100**
Income tax at applicable tax rate	364,010	(20)	(41,798)	(20)
Tax effect of items which are not deductible or taxable for taxation purposes	(97,031)	5	(74,476)	(36)
Over provided in prior years	265,586	(15)	26,292	13
Change in tax base of property, plant and equipment	(263,336)	15	-	-
Unrecognized deferred tax assets	(505,602)	28	(363,987)	(174)
Total	**(236,373)**	**13**	**(453,969)**	**(217)**

Note 28. 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) Fair value hierarchy

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

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

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

(thousands of Russian Roubles, unless otherwise stated)

	31 December 2013	31 December 2012	1 January 2012
Level 1	249,182	229,054	212,492
Level 2	-	-	-
Level 3	-	-	-
Total	**249,182**	**229,054**	**212,492**

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

(c) 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 demographic indicators of the Group's customer base, including the default risk of the industry or country, where customers operate, have less influence on credit risk.

To manage the credit risk, the Group attempts, if 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.

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

Credit risk management

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

	Carrying amount		
	31 December 2013	**31 December 2012**	**1 January 2012**
Trade and other receivables *(net of allowance for impairment)*	3,040,765	1,860,054	1,418,174
Cash and cash equivalents	1,975,262	1,201,108	368,921
Financial assets related to the employee benefit obligations	249,075	228,866	212,273
Total	**5,265,102**	**3,290,028**	**1,999,368**

The Group's ten most significant debtors account for RUB 296,003 thousand of the trade receivables carrying amount at 31 December 2013 (as at 31 December 2012: RUB 174,665 thousand).

The maximum exposure to credit risk for trade receivables at the reporting date by type of customers was:

	31 December 2013	31 December 2012	1 January 2012
Electricity transmission	6,061,672	3,970,525	2,059,902
Connection services	83,745	82,181	5,429
Other sales	952,748	872,045	717,073
Less: Allowance for impairment of accounts receivable	*(4,440,545)*	*(3,081,535)*	*(1,377,686)*
Total	**2,657,620**	**1,843,216**	**1,404,718**

(thousands of Russian Roubles, unless otherwise stated)

Impairment losses

The aging of receivables at the reporting date was:

	31 December 2013		31 December 2012		1 January 2012	
	Gross	**Impairment**	**Gross**	**Impairment**	**Gross**	**Impairment**
Not past due	1,371,704	(11,246)	1,073,249	(134,411)	816,425	(13,015)
Past due less than 3 months	1,366,821	(32,915)	811,645	(240,334)	418,690	(17,350)
Past due more than 3 months and less than 6 months	716,378	(714,152)	400,169	(172,428)	191,367	(26,701)
Past due more than 6 months and less than 1 year	990,006	(988,885)	934,681	(889,766)	315,240	(294,004)
Past due more than 1 year	2,804,589	(2,804,517)	1,757,960	(1,680,711)	1,077,217	(1,049,695)
Total	**7,249,498**	**(4,551,715)**	**4,977,704**	**(3,117,650)**	**2,818,939**	**(1,400,765)**

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

	2013	**2012**
Balance as at 1 January	(3,117,650)	(1,400,765)
Increase during the period	(1,693,473)	(1,785,175)
Amounts written off against trade and other receivables	124,206	29,376
Decrease due to reversal	135,202	38,914
Balance as at 31 December	**(4,551,715)**	**(3,117,650)**

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

(d) Offsetting of financial assets and financial liabilities

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

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

	31 December 2013		31 December 2012	
	Trade and other		Trade and other	
	accounts receivable	**accounts payable**	**accounts receivable**	**accounts payable**
Gross amounts	605,301	489,926	42,302	42,302
Amounts offset in accordance with IAS 32 offsetting criteria	***438,620***	***438,620***	***42,302***	***42,302***
Net amounts presented in the statement of financial position;	166,681	51,306	-	-
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	51,306	51,306	-	-
Net amount	**115,375**	-	-	-

(thousands of Russian Roubles, unless otherwise stated)

(e) 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:

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
Loans and borrowings	4,582,066	5,649,430	447,763	398,914	4,110,515	48,832	643,406	-
Promissory notes	1,992,240	1,992,240	1,992,240	-	-	-	-	-
Trade and other payables	9,339,086	10,109,316	9,032,718	-	-	-	-	1,076,598
Total	**15,913,392**	**17,750,986**	**11,472,721**	**398,914**	**4,110,515**	**48,832**	**643,406**	**1,076,598**

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
Loans and borrowings	3,409,866	4,198,887	1,224,053	216,258	216,258	2,542,318	-	-
Promissory notes	1,982,884	1,992,168	1,992,168					
Financial leasing	2,505	2,760	2,760	-	-	-	-	-
Trade and other payables	7,684,019	8,492,579	7,415,981	-	-	-	-	1,076,598
Total	**13,079,274**	**14,686,394**	**10,634,962**	**216,258**	**216,258**	**2,542,318**	**-**	**1,076,598**

(f) Market risk

Market risk is the risk that changes of 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 levels, while optimising the return on investment.

(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 Group operates in the Russian Federation. The major part of the Group's purchases and sales is denominated in RUB. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(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 on determining the ratio of fixed to 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.

The majority of interest rates on long term and short term loans and borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

(thousands of Russian Roubles, unless otherwise stated)

Fair values sensitivity analysis for fixed rate instruments

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

(g) Fair values

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximately equal to their carrying value.

(h) 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.

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.

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.

Note 29. Operating leases

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

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 from 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market terms.

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.

Operating lease rentals are payable as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Less than one year	311,243	338,984
Between one and five years	392,155	350,251
More than five years	475,616	610,634
Total	**1,179,014**	**1,299,869**

During the year RUB 403,293 thousand was recognised in the statement of profit or loss and other comprehensive income in respect of operating leases (2012 - RUB 334,591 thousand).

Note 30. Capital 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 2,468,273 thousand (as at 31 December 2012: RUB 3,785,804 thousand).

Note 31. 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 in the Russian Federation show that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

(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 may 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) Disagreements with counterparties

In January 2014 JSC DPSC filed a court claim against JSC Dagenergoset in the amount of RUB 6,321,847 thousand to collect accounts payable for the compensation of electricity losses. The Group's management assessed the probability of negative outcome in relation to the amount of RUB 1,267,442 thousand as lower than medium and in respect of the remaining amount as medium.

Accounts payable in the amount of RUB 5,593,514 thousand related to this claim were reflected in the accounts of JSC Dagenergoset as at 31 December 2013. As JSC DPSC did not present supporting documents for the revised calculations the Group has no basis to reconsider these changes and the Group's Management believes that all the carrying amounts are recorded properly and presented fairly as at 31 December 2013 and 31 December 2012.

Note 32. Related parties transactions

(a) Control relationships

As at 31 December 2013 and 31 December 2012 JSC Russian Grids was the Parent company of the Company.

The party with ultimate control over the Company is the Russian Government, which holds the majority of the voting rights in JSC Russian Grids.

The majority of the Group's related party transactions are with the subsidiaries of JSC Russian Grids and other state controlled entities.

(thousands of Russian Roubles, unless otherwise stated)

(b) Transactions with the Parent and entities under common control of the Parent

Transactions with the Parent's subsidiaries were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue:		
Electricity transmission	4,121,999	3,655,897
Connection services	53,774	256,599
Rental income	6,850	6,276
Other revenue	67,765	77,675
Interest income on loans issued	4,606	-
Expenses:		
Transactions with the Parent		
Management services	76,525	98,512
Rent	137	650
Transactions with the entities under common control of the Parent		
Electricity transmission	618,753	-
Purchased electricity for compensation of technological losses	1,868,457	1,739,256
Electricity and heat power for own needs	62,625	59,768
Other expenses	10,509	2,683
Interest expenses	206	-

All outstanding balances with related parties are to be settled in cash within a year of the statement of financial position date. None of the balances are secured.

Balances on settlements with the Parent's subsidiaries were as follows:

	31 December 2013	31 December 2012
Trade and other receivables	1,176,214	620,078
Allowance for impairment of trade and other receivables	*(389,589)*	*(31,032)*
Loans issued	342,982	-
Promissory notes	2,022,240	1,571,035
Advances received	46,496	52,230
Trade and other payables	8,169,088	5,729,519
Discounting of trade accounts payable	*(770,230)*	*(808,560)*
Provisions	269,886	-

Related party revenue for electricity transmission and connection services is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Service on Tariffs and the regional services on tariffs. Bank loans are provided on the basis of market rates.

Revenues from state-controlled entities for the year ended 31 December 2013 constitute 17% (2012 – 21%), including 17% (2012 – 17%) of electricity transmission revenues.

On 14 June 2013 the Russian Government's share in JSC FGC UES of 79.64% was transferred from the Federal Agency for the Management of Federal Property to JSC Russian Grids which resulted in decrease of electricity transmission costs for state-controlled entities.

(thousands of Russian Roubles, unless otherwise stated)

Electricity transmission costs for state-controlled entities for the year ended 31 December 2013 constitute 12% (2012 – 25%) of total transmission costs.

(d) Transactions with management and close family members

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

Salary and bonuses which are paid to members of Board of Directors and Key Management Personnel for performing their job responsibilities consist of wages, non-cash benefits, bonuses calculated on the basis of the results for the period presented in the Company's obligatory financial statements prepared in accordance with Russian accounting principles and payments to social funds.

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	169,538	127,216

Note 33. Events after the reporting period

Appointment of Acting General Director

In accordance with the Board of Directors Meeting Minutes of no. 157 of 14 February 2014 Arhipov Sergey Alexandrovich was appointed as Acting General Director.

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Краснихина Т.Е.
Директор ЗАО «КПМГ»

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