Audit report on the consolidated financial statements

OJSC Lenenergo and its subsidiaries

for the year ended 31 December 2013

April 2014

Translation of the original Russian version

Translation of the original Russian version

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Independent auditor's report

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To the Shareholders and Board of Directors of OJSC Lenenergo

We have audited the accompanying consolidated financial statements of OJSC Lenenergo and its subsidiaries (hereinafter – Group), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of the audited entity 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.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit 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 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 of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 cash flows for 2013 in accordance with International Financial Reporting Standards.

A.Y. GREBENIUK
Partner
Ernst & Young LLC

7 April 2014

Details of the audited entity

Name: OJSC Lenenergo
Record made in the State Register of Legal Entities on 22 July 2002, registration certificate 78 No. 004009112
Address: 1, Constitution Square, 196247, St. Petersburg

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors an d audit organizations, main registration number 10201017420.

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OJSC Lenenergo

Consolidated statement of financial position

as at 31 December 2013

(in thousands of Russian Rubles)

	Note	31 December 2013	31 December 2012	1 January 2012
			restated (Note 2.2)	*restated (Note 2.2)*
Assets				
Non-current assets				
Intangible assets	3	765,277	799,687	714,589
Property, plant and equipment	4	100,549,051	86,414,872	82,518,717
Advances for construction of property, plant and equipment	5	330,483	508,158	854,343
Available-for-sale investments		100	100	26,700
Other non-current assets	6	455,316	434,067	843,179
Total non-current assets		**102,100,227**	**88,156,884**	**84,957,528**
Current assets				
Cash and cash equivalents	7	3,719,455	3,513,622	7,108,538
Short-term investments	8	6,364,263	2,266,000	–
Accounts receivable	9	5,189,652	2,077,119	991,044
Inventories	10	419,223	279,184	289,605
Income tax prepayments		3,711	–	100,458
Other current assets	11	3,048,067	3,099,798	3,503,848
Total current assets		**18,744,371**	**11,235,723**	**11,993,493**
Total assets		**120,844,598**	**99,392,607**	**96,951,021**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Ordinary shares	13	5,075,155	5,075,155	4,866,115
Preference shares	13	625,603	625,603	625,603
Share premium		8,303,849	8,303,849	5,548,880
Shares paid towards ongoing placement	13	3,000,000	–	–
Other reserves	13	20,096,491	20,167,762	22,347,822
Retained earnings		12,327,214	9,285,988	9,084,094
		49,428,312	**43,458,357**	**42,472,514**
Non-controlling interest		36,666	28,994	30,777
Total equity		**49,464,978**	**43,487,351**	**42,503,291**
Non-current liabilities				
Long-term borrowings, net of current portion	14	29,401,987	20,637,699	21,028,081
Deferred tax liabilities	23	2,477,749	2,356,515	3,050,734
Post-employment benefits liabilities	15	697,402	557,367	449,850
Other non-current liabilities	16	2,123,163	1,786,304	4,884,306
Total non-current liabilities		**34,700,301**	**25,337,885**	**29,412,971**
Current liabilities				
Current portion of long-term borrowings	14	3,981,776	7,153,301	6,549,305
Trade and other payables	17	15,322,000	8,287,500	6,752,989
Provisions	18	2,727,018	535,678	463,260
Income tax payable		515,605	433,615	8,889
Advances received from customers		14,132,920	14,157,277	11,260,316
Total current liabilities		**36,679,319**	**30,567,371**	**25,034,759**
Total liabilities		**71,379,620**	**55,905,256**	**54,447,730**
Total equity and liabilities		**120,844,598**	**99,392,607**	**96,951,021**

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

7 April 2014

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OJSC Lenenergo

Consolidated income statement

for the year ended 31 December 2013

(in thousands of Russian Rubles, except for share and per share amounts)

	Note	2013	2012 Restated (Note 2.2)
Revenues	19	37,323,292	33,134,547
Operating expenses	20	(31,007,625)	(30,652,922)
Operating profit		**6,315,667**	**2,481,625**
Finance income	21	667,441	302,468
Finance expenses	22	(2,681,842)	(2,175,395)
Profit before tax		**4,301,266**	**608,698**
Income tax expense	23	(1,020,456)	(370,785)
Net profit for the year		**3,280,810**	**237,913**
Attributed to:			
Equity holders		3,273,138	239,696
Non-controlling interest		7,672	(1,783)
Earnings per ordinary share – basic and diluted (Russian Rubles)	24	2.42	0.09
Earnings per preference share – basic and diluted (Russian Rubles	24	2.42	1.52

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

7 April 2014

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OJSC Lenenergo

Consolidated statement of comprehensive income

for the year ended 31 December 2013

(in thousands of Russian Rubles)

	Note	2013	2012 Restated (Note 2.2)
Net profit		**3,280,810**	**237,913**
Other comprehensive income (loss)			
Other comprehensive income not to be reclassified to profit or loss in future periods:			
Loss on revaluation of fixed asssets	4	–	(2,583,460)
Income tax effect		–	516,692
		–	**(2,066,768)**
Remeasurement gain (loss) on defined benefit plans		6,750	(34,406)
Income tax effect	2	(1,350)	6,881
		5,400	**(27,525)**
Other comprehensive income to be reclassified to profit or loss in future periods:			
Reclassification of unrealized loss reserve on financial assets held for sale into the income statement		–	22,717
Income tax effect		–	(4,544)
		–	**18,173**
Other comprehensive income/(loss) net of tax		**5,400**	**(2,076,120)**
Attributable to:			
Equity holders of the parent		5,400	(2,076,120)
Non-controlling interests		–	–
Total comprehensive income/(loss), net of tax		**3,286,210**	**(1,838,207)**
Attributable to:			
Equity holders of the parent		3,278,538	(1,836,424)
Non-controlling interest		7,672	(1,783)

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

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OJSC Lenenergo

Consolidated statement of changes in equity

for the year ended 31 December 2013

(in thousands of Russian Rubles)

	Attributable to equity holders of the parent								
	Ordinary shares	Preference shares	Share premium (Note 13)	Other reserves (Note 13)	Shares paid towards ongoing placement (Note 13)	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2012	**4,866,115**	**625,603**	**5,548,880**	**22,347,822**	**–**	**9,115,941**	**42,504,361**	**30,777**	**42,535,138**
Changes in accounting policies (Note 2.2)	–	–	–	–	–	(31,847)	(31,847)	–	(31,847)
1 January 2012 (restated)	**4,866,115**	**625,603**	**5,548,880**	**22,347,822**	**–**	**9,084,094**	**42,472,514**	**30,777**	**42,503,291**
Profit for the year (restated)	–	–	–	–	–	239,696	239,696	(1,783)	237,913
Other comprehensive loss, net of tax (restated)	–	–	–	(2,048,595)	–	(27,525)	(2,076,120)	–	(2,076,120)
Total comprehensive loss (restated)	**–**	**–**	**–**	**(2,048,595)**	**–**	**212,171**	**(1,836,424)**	**(1,783)**	**(1,838,207)**
Issue of ordinary shares	209,040	–	2,754,969	–	–	–	2,964,009	–	2,964,009
Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax	–	–	–	(131,465)	–	131,465	–	–	–
Dividends for 2011	–	–	–	–	–	(141,742)	(141,742)	–	(141,742)
31 December 2012	**5,075,155**	**625,603**	**8,303,849**	**20,167,762**	**–**	**9,285,988**	**43,458,357**	**28,994**	**43,487,351**
Profit for the year	–	–	–	–	–	3,273,138	3,273,138	7,672	3,280,810
Other comprehensive income, net of tax	–	–	–	–	–	5,400	5,400	–	5,400
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**3,278,538**	**3,278,538**	**7,672**	**3,286,210**
Shares paid towards ongoing placement (Note 13)	–	–	–	–	3,000,000	–	3,000,000	–	3,000,000
Release of asset revaluation reserve on disposed property, pland and equipment items, net of tax	–	–	–	(71,271)	–	71,271	–	–	–
Dividends for 2012	–	–	–	–	–	(308,583)	(308,583)	–	(308,583)
31 December 2013	**5,075,155**	**625,603**	**8,303,849**	**20,096,491**	**3,000,000**	**12,327,214**	**49,428,312**	**36,666**	**49,464,978**

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

7 April 2014

Translation of the original Russian version

OJSC Lenenergo

Consolidated statement of cash flows

for the year ended 31 December 2013

(in thousands of Russian Rubles)

	Note	2013	2012 Restated
Profit before tax		4,301,266	608,698
Adjustments to reconcile profit before tax and net cash flow from operating activities:			
Loss on disposal of property, plant and equipment and intangible assets		498,680	259,103
Finance income	21	(667,441)	(302,468)
Depreciation of property, plant and equipment	4, 20	3,919,750	4,216,055
Amortization of intangible assets	3, 20	122,814	87,344
Loss on revaluation of property, plant and equipment	20	–	3,600,893
Impairment/(reversal of impairment) of intangible asset	20	31,529	(129,110)
Loss on termination of lease contracts	14	–	17,860
Finance expenses	22	2,681,842	2,175,395
Net movement in the provision for impairment of receivables	12	256,783	213,796
Impairment loss on finance leases	20	–	61,364
Non-cash settlement of technological connection revenue	19	(613,229)	(747,423)
Net movements in provision for impairment of inventories	20	(3,344)	28,918
Net expense for defined benefit plan	15	189,369	109,725
Net movements in other provisions	18	2,825,112	601,539
Operating cash flows before changes in working capital		**13,543,131**	**10,801,689**
Increase/(decrease) in trade and other payables		4,515,766	(495,017)
(Decrease)/increase in short-term advances received		(24,357)	2,896,961
Increase/(decrease) in other non-current liabilities		326,398	(3,107,275)
Increase in accounts receivable		(3,765,060)	(1,286,205)
Increase in inventories		(136,695)	(18,497)
Decrease in other current assets		26,615	907,126
Cash generated from operations		**14,485,798**	**9,698,782**
Interest paid		(2,606,503)	(2,066,840)
Income tax paid		(822,293)	(120,791)
Pension benefits paid	15	(42,584)	(36,614)
Interest received		587,287	302,468
Net cash generated from operating activities		**11,601,705**	**7,777,005**

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Consolidated statement of changes in equity

for the year ended 31 December 2013

(in thousands of Russian Rubles)

	Note	2013	2012 Restated
Cash flow from investment activities			
Purchases of property, plant and equipment		(15,541,128)	(11,274,948)
Purchases of intangible assets		(58,098)	(76,332)
Proceeds from disposal of property, plant and equipment		2,161	2,039
Cash placed on short-term deposits		(4,018,109)	(2,266,000)
Net cash used in investment activities		**(19,615,174)**	**(13,615,241)**
Cash flow from financing activities			
Long-term borrowings received		18,163,095	11,237,586
Issue and transaction costs on bonds and loans		(8,278)	(55,240)
Proceeds from share issue	13	3,000,000	2,043,618
Repayment of long-term borrowings before maturity		(407,000)	(4,393,000)
Repayment of short-term borrowings, net		(12,181,204)	(6,000,000)
Dividends paid	13	(308,583)	(141,742)
Repayment of finance lease liabilities		(38,728)	(447,902)
Total cash provided by financing activities		**8,219,302**	**2,243,320**
Net increase/(decrease) in cash and cash equivalents		**205,833**	**(3,594,916)**
Cash and cash equivalents at the beginning of the year	7	3,513,622	7,108,538
Cash and cash equivalents at the end of the year	7	**3,719,455**	**3,513,622**

General Director A.V.Sorochinsky

Chief Accountant G.V.Kuznetsova

7 April 2014

1. Corporate information

Open joint stock company of Electricity and Electrification Lenenergo (hereinafter “the Company”) was established on 22 January 1993 as the successor of the rights and obligations of state-owned enterprise Electricity and Electrification Industrial Association Lenenergo to the extent specified in the privatization plan dated 22 December 1992. On 1 October 2005, as a result of corporate restructuring through the spin off of electricity generation, sale and transmission businesses, the Company retained the electricity grids related to the transmission. Currently the Company provides electricity transmission and network connection services to consumers.

As at 31 December 2013 and 2012 the Group comprised the Company and its subsidiaries: CJSC Lenenergospetsremont (100%), CJSC Kurortenergo (98.13%) and CJSC Tsarskoselskaya Energeticheskaya Compania (96.95%), OJSC Energoservisnaya Compania Lenenergo (100%) (hereinafter collectively referred to as “the Group”).

The Group currently operates in the city of St. Petersburg and Leningrad Region.

The registered office of the Company is at 1, Constitution Square, 196247, St. Petersburg.

At 31 December 2013 the total number of employees was 6,422 (31 December 2012: 6,182).

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorized for issue by the general director and chief accountant on 7 April 2014.

Relations with the state and current legislation

The Group is under control of OJSC Russian Grids (hereinafter “Russian Grids”), which as at 31 December 2013 owned 49.36% (31 December 2012: 49.36%) of the Group’s share capital, including 53.41% (31 December 2012: 53.41%) of voting ordinary shares, and which in turn is controlled by the Russian Federation. The Group provides services to a number of entities controlled by or closely related to the state. In addition, a number of the Group’s suppliers are state-controlled entities.

The government directly influences the Group’s operations through the regulation of wholesale electricity sales by the Federal Service on Tariffs (FST) and of retail electricity sales by Regional Electricity commissions for St. Petersburg and Leningrad Region. The Group sets electricity transmission tariffs for its customers based on regulated tariffs. The Russian Federation, St. Petersburg and Leningrad Region governments’ economic, social and other policies can have a material effect on the Group’s operations.

Financial position and liquidity

The Group generated a net profit for 2013 of 3,280,810 (2012: 237,913), including 3,273,138 attributed to equity holders of the parent (2012: 239,696). As at 31 December 2013 the Group’s current liabilities exceeded its current assets by 20,934,948 (31 December 2012: 19,331,648). In 2013 the Group generated cash flow from operating activities of 11,601,705 (2012: 7,777,005).

In 2013 the number of Group’s liquidity ratios were improved. The current ratio, being current assets divided by current liabilities, increased from 0.37 as at 31 December 2012 to 0.47 as at 31 December 2013; quick assets ratio, being current receivables and cash (including cash equivalents) divided by current liabilities, increased from 0.18 as at 31 December 2012 to 0.22 as at 31 December 2013.

1. Corporate information (continued)

Financial position and liquidity (continued)

The Group's management is taking the following measures to improve the Group's liquidity position:

1. Measures to reduce the liabilities accumulated under technological connection contracts.
2. The Group is taking cost-cutting measures to improve its financial and operating performance:
   - Operations are designed to meet the target set by the Program for effective operation for the reduction of operating costs in 2013-2017 compared to 2012 level, as instructed by the Strategy for electricity grid complex. Program is the key instrument for effective operation.
   - The Program for energy savings and increased energy efficiency is developed and implemented on an annual basis.
   - Tender procedures are designed to meet the President's call to reduce acquisition cost of goods, work and services by at least 10% over the next three years in real terms in the 2010 prices.

Therefore the consolidated financial statements are prepared based on the assumption that the Group will continue as a going concern in the foreseeable future, and its assets will be recovered and liabilities met as they become due.

2. Basis of presentation of the financial statements

2.1 Basis of preparation

The consolidated financial statements comprise the financial statements of OJSC Lenenergo and its subsidiaries as at 31 December 2013. These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared on a historical cost basis except for those cases described below in accounting policy.

The consolidated financial statements are presented in Russian Rubles and all values are rounded to the nearest thousands, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of a change in accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies, as set out in Note 2.2.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with IFRS.

2. Basis of presentation of the financial statements (continued)

2.1 Basis of preparation (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the income statement from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If a change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate under the specific IFRSs, as would be required if the Group had directly disposed of the related assets or liabilities.

2. Basis of presentation of the financial statements (continued)

2.2 Changes in accounting policy and disclosures

New and amended standards and interpretations

The Group applied, for the first time, IAS 19 *Employee Benefits* (Revised 2011), that requires restatement of previous financial statements. In addition, the application of IFRS 13 *Fair Value Measurement* resulted in additional disclosures in the consolidated financial statements.

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

The nature and the impact of each new standards and amendments are described below:

IAS 19 Employee Benefits (revised 2011)

The Group applied IAS 19 (revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been accordingly restated.

IAS 19 (revised 2011) changes, amongst other things, the accounting for defined benefit plans. Some of the key changes that impacted the Group include the following:

- All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period. Previously, the Group had a balance of unrecognised service cost of 68,046 (54,437 net of tax) as at 1 January 2012. Upon transition to IAS 19 (revised 2011), this balance was charged to equity (retained earnings) as at 1 January 2012 along with the consequential tax impact. Amortisation of past service costs of 8,054 (6,443 net of tax) for the year ended 31 December 2012 was reversed.
- Actuarial gains and losses are recognised in other comprehensive income in the period in which they arise, and are not subsequently reclassified to profit or loss. The Group used to recognise net cumulative unrecognised actuarial gains and losses of the previous period if and only if they accounted for more than 10% of the greater of: defined benefit obligations or the fair value of the plan's assets. As a result, the Group's statement of financial position did not reflect a substantial portion of unrecognised actuarial gains and losses. After having transitioned to IAS 19R, the Group recognised the total of actuarial gains and losses within other comprehensive income in the period to which they pertained.

2. Basis of presentation of the financial statements (continued)

2.2 Changes in accounting policy and disclosures (continued)

The effect of retrospective application of IAS 19R on the previous years comparative information in the Group's consolidated financial statements is summarised in the table below:

	31 December 2012	31 December 2011
Post employment benefit obligations, as previously reported	**489,460**	**410,041**
Recognition of unrecognised past service costs	61,738	68,046
Recognition of unrecognised actuarial gains and losses	6,169	(28,237)
Post employment benefit obligations, as restated	**557,367**	**449,850**
Deferred tax liability, as previously reported	**2,370,096**	**3,058,696**
Tax effect of recognition of unrecognised past service costs	(12,347)	(13,609)
Tax effect of recognition of unrecognised actuarial gains and losses	(1,234)	5,647
Deferred tax liability, as restated	**2,356,515**	**3,050,734**
Retained earnings, as previously reported	**9,340,314**	**9,115,941**
Recognition of unrecognised past service costs, net of tax	(49,391)	(54,437)
Recognition of unrecognised actuarial gains and losses, net of tax	(4,935)	22,590
Retained earnings, as restated	**9,285,988**	**9,084,094**

Effect on profit or loss and other comprehensive income:

	2012
Payroll and payroll taxes, as previously reported	**4,160,787**
Amortization of past service cost	(8,054)
Recognition of past service costs arisen during the period	1,746
Payroll and payroll taxes, as restated	**4,154,479**
Income tax expense, as previously reported	**(369,523)**
Tax effect on recognition of past service costs	(1,262)
Income tax expense, as restated	**(370,785)**
Post employment benefit costs recognised in other comprehensive income:	
Actuarial gains and losses arisen during the period	34,406
Tax effect of recognition of unrecognised actuarial gains and losses	(6,881)

The transition did not have impact on the statement of cash flows. There is no significant impact on the Group's basic and diluted earnings per share.

IAS 19 (revised 2011) has been applied retrospectively, with the following permitted exception: sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

2. Basis of presentation of the financial statements (continued)

2.2 Changes in accounting policy and disclosures (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 28.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

The Group adopted IFRS 10 in the current year. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. The standard also introduces guidance on the issues raised in SIC-12 *Consolidation - Special Purpose Entities.* IFRS 10 changes the definition of control so that the investor is considered to have control over an investee when the investor is entitled to variable benefit from the investment or is exposed to the risk of change in the investment, and may affect the benefit as a result of its authority for the investee. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The adoption of this standard did not have any impact on the financial position of the Group as the Group holds no investments in associates of jointly controlled entities.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The adoption of IFRS 12 did not have any impact on the consolidated financial statements of the Group.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a certain point of time in the future (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendments affect presentation in the financial statements only and have no impact on the Group's financial position or performance.

2. Basis of presentation of the financial statements (continued)

2.2 Changes in accounting policy and disclosures (continued)

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2012 in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

Amendments to IFRS 7, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off financial instruments and related arrangements (for example, collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosure requirements apply to all recognized financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. Because the Group does not engage in netting of financial instruments under IAS 32 and does not have netting arrangements falling under the scope of the amendment, the adoption of the amendment had no impact on the consolidated financial statements of the Group.

2.3 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2. Basis of presentation of the financial statements (continued)

2.3 Standards issued but not yet effective (continued)

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. These amendments will impact the impairment disclosures for non-financial assets.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to impact the financial position or performance of the Group.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. IFRIC 21 is not expected to impact the financial position or performance of the Group.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilitis affected in future periods.

2. Basis of presentation of the financial statements (continued)

2.4 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment

The Group carries property, plant and equipment at revalued amounts with changes in fair value being recognised in profit and loss and other comprehensive income. The Group engaged independent appraisers to determine fair value of property, plant and equipment as at 31 December 2013. Valuation methodology based on a discounted cash flow model was used, as there is a lack of comparable market data because of the nature of the properties. The key assumptions used to determine the fair value of property, plant and equipment and sensitivity analysis are further explained in Note 4.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or services or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating uni being tested. The Group consists of four cash generating unis: Saint-Peterburg, Leningrad region, CJSC Kurortenergo and CJSC Tsarskoselskaya Energeticheskaya Compania. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows from electricity transmission tariff growth rate used for a cash generating units (Note 4).

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments. Further details are disclosed in Note 28.

2. Basis of presentation of the financial statements (continued)

2.4 Significant accounting judgments, estimates and assumptions (continued)

The Group estimates the amount of impairment provision for its receivables. Significant judgment is used to estimate accounts which are impaired. In estimating doubtful accounts historical and anticipated customer performance is considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the impairment provision for accounts receivable and advances given recorded in the consolidated financial statements. As at 31 December 2013 impairment provision for accounts receivable and advances given was created in the amount of 1,055,314 (as at 31 December 2012: 880,439). Further details are disclosed in Note 12.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues.

The contingent liability is recognised if the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as probable.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Defined benefit pension plans

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management of the Group uses a zero-coupon yield curve for government bonds for the term to maturity of 10 years. The mortality rate is based on publicly available mortality tables. More details of the assumptions used, including sensitivity analysis, are disclosed in Note 15. Net liability under the defined benefit pension plans as at 31 December 2013 totaled to 697,402 (31 December 2012: 577,367).

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures the fair value of property, plant and equipment at each reporting date to make sure the fair value of a remeasured asset does not materially differ from its carrying value. The fair value of financial instruments measured at amortised cost is disclosed in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for recurring fair value measurement of property, plant and equipment and unquoted financial assets held for sale.

External valuers are involved in valuation of property, plant and equipment. Involvement of external valuers is decided upon by the management of the Group annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

In 2010 and 2012 the Group acquired the right to connect end users to the electricity grid of three power substations in Saint-Petersburg and Leningrad Region for 304,922. In 2013 the Group recognized impairment of these assets of 31,529. In 2012 the Group recognized reversal of impairment with respect to one of the above power substations of 129,110 (Note 3).

The expected useful lives by asset groups, in years, are as follows:

Asset group	Useful life, years
Access right	30
Accounting software packages	2-3
Certificates	3

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at a revalued amount, which is their fair value as at the revaluation date less any subsequent accumulated depreciation and subsequent impairment losses. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

The transfer from the asset revaluation reserve to retained earnings is made when the asset is derecognised. This involves transferring the whole of the surplus when the asset is retired or disposed of. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Construction in progress reflects the net book value of property, plant and equipment items not yet put in operation, and as such, is not depreciated.

Expenditures related to the construction or acquisitions of social assets are not capitalized as the Group does not expect to receive any future economic benefits from them.

Property, plant and equipment depreciation is calculated on a straight-line basis over the estimated useful life of the asset from the date it is put in operation. For revalued property, plant and equipment, depreciation rates are based on their estimated remaining useful lives as at the valuation date. The estimated useful lives by asset groups, in years, are as follows:

Asset group	Useful life
Production premises	40-50
Power lines	30-40
Equipment, power equipment, sub-stations	25-40
Other	5-25

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance expense in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs to sell, recent market sales are used. If no such data is available, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets witfhin a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

As at 31 December 2013 the Group's financial assets include cash, short-term investments, trade and other receivables and available-for-sale investments.

Subsequent measurement

For the purposes of subsequent measurement financial assets are classified in four categories as follows:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments;
- Available-for-sale financial investments.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss

The Group did not have any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are the most relevant category of the Group's financial assets. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance expenses for loans and in other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 9.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance expenses.

This category mainly includes short-term investments.

Available-for-sale financial assets

Available-for-sale financial investments include equity instruments and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in other reserves until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from other reserves to the income statement in finance expense. Interest earned whilst holding available-for-sale financial investments is reported as finance income using the effective interest rate method.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the assets for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluated if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income (recorded as finance income in the profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance expenses in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in other comprehensive income – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified initially as financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and accounts payable, net of directly attributable transaction costs.

As at 31 December 2013 the Group's financial liabilities include trade and other payables (Note 17), loans and borrowings (Note 14).

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

As of 31 December 2013 and 2012 and for the years then ended the Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the most relevant category of the Group's financial liabilities. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortization is included in finance expenses in the income statement.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are valued at the lower of net realisable value and cost determined using FIFO method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. As at 31 December 2013 and 2012 the Group recognized an impairment loss of 145,337 and 148,681, respectively.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Pensions and other post-employment benefit plans

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pensions and other post-employment benefits are included in payroll expenses in the income statement.

The Group also contributes to defined benefit pension plans. The defined benefit plan involves post-employment payments based upon one or more factors, such as age, years with the Group and salary. The defined benefit liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled. Defined benefit obligation is determined using the projected unit credit actuarial valuation method.

In respect of post-employment benefits re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

For other long-term benefits that include funeral and jubilee benefits, re-measurements are recognised in the income statement.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Borrowing costs

The Group qualifies for the exemption from borrowing cost capitalization according to IAS 23 (4) since its qualified assets are measured at fair value. Borrowing costs are recognised as an expense when incurred.

Foreign currency translation

The Group's consolidated financial statements are presented in Rubles, which is the Group's functional currency, being the currency of the primary economic environment in which the Group operates. Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date the transaction first qulifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

The official exchange rates prevailing at 31 December 2013 were 32.7292 Rubles for 1 USD and 44.9699 Rubles for 1 Euro (31 December 2012: 30.3727 Rubles for 1 USD and 40.2286 Rubles for 1 Euro).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The following specific recognition criteria must also be met before revenue is recognised:

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Rendering of services

Network transmission of electricity

The Group charges all its customers (wholesale or retail sellers of electricity) for actual electricity network transmission traffic based on pre-set per kW tariffs regulated by the St. Petersburg Tariffs Committee and Leningrad Region Tariffs and Pricing Policy Committee. Technological losses of electricity in transmission though the Group's network include losses at the normal (expected) level (Note 19). Revenue from network transmission of electricity is presented net of technological losses at the normal (expected) level. Technological losses in excess of the normal expected level are included into operating expenses.

Technological connection to electricity grids

Technological connection fees are recognised as revenues immediately at the time when access to electrical power is provided (i.e. at the time of connection) as they do not result in the Group's obligation to provide further services to the customers that are consumers of electricity and are separate from network transmission services provided to the sellers of electricity.

Sales of other assets

Revenue from the sale of other assets (materials, property, plant and equipment) is recognised when the significant risks and rewards of ownership of these assets have passed to the buyer, usually on delivery of the goods.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included into finance income in the income statement (Note 21).

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve dividends.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the country where the Group operates and generates taxable income. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. Basis of presentation of the financial statements (continued)

2.5 Summary of significant accounting policies (continued)

Dividends

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

Earnings per share

Preference shares are treated as profit-participating equity instruments (Note 13, 24).

For the purpose of calculation of basic and diluted earnings per share (participating equity instrument) for each class calculated as follows:

- Profit or loss attributable to Company's ordinary equity holders is adjusted (profit reduced and loss increased) by the amount of dividends declared in the period for each class of shares;
- The remaining profit or loss is allocated to various classes of shares and profit-participating equity instruments in proportion to the respective share of that instrument in profit or loss, as if all profit or loss for the period had been distributed. Total profit or loss allocated to each class of equity instruments is calculated by adding up the amounts relating to the relevant class of dividends and the amounts allocated to that class to reflect the share in profit or loss;

Earnings per share for these instruments are calculated by dividing profit attributable to each class of equity instruments by the number of instruments of the respective class outstanding during the period.

3. Intangible assets

	Accounting software	Certificates	Access right	Total
Cost				
As at 1 January 2012	**190,408**	**33,017**	**928,922**	**1,152,347**
Additions for the period	43,332	–	–	43,332
Disposal for the period	(9,520)	(17,263)	–	(26,783)
As at 31 December 2012	**224,220**	**15,754**	**928,922**	**1,168,896**
Additions for the period	119,933	–	–	119,933
Disposal for the period	(12,905)	(4,012)	–	(16,917)
As at 31 December 2013	**331,248**	**11,742**	**928,922**	**1,271,912**
Accumulated amortization and impairment				
As at 1 January 2012	**(44,937)**	**(17,291)**	**(375,530)**	**(437,758)**
Charge for the period	(58,888)	(9,911)	(18,545)	(87,344)
Disposal for the period	9,520	17,263	–	26,783
Impairment	–	–	129,110	129,110
As at 31 December 2012	**(94,305)**	**(9,939)**	**(264,965)**	**(369,209)**
Charge for the period	(91,915)	(2,852)	(28,047)	(122,814)
Disposal for the period	12,905	4,012	–	16,917
Reverse of impairment	–	–	(31,529)	(31,529)
As at 31 December 2013	**(173,315)**	**(8,779)**	**(324,541)**	**(506,635)**
Net book value as at 31 December 2012	**129,915**	**5,815**	**663,957**	**799,687**
Net book value as at 31 December 2013	**157,933**	**2,963**	**604,381**	**765,277**

3. Intangible assets (continued)

Certificates are acquired for the purposes of conformity with the industry quality standards for electricity. The new certificates are valid until 2015. The Group believes that it will be able to renew the certificates upon expiration without incurring substantial costs.

As at 31 December 2013 the Group performed an impairment analysis of the intangible assets and recognized an impairment loss of 31,529 (2012: reversal of impairment of 129,110) in the income statement.

4. Property, plant and equipment

	Production premises	Power lines	Equipment, power equipment, substations	Other	Assets under construction	Total
Cost						
As at 1 January 2012	**24,336,508**	**52,252,300**	**32,027,180**	**6,050,102**	**14,628,640**	**129,294,730**
Additions	–	–	210,133	–	13,488,545	13,698,678
Contribution to share capital (Note 13)	164,998	29,925	585,206	140,262	–	920,391
Revaluation	(2,072,226)	(16,011,771)	(3,372,415)	73,495	1,271,719	(20,111,198)
Disposals	(5,412)	(234,058)	(43,082)	(71,353)	(140,116)	(494,021)
Transfers	5,511,060	2,317,260	5,535,885	928,710	(14,292,915)	–
As at 31 December 2012	**27,934,928**	**38,353,656**	**34,942,907**	**7,121,216**	**14,955,873**	**123,308,580**
As at 1 January 2013	**27,934,928**	**38,353,656**	**34,942,907**	**7,121,216**	**14,955,873**	**123,308,580**
Additions	–	–	–	1,602	18,553,168	18,554,770
Disposals	(10,662)	(21,004)	(31,564)	(66,804)	(428,810)	(558,844)
Transfers	1,263,613	10,713,501	5,680,644	1,884,865	(19,542,623)	–
As at 31 December 2013	**29,187,879**	**49,046,153**	**40,591,987**	**8,940,879**	**13,537,608**	**141,304,506**
Accumulated amortization and impairment						
As at 1 January 2012	**(3,661,605)**	**(31,235,776)**	**(7,722,408)**	**(2,264,085)**	**(1,892,139)**	**(46,776,013)**
Charge for the year	(810,138)	(1,687,085)	(1,252,569)	(466,263)	–	(4,216,055)
Revaluation	1,430,606	9,783,862	2,705,487	6,890	–	13,926,845
Impairment loss on initial recognition of finance leases (Note 14)	–	–	(61,364)	–	–	(61,364)
Disposals	1,993	180,752	21,509	28,625	–	232,879
As at 31 December 2012	**(3,039,144)**	**(22,958,247)**	**(6,309,345)**	**(2,694,833)**	**(1,892,139)**	**(36,893,708)**
As at 1 January 2013	**(3,039,144)**	**(22,958,247)**	**(6,309,345)**	**(2,694,833)**	**(1,892,139)**	**(36,893,708)**
Charge for the year	(882,385)	(1,232,616)	(1,230,430)	(574,319)	–	(3,919,750)
Disposals	3,089	12,990	16,639	25,285	–	58,003
As at 31 December 2013	**(3,918,440)**	**(24,177,873)**	**(7,523,136)**	**(3,243,867)**	**(1,892,139)**	**(40,755,455)**
Net book value as at 31 December 2012	**24,895,784**	**15,395,409**	**28,633,562**	**4,426,383**	**13,063,734**	**86,414,872**
Net book value as at 31 December 2013	**25,269,439**	**24,868,280**	**33,068,851**	**5,697,012**	**11,645,469**	**100,549,051**

4. Property, plant and equipment (continued)

Fair value measurement

Property, plant and equipment were measured at fair value as at 31 December 2013. The valuation was performed based on the reports of independent appraisers with a recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. Based on the results of the valuation, the Group concluded that the carrying amount does not materially differ from the fair value estimate as at the end of the reporting year.

The fair value was measured based on a combination of income approach and cost approach.

Cost approach

- Replacement cost

Property, plant and equipment owned by the Group are special purpose assets, therefore no data on deals were available. Thus, the cost approach was applied which models approach of the supplier/manufacturer (seller). Market approach gives preference to identical properties as a basis for comparison. If no identical analogs were available, the calculation is based on comparison to item with similar properties. Under the cost approach, the comparative unit method and quantity survey method were used in preference to other methods. Where no input data were available for the property being appraised to perform calculations under these methods, the historical cost index method was applied.

- Depreciated replacement cost

Physical depreciation was estimated using the following expert techniques: economic life technique and physical condition assessment technique. The expert assessment was based on the year of manufacture, assessment of condition in accordance with the expert rating scale and the estimated remaining useful life of the asset.

Income approach

To arrive at a fair value estimate of the property, plant and equipment under the income approach, the discounted cash flow method was used. Discounted cash flow method is a procedure whereby a discount rate is applied to estimated future cash flows over the forecast period and terminal value at the end of the forecast period. The length of the forecast period depends on when the operating performance reaches a stable level. Based on the analysis performed, 2051 was chosen as the last year of the forecast period.

The Group’s property, plant and equipment are used in electricity transmission, which is a regulated business. Revenue from transmission of electricity is determined as the transmission volume multiplied by the tariff calculated using the statutory methodology. Under the current tariffication system (return on invested capital method) the tariff includes return on invested capital, controlled and uncontrolled costs, and movements in working capital. Among other if return on invested capital were included in the calculation of the required gross revenue immediately, this would result in a sharp increase in transmission tariff. To make sure that increases in tariffs are introduced on a gradual basis, the revenue of a regulated entity is allocated to subsequent periods and returned to the entity over the future tariff regulation periods.

Apart from revenue, the Group’s cash flow projections take into account the estimated next year costs based on the current network transmission volumes reported by related grid companies, loss rates, approved tariffs for transmission fees, repair schedules, anticipated wage rates etc., which are then indexed as appropriate.

4. Property, plant and equipment (continued)

Fair value measurement (continued)

The table below shows quantitative information on significant unobservable inputs applied in fair value measurement:

	2014	2015-2019	2020-2026	2027-2033	2034-2051
Transmission tariff, RUB/MWh	1,044-1,493	1,304-2,453	2,028-2,589	2,381-3,136	2,539-4,426
Carrying amount of invested capital, RUB billion	90,629	100,527	136,434	194,279	305,407
Profitability rate on capital invested, %	1	1	1.00-11.00	11	11
Weighted average cost of capital (WACC), %	10.09	10.09	10.09	10.09	10.09
Inflation index	5.9%	3.6-4.7	2.15-3.21	1.97-2.00	0-1.97
Index of the effectiveness of operating costs, %	3.00	3.00	2.53-2.93	2.07-2.47	0-2.00

Fair value hierarchy disclosures for property, plant and equipment is provided in Note 28.

Weighted average cost of capital (WACC) – If the WACC increases by 1%, the fair value of property, plant and equipment will decline by 16%; if the WACC decreases by 1%, the fair value of property, plant and equipment increases by 21%.

Inflation index - If the inflation index increases by 1%, the fair value of property, plant and equipment will decline by 18%; if the inflation index decreases by 1%, the fair value of property, plant and equipment will increase by 20%. Generally, a change in the assumption made for long term average annual inflation index is accompanied by a directionally similar change in the assumptions made for WACC.

Index of the effectiveness of operating costs - an increase in the effectiveness index by 0.1% would result in a decrease in the fair value of property, plant and equipment by 0.5%. A decrease in the effectiveness index by 0.1% would result in an increase in the fair value of property, plant and equipment by 0.3%.

Property, plant and equipment under finance lease

Assets received under finance lease and recognized within property, plant and equipment were structured as follows:

	31 December 2013	31 December 2012
Cost	149,512	414,353
Accumulated depreciation	(27,024)	(59,287)
Net book value	**122,488**	**355,066**

Property, plant and equipment under finance lease were pledged as security for the respective finance lease agreements.

In 2012, acquisitions under finance lease of 210,133 were excluded from the consolidated statement of cash flows, so investing activities in the consolidated statement of cash flows represent actual cash transactions. In 2013, there were no acquisitions under finance leases.

5. Advances for construction of property, plant and equipment

Advances of 330,483 paid to construction contractors (31 December 2012: 508,158) are stated net of an impairment provision of 241,762 (31 December 2012: 199,650). Movements in the provision for impairment of advances to construction contractors are disclosed in Note 12.

6. Other non-current assets

	31 December 2013	31 December 2012
VAT recoverable after more than 12 months	310,772	275,540
Long-term advances	42,853	83,819
Security deposit	71,721	71,721
Other non-current assets	29,970	2,987
Total	**455,316**	**434,067**

7. Cash and cash equivalents

	31 December 2013	31 December 2012
Bank deposits reclaimable on demand – Rubles	3,534,431	3,311,829
Bank accounts and cash in hand – Rubles	185,024	201,793
Total	**3,719,455**	**3,513,622**

During 2013 the Group entered into deposit agreements with original maturity of less than 3 months placed with a number of banks bearing an interest of 2.1-9.5% p.a. if the Group maintains minimum cash balances. Interest income of 235,039 for the year ended 31 December 2013 (2012: 232,351) is included in finance income. As at 31 December 2013 all short-term deposit agreements were closed.

8. Short-term investments

Short-term investments of 6,364,263 are represented by deposits placed with OJSC Bank Tavricheskiy bearing an interest of 7.5%-11.0% p.a. and original maturity ranging from 4 to 12 months. Interest income of 431,711 for the year ended 31 December 2013 (2012: 70,117) is included in finance income.

9. Accounts receivable

	31 December 2013	31 December 2012
Trade receivables net of impairment provision of 433,602 (2012: 479,172) (Note 12)	4,547,418	1,727,469
Other accounts receivable net of impairment provision of 208,064 (2012: 28,361) (Note12)	642,234	349,650
Total	**5,189,652**	**2,077,119**

9. Accounts receivable (continued)

Management determined the provision for impairment of receivables based on specific customer solvency, industry-specific payment trends, subsequent receipts and settlements and analysis of expected future cash flows. The Group analyses the ability of debtors to fulfil payment obligation on a regular basis and creates provision for impairment that represents the estimate of potential losses in respect of trade and other receivables. Management believes that the Group will be able to realise the net receivable amount through direct collections and non-cash settlements, and therefore the recorded value approximates their fair value. Movements in the provision for impairment of accounts receivable are disclosed in Note 12.

For trade and other receivables which are neither past due nor impaired at the reporting date, no information is available to indicate that the debtors may default on their obligations, as the Group monitors debtors on an ongoing basis and periodically reconciles receivable balances. Trade and other receivables bear no interest and are generally repaid within a calendar year.

In 2013 accounts receivable related to technological connection services rendered in previous periods of 442,393 (2012: 44,105) were settled by contribution of property, plant and equipment items from the customers.

As at 31 December 2013 and 2012, the ageing analysis of trade receivables is as follows:

	Receivables for transmission	Receivables for technical connection	Other receivables	Total
31 December 2013				
Neither past due nor impaired	**2,443,523**	**1,505,771**	**455,653**	**4,404,947**
Past due:				
0-30 days	325,550	160,565	52,285	538,400
30-90 days	54,953	3,190	49,348	107,491
90-180 days	–	5,608	54,385	59,993
180-365 days	4,890	43,368	30,394	78,652
more than 1 year	–	–	169	169
Total	**2,828,916**	**1,718,502**	**642,234**	**5,189,652**
31 December 2012				
Neither past due nor impaired	**1,014,419**	**246,049**	**143,149**	**1,403,617**
Past due:				
0-30 days	3,984	243,517	68,002	315,503
30-90 days	28,765	2,546	84,967	116,278
90-180 days	–	133,918	33,639	167,557
180-365 days	–	52,832	19,893	72,725
more than 1 year	–	1,439	–	1,439
Total	**1,047,168**	**680,301**	**349,650**	**2,077,119**

As at 31 December 2013 the amounts which are past due but not impaired mainly represent overdue receivables from transmission and technological connection customers. Management believes that the Group will be able to recover the receivable amounts through direct cash collections. Accordingly, no impairment provision is accrued for those receivables as at the respective dates.

10. Inventories

	31 December 2013	31 December 2012
Materials (at cost)	196,536	136,707
Spare parts (at cost)	107,352	70,880
Uniform (at cost)	47,233	29,682
Tools (at cost)	41,261	19,262
Other inventories (at cost)	26,841	22,653
Total	**419,223**	**279,184**

As at 31 December 2013 inventories are stated at cost net of impairment of 145,337 (31 December 2012: 148,681).

11. Other current assets

	31 December 2013	31 December 2012
VAT receivable net of impairment provision of 124,854 (2012: 110,533) (Note 12)	2,778,006	2,941,628
Prepayments and advances given to suppliers net of impairment provision of 47,032 (2012: 62,723) (Note 12)	239,203	146,400
Taxes receivable other than income tax	30,856	7,766
Other current assets	2	4,004
Total	**3,048,067**	**3,099,798**

Movements in the provision for impairment of VAT receivable, prepayments and advances to suppliers are disclosed in Note 12.

12. Impairment provision for accounts receivable and advances given

Movements in the provision for impairment of receivables were as follows:

	Trade receivables	VAT receivable	Advances to suppliers	Advances for construction	Other receivables	Total
As at 1 January 2012	**386,263**	**102,693**	**75,475**	**202,582**	**25,138**	792,151
Charge for the year	167,305	12,086	35,521	98,509	22,386	335,807
Released	(24,354)	(4,246)	(37,325)	(46,774)	(9,312)	(122,011)
Utilized	(50,042)	–	(10,948)	(54,667)	(9,851)	(125,508)
As at 31 December 2012	**479,172**	**110,533**	**62,723**	**199,650**	**28,361**	**880,439**
Charge for the year	77,586	29,929	16,314	108,522	241,745	474,096
Released	(98,733)	(15,608)	(26,768)	(65,740)	(10,464)	(217,313)
Utilized	(24,423)	–	(5,237)	(670)	(51,578)	(81,908)
As at 31 December 2013	**433,602**	**124,854**	**47,032**	**241,762**	**208,064**	**1,055,314**

13. Equity

	Number of shares issued and fully paid		Share capital	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Ordinary shares	1,135,061,313	1,135,061,313	5,075,155	5,075,155
Preference shares	93,264,311	93,264,311	625,603	625,603
Total	**1,228,325,624**	**1,228,325,624**	**5,700,758**	**5,700,758**

Share capital

The par value of both ordinary and preference shares is 1 Ruble per share. Ordinary shares carry voting rights with no guarantee of dividends.

In 2013 the Group announced a public placement of 926,876,304 ordinary shares. As at 31 December 2013 OJSC Russian Grids paid 3,000,000 for 495,049,505 ordinary shares. By the date of this report placement of the remaining ordinary shares was not completed.

In 2012 the Group completed a private placement of 209,039,634 ordinary shares. Total additional capital raised comprised 2,964,009. Additional shares were subscribed to by OJSC Russian Grids and private individuals (an insignificant portion) who together paid 2,043,618 in cash, and by the City of St. Petersburg that contributed property, plant and equipment with fair value of 920,391.

The excess of 2,754,969 of the fair value of the above mentioned contribution of 2,964,009 over the par value of issued shares of 209,040 was recognized within share premium.

Preference shares

Preference shares have no voting rights except on resolutions regarding liquidation or reorganization of the Group, changes or amendments to the Articles of Association limiting rights of preference shareholders, changes to dividend levels of preference shares, or the issuance of additional preference stock. Such resolutions require 75% approval of both preference and ordinary shareholders.

Preference shareholders have the right to participate in general shareholders’ meetings and vote on all issues within the competence of general shareholders’ meetings following the annual general meeting at which, for whatever reason, a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders’ meetings ceases from the date of the first full payment of dividend on such shares.

Preference shares carry no rights of redemption or conversion.

13. Equity (continued)

Preference shares (continued)

Preference shares carry dividends amounting to the higher of 10% of the net income after taxation of the Group as reported in the Russian statutory accounts divided by the number of preference shares and the dividends paid on one ordinary share. Dividends on the preference shares are non-cumulative. In case of liquidation, the assets remaining after settlement with creditors, payment of preference dividends and redemption of the par value of preference shares are distributed among preference and ordinary shareholders proportionally to the number of shares owned.

Accordingly, the Group's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 24).

Distributable earnings

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by the statutory accounting rules. Retained earnings under statutory accounting rules as at 31 December 2013 amounted to 13,392,621 (as at 31 December 2012: 13,161,125). Statutory net profit as at 31 December 2013 amounted to 646,039 (as at 31 December 2012: 1,443,730).

Dividend declared and paid

In 2013 dividends for the year ended 31 December 2012 were declared in the amount of 1.3234 Rubles per preference share and 0.1631 per ordinary share. The total amount of dividends accrued in 2013 for the year ended 31 December 2012 was 308,583 (31 December 2011: 141,742). Dividends for the year ended 31 December 2013 have not been declared by the date of this report.

Other reserves

	Asset revaluation reserve	Net unrealised gains on available-for-sale investments	Total
As at 1 January 2012	**22,365,995**	**(18,173)**	**22,347,822**
Revaluation of property, plant and equipment, net of tax effect of 516,692	(2,066,768)	–	(2,066,768)
Release of asset revaluation reserve on disposed property, plant and equipment items, net of tax effect of 32,866	(131,465)	–	(131,465)
Reclassificatioin of unrealised loss on available-for-sale investments, net of tax effect of 4,544	–	18,173	18,173
As at 31 December 2012	**20,167,762**	–	**20,167,762**
Release of asset revaluation reserve on disposed of property, plant and equipment items, net of tax effect of 17,818	(71,271)	–	(71,271)
As at 31 December 2013	**20,096,491**	–	**20,096,491**

Asset revaluation reserve is used to record increases in the fair value of property, plant and equipment and assets under construction and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

14. Borrowings

	Currency	Effective interest rate	Maturity date	31 December 2013	31 December 2012
Bank loans	Rubles	7.11%-8.75%	2014-2018	27,274,225	24,696,022
Bonds issued by the Group					
series BO-01	Rubles	8.53%	2014-2016	3,045,715	–
series 04	Rubles	8.75%	2014-2017	3,043,768	3,041,601
Finance lease liabilities	Rubles	16.92%-29.72%	2014-2015	20,055	53,377
Total loans and borrowings				**33,383,763**	**27,791,000**
Less: current portion of bank loans		7.11%-7.85%	2014	(3,868,188)	(7,071,080)
series BO-01	Rubles	8.53%	2014	(52,216)	–
series 04	Rubles	8.75%	2014	(49,599)	(48,900)
Less: current portion of finance lease liabilities	Rubles	18.92%-29.72%	2014	(11,773)	(33,321)
Current portion of long-term borrowings				**(3,981,776)**	**(7,153,301)**
Long-term borrowings, net of current portion				**29,401,987**	**20,637,699**

Bonds

During 2013 the Group fully met its coupon obligations under the 2nd and 3rd coupons of the series 04 bond issue in the total amount of 254,280.

In April 2013 the Group placed the 1st issue of 3,000,000 unconvertible certified coupon series BO-01 bonds with a par value of 1,000 Rubles each carrying 6 interest-bearing coupons. Payments under each coupon are due on the 182nd day. The interest rate under coupons is set at 8.25% p.a. The bonds mature in April 2016, 1,092 days from the date of placement. The Group fully met its coupon obligations under the 1st coupon in the total amount of 123,420. Transaction costs of 8,278 (2012: 55,240) were included in amortized cost calculation resulting in an effective rate of 8.53%.

Loans

In first quarter 2013 the Group received several tranches for the total amount of 680,356 under the non-renewable credit line agreement with State Corporation Vnesheconombank entered into in 2012. The facility of 4,700,000 was paid before maturity in the second half of 2013.

The Group received 14,527,300 under loan facility agreements with OJSC Sberbank of Russia entered into in 2011 – 2013 bearing interest of 7.51%-9.09% and maturity dates ranging from May 2014 to September 2018. Also the Group received 635,795 under loan facility agreements with OJSC AB Russia entered into in 2012 bearing interest of 8.9%.

The Group repaid 6,407,000 under the loan facility agreements with OJSC Sberbank of Russia, including 3,000,000 maturing in 2013 and 3,000,000 maturing in 2014, and 407,000 before maturity.

In 2013 the Group repaid 2,162,000 under agreements entered into with OJSC Bank VTB, OJSC AB Russia and AKB OJSC Svyaz-Bank in 2010-2012.

As at 31 December 2013 the Group had no loan agreements that impose any substantial financial restriction. As at 31 December 2013 the Group complied with all contractural terms.

14. Borrowings (continued)

Finance lease liabilities

As at 31 December 2013 the Group has not entered into any new finance leases. Future minimum lease payments under finance lease are as follows:

	During the next year	During 2-5 years	Over 5 years	Total
As at 31 December 2013				
Future minimum lease payments	14,121	8,948	–	23,069
Less: future interest expenses	(2,348)	(666)	–	(3,014)
Present value of future minimum lease payments	**11,773**	**8,282**	**–**	**20,055**
As at 31 December 2012				
Future minimum lease payments	38,727	23,005	–	61,732
Less: future interest expenses	(5,406)	(2,949)	–	(8,355)
Present value of future minimum lease payments	**33,321**	**20,056**	**–**	**53,377**

All lease agreements are fully secured against the assets leased by the Group (Note 4).

In 2013 the Group's primary lessors were CJSC Sberbank leasing Nord and LLC Baltiysky leasing (2012: LLC Goldline and OJSC VTB-Leasing).

Certain finance lease agreements provide for inception and commencement dates which are substantially different in time and the Group is required to prepay a substantial amount of the fair value of the leased assets before commencement date. As of the commencement dates the present value of future minimum lease payments together with the amounts already prepaid exceeded the fair value of the leased assets, and the Group had to recognize an impairment loss on initial recognition of the leased assets. As a result, the difference of 61,364 was immediately recognized within operating expenses in the statement of comprehensive income for 2012. In 2013, there were no acquisitions under finance leases.

15. Post-employment benefit liabilities

The Group makes obligatory contributions to the Government pension fund for its employees which are charged to expense when incurred during the employee's service period. Total contributions to Government pension fund amounted to 629,062 for the year ended 31 December 2013 (2012: 667,878).

In addition to mandatory payments to the Russian Federation state pension scheme, the Group provides non-government pensions to its employees through post-employment benefit unfunded plan.

The majority of employees are eligible for defined benefit plans which provide an old age retirement pension. The plans provide for payments of retirement benefits starting from average retirement age which is currently 60 for women and 64 for men. The amount of payments is calculated using the formula according to which the amount of benefit depends on a number of parameters, including an employee's salary at the retirement date and a number of years with the Group.

15. Post-employment benefit liabilities (continued)

Non-government pension fund Electroenergetiki, which is related to the Group (Note 26), maintains the above defined benefit pension plan.

The Group further provides other long-term employee benefits of a defined benefit nature such as lump-sum payments upon retirement, lump-sum payments upon death, jubilees benefits.

As at 31 December 2013 there were 6,422 working employees participating to the defined benefit plan of the Group and 1,298 pensioners (31 December 2012: 6,182 and 1,283, respectively).

For the purpose of presentation, lump-sum benefits at retirement, pension benefits and funeral compensations are classified as 'post-employment benefits'; jubilee benefits and funeral compensations in the case of a relative's death are classified as 'long-term employee benefits'.

Changes in the present value of defined benefit obligations in 2013 and 2012 were as follows:

	Total	**Post employment benefits**	**Long-term employee benefits**
Benefit liability as at 1 January 2012	**449,850**	**327,293**	**122,557**
Current service cost	30,328	16,249	14,079
Interest cost	39,686	28,502	11,184
Past service cost	16,284	1,746	14,538
Experience adjustments	(9,114)	(15,073)	5,959
Actuarial changes arising from changes in financial assumptions	51,512	39,280	12,232
Actuarial changes arising from changes in demographic assumptions	15,435	10,199	5,236
Benefits paid	(36,614)	(17,920)	(18,694)
Benefit liability as at 31 December 2012	**557,367**	**390,276**	**167,091**
Current service cost	38,637	20,102	18,535
Interest cost	42,428	31,580	10,848
Past service cost	106,401	106,401	–
Experience adjustments	(11,574)	(21,131)	9,557
Actuarial changes arising from changes in financial assumptions	(47,496)	(32,441)	(15,055)
Actuarial changes arising from changes in demographic assumptions	54,223	46,822	7,401
Benefits paid	(42,584)	(23,615)	(18,969)
Benefit liability as at 31 December 2013	**697,402**	**517,994**	**179,408**

15. Post-employment benefit liabilities (continued)

Movements in the net pension liability in 2013 and 2012 were as follows:

	2013		
	Total	**Post employment benefits**	**Long-term employee benefits**
Benefit liability as at 1 January	**557,367**	**390,276**	**167,091**
Pension cost charged directly to profit or loss	189,369	158,083	31,286
Pension cost charged directly to other comprehensive income	(6,750)	(6,750)	–
Benefits paid	(42,584)	(23,615)	(18,969)
Benefit liability as at 31 December	**697,402**	**517,994**	**179,408**

	2012		
	Total	**Post employment benefits**	**Long-term employee benefits**
Benefit liability as at 1 January	**449,850**	**327,293**	**122,557**
Pension cost charged directly to profit or loss	109,725	46,497	63,228
Pension cost charged directly to other comprehensive income	34,406	34,406	–
Benefits paid	(36,614)	(17,920)	(18,694)
Benefit liability as at 31 December	**557,367**	**390,276**	**167,091**

Net expense under the defined benefit plans in 2013 and 2012 was as follows:

	2013		
	Total	**Post employment benefits**	**Long-term employee benefits**
Recognisable in profit or loss			
Service cost:			
Current service cost	38,637	20,102	18,535
Past service cost	106,401	106,401	–
Interest cost	42,428	31,580	10,848
Effects of remeasurement:			
Experience adjustments	9,557	–	9,557
Actualrial (gains)/losses – changes in actuarial assumptions	(7,654)	–	(7,654)
Total pension cost recognized in profit or loss	**189,369**	**158,083**	**31,286**
Recognized in other comprehensive income			
Effects of remeasurement:			
Experience adjustments	(21,131)	(21,131)	–
Actualrial losses – changes in actuarial assumptions	14,381	14,381	–
Total pension cost recognized in other comprehensive income	**(6,750)**	**(6,750)**	**–**

15. Post-employment benefit liabilities (continued)

	2012		
	Total	**Post employment benefits**	**Long-term employee benefits**
Recognized in profit or loss			
Service cost:			
Current service cost	30,328	16,249	14,079
Past service cost	16,284	1,746	14,538
Interest cost	39,686	28,502	11,184
Effects of remeasurement:			
Experience adjustments	5,959	–	5,959
Actualrial (gains)/losses – changes in actuarial assumptions	17,468	–	17,468
Total pension cost recognized in profit or loss	**109,725**	**46,497**	**63,228**
Recognized in other comprehensive income			
Effects of remeasurement:			
Experience adjustments	(15,073)	(15,073)	–
Actualrial losses – changes in actuarial assumptions	49,479	49,479	–
Total pension cost recognized in other comprehensive income	**34,406**	**34,406**	–

Net expenses for the defined benefit plans were included in payroll and payroll taxes in the consolidated income statement.

As at 31 December the principal actuarial assumptions of defined benefit plan were as follows:

	2013	**2012**
Discount rate (actuarial rate of return), %	7.7	7.2
Estimated future salary increases, %	7.0	7.5
Estimated future rate of inflation, %	5.5	6.0

A quantitative sensitivity analysis for significant assumption as at 31 December 2013 is as shown below:

Assumptions	**Discount rate**		**Future salary increases**		**Future rate of inflation**		**Termination rate**	
Sensitivity level	+0.75%	-0.75%	+0.75%	-0.75%	+0.75%	-0.75%	+1.5%	-1.5%
Impact on defined benefit obligation	(39,585)	44,929	16,716	(15,571)	28,621	(24,847)	28,621	(24,847)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The average duration of the defined benefit plan obligation at the end of the reporting period is 8.4 years (2012: 9.6 years).

15. Post-employment benefit liabilities (continued)

Present value of defined benefit obligation and experience adjustments for the current and previous four periods are as follows:

	2013	2012	2011	2010	2009
Defined benefit obligation	(697,402)	(557,367)	(449,850)	(438,280)	(374,822)
Experience adjustments on plan liabilities	11,574	9,114	(40,641)	5,715	56,625

The Group expects to contribute 39,560 to its defined benefit pension plans in 2014.

16. Other non-current liabilities

	31 December 2013	31 December 2012
Long-term advances received	2,037,286	1,710,088
Long-term trade accounts payable	85,877	76,216
Total	**2,123,163**	**1,786,304**

17. Trade and other payables

	31 December 2013	31 December 2012
Trade accounts payable	6,865,718	5,712,541
Payable for purchase of property, plant and equipment	6,780,954	1,823,127
Security deposit for a tender application	867,175	392,635
Taxes payable other than income tax	253,169	147,390
Wages payable	239,658	147,606
Other payables	315,326	64,201
Total	**15,322,000**	**8,287,500**

18. Provisions

Movements in provisions during the reporting period were as follows:

	Litigations	Unused vacation	Annual bonus	Total
As at 1 January 2012	**121,771**	**145,132**	**196,357**	**463,260**
Arising during the period	181,045	323,924	170,997	675,966
Utilised	(60,621)	(327,680)	(140,820)	(529,121)
Reversed	(65,100)	–	(9,327)	(74,427)
As at 31 December 2012	**177,095**	**141,376**	**217,207**	**535,678**
Arising during the period	2,345,515	364,669	295,313	3,005,497
Utilised	(36,406)	(379,001)	(218,365)	(633,772)
Reversed	(140,010)	–	(40,375)	(180,385)
As at 31 December 2013	**2,346,194**	**127,044**	**253,780**	**2,727,018**

18. Provisions (continued)

Provisions relate to the claims brought against the Group in the ordinary course of business. The management of the Group believes that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

The unused vacation provision is determined by reference to the number of unused vacation days as of the reporting date and the employees' average annual pay rates.

The provision for annual bonus is an estimate of the bonus to be paid out for performance in 2013.

As at 31 December 2012 the Group recognized the unused vacation provision and annual bonus provision within wages payable.

The balance of the provision as at 31 December 2013 is expected to be utilized in 2014.

19. Revenue

	2013	2012
Transmission of electricity	33,057,267	28,551,411
Technological losses at the normal (expected) level	(5,577,190)	(5,030,674)
Transmission of electricity, net of normal (expected) losses	**27,480,077**	**23,520,737**
Technological connection to electricity grids	6,807,256	7,579,648
Other revenue	3,035,959	2,034,162
Total	**37,323,292**	**33,134,547**

In 2013 electricity transmission revenue before technological losses at the normal (expected) level from OJSC PSK and LLC Energia-Holding, amounted to 20,673,140 (2012: 18,997,352) and 4,494,279 (2012: 3,455,843), respectively, comprising 77% (2012: 79%) of the total revenue from transmission of electricity before technological losses at the normal (expected) level.

In 2013 electricity transmission revenue from LLC RKS-Energo amounted to 3,512,099 or 11% (2012: 2,564,095 or 9%) of the total revenue from transmission of electricity before technological losses at the normal (expected) level.

Technological connection fees of 613,229 (2012: 747,423) were settled by contribution of property, plant and equipment items from the customers.

20. Operating expenses

	2013	2012
Transmission fee	13,656,785	13,380,789
Payroll and payroll taxes	4,773,542	4,154,479
Depreciation (Note 4)	3,919,750	4,216,055
Provision for litigations and claims	2,205,504	115,945
Repairs and maintenance	1,616,441	1,308,874
Taxes other than income tax	686,673	212,485
Rent	549,689	466,933
Agency services	464,531	448,623
Telecommunication and information services	378,793	348,134
Raw materials and supplies	331,804	307,124
Provision for impairment and write-off of receivables (Note 12)	256,783	213,796
Social expenses	225,520	195,672
Consulting, legal and audit services	190,334	192,750
Utilities	118,762	105,635
Internal security	144,385	128,689
Amortisation of intangible assets (Note 3)	122,814	87,344
Loss on impairment/(reversal of impairment) of intangible asset (Note 3)	31,529	(129,110)
Revaluation of property, plant and equipment (Note 4)	–	3,600,893
Electric metering services	–	93,213
Impairment loss on finance leases (Note 4, 14)	–	61,364
(Reversal of provision)/provision for impairment of inventories	(3,344)	28,918
Other operating expenses	1,337,330	1,114,317
Total	**31,007,625**	**30,652,922**

21. Finance income

	2013	2012
Interest income	666,750	302,468
Other finance income	691	–
Total	**667,441**	**302,468**

22. Finance expenses

	2013	2012
Interest expense on loans	2,232,120	1,755,555
Interest expense on bonds	433,855	268,819
Interest expense on finance leases	5,406	92,431
Impairment of available-for sale investment	–	49,317
Other finance expenses	10,461	9,273
Total	**2,681,842**	**2,175,395**

23. Income tax

	2013	2012
Consolidated income statement		
Current income tax:		
Current income tax charge	981,181	545,975
Release of tax provisions	(80,609)	–
Deferred income tax:		
Relating to reversal and origination of temporary differences	119,884	(175,190)
Income tax expense reported in income statement	**1,020,456**	**370,785**

	2013	2012
Consolidated statement of other comprehensive income		
Deferred tax related to items charged or credited directly to other comprehensive income:		
Gain/(loss) on remeasurement of defined benefit plans	(1,350)	6,881
Revaluation of property, plant and equipment	–	516,692
Reclassification of unrealized gain reserve on available-for-sale financial assets to the statement of comprehensive income	–	(4,544)
Income tax (credited)/charged directly to other comprehensive income	**(1,350)**	**519,029**

Reconciliation between tax expense and accounting profit multiplied by tax rate for the years ended 31 December is as follows:

	2013	2012
Accounting profit before tax	4,301,266	608,698
Theoretical tax expense at statutory income tax rate of 20%	860,253	121,740
Non-deductible expenses	240,812	249,045
Release of tax provisions	(80,609)	–
Income tax expense reported in the consolidated income statement at the effective income tax rate of 24% (2012: 61%)	**1,020,456**	**370,785**

Deferred income tax as at 31 December 2013 relates to the following:

		Movement during 2013 recognized in		
	31 December 2012	**Equity**	**Profit or loss for the period**	**31 December 2013**
Tax effect of deferred tax assets:				
Accruals and provisions	157,587	–	314,672	472,259
Revenue recognition	112,244	–	210,242	322,486
Impairment provision for accounts receivable and advances given	214,923	–	39,039	253,962
Post-employment benefit liabilities	111,473	(1,350)	29,357	139,480
Employee-related accruals	52,467	–	21,451	73,918
Impairment of intangible assets	39,138	–	6,306	45,444
Inventory impairment provision	28,847	–	220	29,067
Revaluation of available-for-sale investments	9,864		–	9,864
Others	19,113	–	3,014	22,127
Deferred tax assets, total	**745,656**	**(1,350)**	**624,301**	**1,368,607**
Tax effect of deferred tax liabilities:				
Property, plant and equipment	(3,058,824)	–	(759,102)	(3,817,926)
Deferred expenses	(27,483)	–	5,184	(22,299)
Discounting of long-term trade accounts payable	(5,597)	–	1,932	(3,665)
Discounting of bonds issued and loans received	(10,267)	–	7,801	(2,466)
Deferred tax liabilities, total	**(3,102,171)**	**–**	**(744,185)**	**(3,846,356)**
Total deferred tax liabilities, net	**(2,356,515)**	**(1,350)**	**(119,884)**	**(2,477,749)**

23. Income tax (continued)

	31 December 2011	Movement during 2012 recognized in: Equity	Movement during 2012 recognized in: Profit or loss for the period	31 December 2012
Tax effect of deferred tax assets:				
Impairment provision for accounts receivable and advances given	245,899	–	(30,976)	214,923
Accruals and provisions	121,233	–	36,354	157,587
Revenue recognition	23,892	–	88,352	112,244
Post-employment benefit liabilities	89,970	6,881	14,622	111,473
Employee-related accruals	69,617	–	(17,150)	52,467
Impairment of intangible assets	64,960	–	(25,822)	39,138
Inventory impairment provision	21,627	–	7,220	28,847
Revaluation of available-for-sale investments	4,544	(4,544)	9,864	9,864
Others	42,969	–	(23,856)	19,113
Deferred tax assets, total	**684,711**	**2,337**	**58,608**	**745,656**
Tax effect of deferred tax liabilities:				
Property, plant and equipment	(3,695,550)	516,692	120,034	(3,058,824)
Deferred expenses	(31,963)	–	4,480	(27,483)
Discounting of bonds issued and loans received	(480)	–	(9,787)	(10,267)
Discounting of long-term trade accounts payable	(7,452)	–	1,855	(5,597)
Deferred tax liabilities, total	**(3,735,445)**	**516,692**	**116,582**	**(3,102,171)**
Total deferred tax liabilities, net	**(3,050,734)**	**519,029**	**175,190**	**(2,356,515)**

24. Earnings per share

	31 December 2013	31 December 2012
Weighted average number of outstanding ordinary shares (thousands)	1,258,485	1,049,139
Weighted average number of outstanding preference shares (thousands)	93,264	93,264
Net profit/(loss) attributable to equity holders of parent company	3,273,138	239,696
Distributed profit	308,583	141,742
- attributable to holders of ordinary shares	185,150	–
- attributable to holders of preference shares	123,433	141,742
Corrected net profit/(loss) attributable to equity holders of parent company	2,964,555	468,739
- attributable to holders of ordinary shares	2,862,158	468,739
- attributable to holders of preference shares	102,397	–
Earnings/(loss) per ordinary share – basic and diluted (Rubles)	2.42	0.09
Earnings/(loss) per preference share – basic and diluted (Rubles)	2.42	1.52

25. Commitments and contingencies

Operating lease commitments

Operating lease commitments mainly relate to contractual obligations under long-term lease agreements for office premises and land plots under Group's power lines and equipment. These non-cancellable leases have terms between 5 and 49 years and contain renewal option. Rent expenses for 2013 of 549,689 (2012: 466,933) were recognized within income statement (Note 20).

25. Commitments and contingencies (continued)

Operating lease commitments (continued)

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2013 are as follows:

	2013	2012
Within one year	525,978	413,930
After one year but not more than five years	1,416,024	1,250,776
More than five years	1,069,223	708,599
Total	**3,011,225**	**2,373,305**

Commitments to purchase property, plant and equipment

Future capital expenditures under the signed contracts amount to 13,550,014 as at 31 December 2013 (31 December 2012: 14,785,852).

Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees involved in production. In particular, the Group participates in the development and maintenance of housing, recreation and other social needs in the geographical areas in which it operates. All expenditures in connection with social commitments are expensed when incurred.

Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Tax legislation

The existing Russian tax, currency and customs legislation allows for various interpretations and is prone to frequent changes. Interpretation by the Group's management of the legislation in place when applicable to the Group's transactions and activities may be challenged by the appropriate regional or federal authorities. Recent events that occurred in the Russian Federation are indicative of the fact that tax authorities may assume a tougher stance with regard to interpretation of legislation and review of tax returns. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier accounting periods.

25. Commitments and contingencies (continued)

Tax legislation (continued)

As at 31 December 2013 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Since the tax and other legislation does not fully cover all aspects of the Group restructuring, certain legal and tax risks might still arise.

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, 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.

Insurance

The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurance risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings

Sometimes, the Group is a party to certain legal proceedings arising in the ordinary course of business.

As of 31 December 2013 there was a litigation initiated against the Group and claims adressed of 636,116. Management considers the risk that the litigation will be lost and claims will be satisfied is not higher than possible. Accordingly, no provision was recognized in the financial statements.

In the opinion of management, there are no current legal proceedings or other claims outstanding which, upon final disposition, may have a material adverse effect on the financial position of the Group apart from those that were provided (Note 18).

26. Related party transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

26. Related party transactions (continued)

The Group had balances outstanding as at 31 December 2013 and 2012 with the following related parties.

Outstanding balances with OJSC Russian Grids and entities under OJSC Russian Grids control

	31 December 2013	31 December 2012
Amounts due from related parties, including:		
Advances given	**37,283**	**1,378**
OJSC Federal Network Company of the Unified Energy System (OJSC FNC UES) (A)	37,283	–
OJSC EnergoUchet	–	1,378
Other receivables	**98**	**98**
OJSC EnergoUchet	65	65
OJSC Russian Grids	33	33
Amounts due to related parties, including:		
Trade accounts payable	**4,034,822**	**3,733**
OJSC FNC UES	4,018,326	–
OJSC MRSK North-West	5	–
OJSC Nedvizhimost IZ UES	508	120
OJSC Russian Grids	4,813	3,590
OJSC North-West Energy Management Company	23	23
OJSC Energo Uchet	11,147	–
Advances received	**1,669**	**1,867**
OJSC FNC UES	464	679
OJSC MRSK North-West	1,175	1,175
OJSC North-West Energy Management Company	1	13
OJSC EnergoUchet	29	–
Other accounts payable	**30,938**	**33,736**
OJSC FNC UES	30,938	33,148
OJSC EnergoUchet	–	588

(A) On 14 June 2013 OJSC Russian Grids purchased a 79.55% equity interest in OJSC FNC UES. Transactions from acquisition date, and balances with OJSC FNC UES as of 31 December 2013 are disclosed in note "Related Party Transactions".

Transactions with OJSC Russian Grids and entities under OJSC Russian Grids control

	2013	2012
Other income	**1,582**	**1,378**
OJSC MRSK North-West	1,463	1,378
OJSC FNC UES	119	–
Advisory, legal and audit services	**81,583**	**81,583**
OJSC Russian Grids	81,583	81,583
Electricity transmission	**6,714,720**	–
OJSC FNC UES	6,714,720	–
Other operating expenses	**15,808**	**4,777**
OJSC MRSK North-West	21	13
OJSC FNC UES	8,087	–
OJSC Nedvizhimost IZ UES	901	1,993
OJSC Russian Grids	6,799	2,771
Rent	**1,767**	–
OJSC FNC UES	1,767	–

26. Related party transactions (continued)

Terms of deals with related parties

Sales and purchase transactions with related parties are conducted on an arm's length basis. Payments for electricity transmission services are based on regulatory set tariffs. Balances outstanding at the year end have a short-term nature, are unsecured, carry no interest and are settled in cash. There have been no guaranties provided or received for any related party receivables or payables. For the year ended 31 December 2013 the Group did not record any impairment of accounts receivable from related parties (2012: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which it operates.

Non-government pension fund Electroenergetiki

The outstanding balances with NPF Electroenergetiki were as follows:

	31 December 2013	31 December 2012
Other accounts receivable	139,014	131,736

Compensation to key management personnel

Key management personnel comprise general director of the Company and his deputies, including finance director and chief accountant, as well as members of the Board of Directors. Total compensation to key management personnel, which is represented by short-term and termination employee benefits (monthly payroll, annual bonuses and pensions), included in payroll and payroll taxes in the income statement is 77,312 (2012: 71,913).

Transactions with state-controlled entities

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

27. Segment information

The Group operates in one industry segment, being the provision of electricity transmission services and technological connection to the electricity grids to domestic customers in one geographic area, i.e. St. Petersburg and Leningrad region. The results of this segment and assets and liabilities as at 31 December 2013 and 2012 are presented in the consolidated statement of comprehensive income and the consolidated statement of financial position, respectively.

An analysis of revenue by service type is disclosed in Note 19.

All of the Group’s assets are located within the territory of St. Petersburg and Leningrad Region.

The Group had no individual customers, other than those disclosed in Note 19 that accounted for greater than 10% of its revenue during the years ended 31 December 2013 and 2012.

28. Financial risk management

As at 31 December 2013 the Group's major financial liabilities comprised bank loans, bonds, finance leases and trade payables. The main purpose of these instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and short term deposits which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The exposure of the Group to these and other financial risks is disclosed below.

Credit risk

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The requirement for an impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred losses.

The maximum exposure is the carrying amount as disclosed in Note 9.

Credit risk concentration

The Group's revenue from three largest customers OJSC PSK, LLC Energia-Holding and LLC RKS-Energo is disclosed in Note 19.

As at 31 December 2013 receivable from these customers amounted 2,281,122 (2012: 737,753), or 44% (2012: 36%) of the total accounts receivable.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group monitors its risk of a shortage of funds using a recurring liquidity planning tool. With the help of this tool, the Group considers the maturity of both its financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, bonds, preference shares and finance leases.

28. Financial risk management (continued)

Liquidity risk (continued)

The table below summaries the maturity profile of the Group's financial liabilities as at 31 December 2013 and 2012 based on contractual undiscounted payments:

	1 year	2 years	3-5 years	Over 5 years
As at 31 December 2013				
Bonds issued	501,102	501,102	6,504,832	–
Interest-bearing loans	5,991,739	3,271,413	23,341,778	–
Trade and other accounts payable	18,322,800	102,401	–	–
Other financial obligations	11,773	8,282	–	–
Total	**24,827,414**	**3,883,198**	**29,846,610**	**–**

	1 year	2 years	3-5 years	Over 5 years
As at 31 December 2012				
Bonds issued	254,301	508,603	3,508,603	–
Interest-bearing loans	8,978,201	9,263,199	10,385,687	–
Trade and other accounts payable	8,289,300	1,800	102,401	–
Other financial obligations	38,727	14,122	8,883	–
Total	**17,560,529**	**9,787,724**	**14,005,574**	**–**

Fair values

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

	Total, 31 December 2013	Level 1	Level 2	Level 3
Assets measured at fair value:				
Available-for-sale financial investments	100	–	–	100
Property, plant and equipment measured using revaluation model (Note 4)	100,352,415	–	–	100,352,415
Liabilities for which fair values are disclosed				
Liabilities under finance leases	20,055	–	–	20,055
Fixed rate loans and borrowings	32,762,884	–	–	32,762,884

The following methods and assumptions were used to estimate fair values:

Cash, loans and receivables, trade and other payables and short-term borrowings approximate their carrying amounts as at 31 December 2013 largely due to the short-term maturities of these instruments.

The fair value of obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair value of borrowings is calculated by discounting the expected future cash flows at interest rates determined with regard to the Group's creditworthiness.

Fair value measurement technique for property, plant and equipment is disclosed in Note 4.

In the years ended 31 December 2013 and 2012, there have been no transfers between fair value measurement levels.

28. Financial risk management (continued)

Capital risk management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

In 2013, the levarage ratio, debt-to-equity ratio and debt-to-EBITDA ratio were generally in compliance with statutory limits, which is seen as a positive indicator.

Management is considering the following internal sources of equity to improve the Group's performance indicators:

- Increase in the Group's net profit;
- Regular revaluation of the Group's fixed assets;
- Additional share issues.

Management has also established a set of limits on the Group's total debt. The Group's debt position is now subject to all of the following Limits:

- working capital structure (Limit on medium-term liquidity);
- equity and liabilities structure (Limit on financial leverage);
- operating cash flow (Limit on debt repayment and Limit on debt service costs).

In addition to Limits on the Group's debt position, management has set a Limit on borrowing costs. Raising of funds in excess of the Group's Limit on borrowing costs is prohibited.

No changes were made in the objectives, policies or processes during the years ending 31 December 2013 and 2012.

As at 31 December 2013 the Group has been in compliance with share capital requirements established by the legislation of Russian Federation.

Foreign exchange and interest rate risks

The Group operates in the Russian Federation. The majority of the Group’s purchases and borrowings are denominated in Russian Rubles. Respectively the Group’s operations are not a subject for foreign exchange risks.

The Group raises borrowings at fixed interest rates. Accordingly, it is not exposed to interest rate risk.

29. Events after the reporting period

In the first quarter of 2014 the Group received several tranches of 3,581,599 from OJSC Sberbank, under the credit facilities described in Note 14.