OJSC MOESK

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

Contents

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Auditors' Report

To the Shareholders and Board of Directors of OJSC MOESK

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: Open Joint-Stock Company Moscow United Electric Grid Company.

Entered in the Unified State Register of Legal Entities on 1 April 2005 by the Moscow Inter-Regional Tax Inspectorate No.46 of the Ministry for Taxes and Duties of the Russian Federation, Registration No.1057746555811, Certificate series 77 No. 005900296.

Address of audited entity: 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

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

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

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

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

Opinion

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

Krasnikhina T.E.

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

ZAO KPMG

1 April 2014

Moscow, Russian Federation

	Note	31 December 2013 '000 RUB	31 December 2012 '000 RUB (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	12	253 234 087	226 647 139
Intangible assets	13	540 707	529 969
Non-current investments	14	-	621 674
Other non-current assets	15	6 127 287	10 716 267
Total non-current assets		**259 902 081**	**238 515 049**
Current assets			
Inventories	17	2 288 822	2 066 195
Income tax receivable		94 909	6 897
Trade and other receivables	18	21 736 663	20 126 489
Current investments	14	682 611	10 001
Cash and cash equivalents	19	1 596 266	8 331 910
Total current assets		**26 399 271**	**30 541 492**
Total assets		**286 301 352**	**269 056 541**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 62.

	Note	31 December 2013 '000 RUB	31 December 2012 '000 RUB (restated)
EQUITY AND LIABILITIES			
Equity			
Share capital	20	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		110 274 829	95 780 689
Total equity attributable to the shareholders of OJSC MOESK		**153 209 263**	**138 715 123**
Non-controlling interest		368 399	231 468
Total equity		**153 577 662**	**138 946 591**
Non-current liabilities			
Loans and borrowings	22	52 289 354	50 037 170
Employee benefits	23	4 257 273	3 421 610
Deferred tax liabilities	16	9 720 266	9 714 130
Trade and other payables	25	7 634 898	9 344 524
Total non-current liabilities		**73 901 791**	**72 517 434**
Current liabilities			
Loans and borrowings	22	5 996 334	4 070 539
Income tax payable		3 169	434 716
Other taxes payable	26	294 667	990 629
Trade and other payables	25	52 080 515	48 923 947
Provisions	24	447 214	3 172 685
Total current liabilities		**58 821 899**	**57 592 516**
Total equity and liabilities		**286 301 352**	**269 056 541**

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

First Deputy General Director
for Finance and Economic Activity
and Corporate management

A. V. Inozemtsev

Head of Department
on Economics and Finance

V.V. Bragova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 62.

	Note	2013 '000 RUB	2012 '000 RUB (restated)
Revenue	6	129 125 139	125 324 329
Operating expenses, net	7	(106 760 123)	(102 549 485)
Other operating income	9	4 162 676	3 351 607
Results from operating activities		**26 527 692**	**26 126 451**
Finance income	10	402 380	1 933 662
Finance costs	10	(2 558 792)	(2 729 615)
Profit before income tax		**24 371 280**	**25 330 498**
Income tax expense	11	(4 898 196)	(6 433 435)
Profit for the year		**19 473 084**	**18 897 063**
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability		(682 499)	(687 544)
Tax on defined benefit liability		136 500	137 509
Other comprehensive income for the year, net of tax		**(545 999)**	**(550 035)**
Total comprehensive income for the year		**18 927 085**	**18 347 028**
Profit attributable to:			
Owners of the Company		19 336 153	18 907 822
Non-controlling interest		136 931	(10 759)
		19 473 084	**18 897 063**
Total comprehensive income attributable to:			
Owners of the Company		18 790 154	18 357 787
Non-controlling interest		136 931	(10 759)
Basic and diluted earnings per ordinary share (in Russian Roubles)	21	**0.3970**	**0.3882**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 62.

'000 RUB	Attributable to shareholders of the Group					
	Share capital	Additional paid in capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012, as previously reported	**24 353 546**	**18 580 888**	**79 494 344**	**122 428 778**	**484 455**	**122 913 233**
Impact of changes in accounting policy (Note 2)	-	-	(1 044 993)	(1 044 993)	-	(1 044 993)
Balance at 1 January 2012 (restated)	**24 353 546**	**18 580 888**	**78 449 351**	**121 383 785**	**484 455**	**121 868 240**
Profit for the year	-	-	18 907 822	18 907 822	(10 759)	18 897 063
Other comprehensive income	-	-	(550 035)	(550 035)	-	(550 035)
Total comprehensive income for the year	**-**	**-**	**18 357 787**	**18 357 787**	**(10 759)**	**18 347 028**
Dividends to shareholders	-	-	(1 217 677)	(1 217 677)	-	(1 217 677)
Acquisition of non-controlling interest without change in control	-	-	191 228	191 228	(242 228)	(51 000)
Balance at 31 December 2012 (restated)	**24 353 546**	**18 580 888**	**95 780 689**	**138 715 123**	**231 468**	**138 946 591**
Balance at 1 January 2013, as previously reported	**24 353 546**	**18 580 888**	**97 428 538**	**140 362 972**	**231 468**	**140 594 440**
Impact of changes in accounting policy (Note 2)	-	-	(1 647 849)	(1 647 849)	-	(1 647 849)
Balance at 1 January 2013 (restated)	**24 353 546**	**18 580 888**	**95 780 689**	**138 715 123**	**231 468**	**138 946 591**
Profit for the year	-	-	19 336 153	19 336 153	136 931	19 473 084
Other comprehensive income	-	-	(545 999)	(545 999)	-	(545 999)
Total comprehensive income for the year	**-**	**-**	**18 790 154**	**18 790 154**	**136 931**	**18 927 085**
Dividends to shareholders	-	-	(4 296 014)	(4 296 014)	-	(4 296 014)
Balance at 31 December 2013	**24 353 546**	**18 580 888**	**110 274 829**	**153 209 263**	**368 399**	**153 577 662**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 62.

	2013 '000 RUB	2012 '000 RUB (restated)
Cash flows from operating activities		
Profit before income tax	**24 371 280**	**25 330 498**
Adjustments for:		
Depreciation and amortisation	17 918 060	17 394 581
Loss on disposal of property, plant and equipment	301 416	130 389
Impairment losses on property, plant and equipment	318 906	252 913
Provisions for legal claims	(1 188 162)	2 184 320
Finance income	(402 380)	(1 933 662)
Finance costs	2 558 792	2 729 615
Allowance for impairment of accounts receivable	4 133 925	2 857 450
Provision for inventory obsolescence	10 017	387 935
Loss on disposal of inventory	18 482	32 863
Other non-cash items	(12 086)	(31 973)
Cash from operating activities before changes in working capital	**48 028 250**	**49 334 929**
Change in inventories	(251 126)	(403 804)
Change in trade and other receivables, non-current advances given for connection services	(1 266 564)	2 109 277
Change in retirement benefit obligations and related assets	(106 472)	(3 627)
Change in trade and other payables	(4 265 171)	(9 007 483)
Change in taxes payable, other than income tax	(695 962)	877 539
Cash flows from operations before income taxes	**41 442 955**	**42 906 831**
Income taxes paid	(5 275 119)	(3 214 568)
Net cash from operating activities	**36 167 836**	**39 692 263**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	77 866	5 671
Acquisition of property plant and equipment	(38 849 585)	(38 998 692)
Interest received	392 684	292 997
Acquisition of intangible assets	(186 332)	(167 535)
Purchase of investments	-	(52 791)
Proceeds from disposal of short-term investments	30 001	217 790
Net cash used in investing activities	**(38 535 366)**	**(38 702 560)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 62.

	2013	**2012**
	’000 RUB	**’000 RUB**
		(restated)
Cash flows from financing activities		
Proceeds from borrowings	28 798 346	21 316 640
Repayment of borrowings	(23 891 996)	(10 086 675)
Payment of finance lease liabilities	(956 065)	(2 537 943)
Dividends paid	(4 296 014)	(1 217 677)
Interest paid	(4 022 385)	(4 026 140)
Acquisition of non-controlling interests	-	(51 000)
Net cash (used in)/from financing activities	**(4 368 114)**	**3 397 205**
Net (decrease)/increase in cash and cash equivalents	**(6 735 644)**	**4 386 908**
Cash and cash equivalents at beginning of year	8 331 910	3 944 875
Effect of exchange rate fluctuations on cash and cash equivalents	-	127
Cash and cash equivalents at end of year (Note 19)	**1 596 266**	**8 331 910**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 62.

1 Background

(a) Organisation and operations

Open Joint-Stock Company Moscow United Electric Grid Company (OJSC MOESK or the "Company") was established on 1 April 2005 by transference of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1 adopted by shareholders of OJSC Mosenergo on 29 June 2004.

The Group's consolidated financial statements include the following subsidiaries:

- OJSC Moskabel'set'montaj (MKSM);
- OJSC Moskabel'energoremont (MKER);
- OJSC Repair of Electrical and Technical Equipment Plant (RETEP);
- OJSC Energocentr.

As at 31 December 2013, the Government of the Russian Federation owned 85.31% shares of JSC Russian Grids (formerly JSC "IDGC Holding") (at 31 December 2012 – 54.52%), which in turn owned 50.9% of the Company. JSC "IDGC Holding" was renamed JSC "Russian Grids" following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding.

The Company's registered office and the actual address is at building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Group's principal activity is electricity transmission by means of electrical networks located in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

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

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

- Note 18 – Allowance for trade and other receivables;
- Note 23 – Employee benefits;
- Note 27 – Financial risk management;
- Note 30 – Contingencies.

(e) Changes in accounting policies

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IAS 19 (Revised 2011) Employee Benefits, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. As required by IAS 34, the nature and the effect of these changes are disclosed below.

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

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

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

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

IAS 19 (2011) *Employee Benefits*:

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

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

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

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

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

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

Consolidated statement of financial position:

'000 RUB	**As previously reported**	**Effect of changes in accounting policies**	**As restated**
1 January 2012			
Employee benefits	(1 356 652)	(1 306 240)	(2 662 892)
Deferred tax liabilities	(7 782 408)	261 247	(7 521 161)
Total liabilities	**(126 645 573)**	**(1 044 993)**	**(127 690 566)**
Retained earnings	79 494 344	(1 044 993)	78 449 351
Total equity	**122 913 233**	**(1 044 993)**	**121 868 240**

’000 RUB	As previously reported	Effect of changes in accounting policies	As restated
31 December 2012			
Employee benefits	(1 361 799)	(2 059 811)	(3 421 610)
Deferred tax liabilities	(10 126 092)	411 962	(9 714 130)
Total liabilities	**(128 462 101)**	**(1 647 849)**	**(130 109 950)**
Retained earnings	97 428 538	(1 647 849)	95 780 689
Total equity	**140 594 440**	**(1 647 849)**	**138 946 591**

Consolidated statement of profit or loss and other comprehensive income:

’000 RUB	Before application of the revised standard	Effect of changes in accounting policies	As restated
For the year ended 31 December 2012			
Operating expenses	(102 490 321)	(59 164)	(102 549 485)
Finance income	1 933 190	472	1 933 662
Finance cost	(2 722 281)	(7 334)	(2 729 615)
Income tax expense	(6 446 640)	13 205	(6 433 435)
Profit for the year	**18 949 884**	**(52 821)**	**18 897 063**
Remeasurements of the defined benefit liability/ Defined benefit plan actuarial gains (losses)	-	(687 544)	(687 544)
Income tax expense	-	137 509	137 509
Total other comprehensive income for the year, net of tax	**-**	**(550 035)**	**(550 035)**
Total comprehensive income for the year	**18 949 884**	**(602 856)**	**18 347 028**

Consolidated statement of financial position:

’000 RUB	As previously reported	Effect of changes in accounting policies	As restated
1 January 2012			
Total assets	249 558 806	-	249 558 806
Total equity	122 913 233	(1 044 993)	121 868 240
Total liabilities	126 645 573	1 044 993	127 690 566
31 December 2012			
Total assets	269 056 541	-	269 056 541
Total equity	140 594 440	(1 647 849)	138 946 591
Total liabilities	128 462 101	1 647 849	130 109 950

Consolidated statement of profit or loss and other comprehensive income:

’000 RUB	**As previously reported**	**Effect of changes in accounting policies**	**As restated**
For the year ended 31 December 2012			
Total comprehensive income for the year	18 949 884	(602 856)	18 347 028

The effect of the new accounting policy on the current period is presented below:

’000 RUB	**Before application of the revised standard**	**Effect of changes in accounting policies**	**As reported**
For the year ended 31 December 2013			
Operating expenses	(106 807 643)	47 520	(106 760 123)
Finance income	392 463	9 917	402 380
Finance cost	(2 540 413)	(18 379)	(2 558 792)
Income tax expense	(4 890 385)	(7 811)	(4 898 196)
Profit for the year	**19 441 837**	**31 247**	**19 473 084**
Remeasurements of the defined benefit liability/ Defined benefit plan actuarial gains (losses)	-	(682 499)	(682 499)
Income tax expense	-	136 500	136 500
Total other comprehensive income for the year, net of tax	**-**	**(545 999)**	**(545 999)**
Total comprehensive income for the year	**19 441 837**	**(514 752)**	**18 927 085**

’000 RUB	**Before application of the revised standard**	**Effect of changes in accounting policies**	**As reported**
For the year ended 31 December 2013			
Total comprehensive income for the year	19 441 837	(514 752)	18 927 085

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Accounting for acquisitions of non-controlling interests

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

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Acquisitions from entities under common control

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

(v) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

The Group has the following non-derivative financial assets: held-to-maturity financial investments, loans and receivables, available-for-sale financial assets and cash and cash equivalents.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

(ii) Non-derivative financial liabilities

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

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/expenses in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

- Buildings 20 to 40 years;
- Transmission networks 18 years;
- Transformers and transformer substations 13 to 16 years;
- Other 4 to 8 years.

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

(e) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 2 to 5 years.

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

(f) Leased assets

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

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

(g) Inventories

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

(h) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or a CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses which are resulting from experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in financial and demographical actuarial assumptions. Remeasurements of the net defined benefit liability is recognized immediately in other comprehensive income.

(iii) Other non-current employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

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

(j) Provisions

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

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for electricity transmission on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(ii) Connection services

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

Revenue is recognized in proportion to the stage of completion of technological connection.

(iii) Other services

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

(l) Other expenses

(i) Lease payments

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

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

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

Determining whether an arrangement contains a lease

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

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

(ii) Social expenditure

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

(m) Finance income and costs

Finance income comprises interest income on cash balances, bank deposits and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, employee benefits and finance leases, foreign currency losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

(n) Income tax expense

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

(o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period. There are no dilutive potential ordinary shares.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see Note 5).

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

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. The Group has not yet analysed the likely impact of the new Standards on its financial position and performance. The Group plans to adopt the following pronouncements when they become effective:

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value*

Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.

- IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted.
- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 July 2014. Entities are permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Equity and debt securities

The fair value of available-for-sale financial assets and held-to-maturity investments is determined by reference to their quoted closing bid price at the reporting date. The fair value of investments in unquoted debt securities is determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount.

(c) Non-derivative financial liabilities

The fair value of financial liabilities, which is calculated for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of issued bonds the fair value is determined by reference to their quoted closing price at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are reviewed each quarter by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following reportable segments:

- Electricity transmission in Moscow;
- Electricity transmission in the Moscow region;
- Connection services in Moscow;
- Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment “other”. None of these items meets any of the quantitative thresholds for determining reportable segments in 2013 or 2012.

The segment revenue and profit before income tax for the year ended 31 December 2013 are as follows:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	110 980 500	14 545 289	1 477 992	127 003 781
Moscow	54 974 091	8 072 736	1 251 398	64 298 225
Moscow Region	56 006 409	6 472 553	226 594	62 705 556
Inter-segment revenue	-	-	1 848 971	1 848 971
Moscow	-	-	1 386 294	1 386 294
Moscow Region	-	-	462 677	462 677
Depreciation and amortisation	18 737 440	156 448	69 672	18 963 560
Moscow	10 555 363	-	60 498	10 615 861
Moscow Region	8 182 077	156 448	9 174	8 347 699
Reportable segment operating results	9 089 531	13 371 570	387 990	22 849 091
Moscow	5 943 221	7 462 661	307 694	13 713 576
Moscow Region	3 146 310	5 908 909	80 296	9 135 515

Other material items are as follows:

’000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	(18 963 560)	1 045 500	(17 918 060)
Capital expenditure	(51 383 874)	6 187 038	(45 196 836)
Impairment losses on property, plant and equipment	-	(318 906)	(318 906)
Income tax expense	(4 530 617)	(367 579)	(4 898 196)

The difference between external revenues and revenue reported in consolidated statement of comprehensive income for 2013 is due to recognition of income under agreements on compensation of losses as revenue from connection services.

Comparative segment revenue and profit before income tax for the year ended 31 December 2012 are as follows:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	100 280 183	17 390 781	2 105 422	119 776 386
Moscow	49 689 780	11 966 115	1 901 241	63 557 136
Moscow Region	50 590 403	5 424 666	204 181	56 219 250
Inter-segment revenue	-	-	1 904 414	1 904 414
Moscow	-	-	1 703 174	1 703 174
Moscow Region	-	-	201 240	201 240
Depreciation and amortisation	16 686 572	71	56 524	16 743 167
Moscow	8 983 779	-	49 554	9 033 333
Moscow Region	7 702 793	71	6 970	7 709 834
Reportable segment operating results	11 424 870	14 044 037	324 615	25 793 522
Moscow	9 490 747	9 236 132	341 593	19 068 472
Moscow Region	1 934 123	4 807 905	(16 978)	6 725 050

Other material items are as follows:

’000 RUB (restated)	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	(16 743 167)	(651 414)	(17 394 581)
Capital expenditure	(36 212 165)	(2 981 513)	(39 193 678)
Impairment losses on property, plant and equipment	-	(252 864)	(252 864)
Income tax expense	(3 764 806)	(2 668 629)	(6 433 435)

Reconciliation of reportable segment profit:

’000 RUB	**2013**	**2012 (restated)**
Reportable segments profit	22 461 101	25 468 907
Other profit or loss	387 990	324 615
Unallocated	(6 060 922)	(4 836 905)
Total profit before income tax per Russian Accounting Standards	**16 788 169**	**20 956 617**
Borrowing costs capitalized	363 847	2 010 270
Expenses associated with leased property, plant and equipment	1 869 030	2 185 659
Loss on disposal of property, plant and equipment	(29 272)	(311 038)
Depreciation and amortisation	1 065 561	(604 819)
Provision for legal claims	(119 939)	627 843
Provision for unused vacations and bonuses	(3 715)	3 829
Reversal/(allowance for impairment) of account receivable and advances for capital expenditure	4 961 726	29 065
Effect of loan discounting	(86 747)	462 854
Impairment loss on property, plant and equipment	(318 906)	(252 913)
Accrued expenses for connection services	135 937	(226 108)
Accrued employee benefits plan liabilities	(153 164)	(71 174)
Other items	(101 247)	520 413
Consolidated profit before income tax per IFRS	**24 371 280**	**25 330 498**

Segment operating results that are reported to the Board of Directors are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses and other income and expenses which are included in “unallocated” component.

Major customer

In 2013, revenue from one customer of the Group’s electricity transmission segment represented approximately 75% (RUB 97 487 695 thousand) of the Group’s total revenue (2012: 70%; RUB 87 651 844 thousand).

Segment assets are presented in the table below:

'000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Unallocated**	**Total**
31 December 2013					
Total assets	**263 205 648**	**22 123 570**	**3 482 313**	**22 486 491**	**311 298 022**
Moscow	173 445 576	12 922 398	2 856 782	-	189 224 756
Moscow Region	89 760 072	9 201 172	625 531	-	99 586 775
Unallocated	**-**	**-**	**-**	22 486 491	22 486 491
Capital expenditure	**51 212 134**	**26 546**	**145 194**	**-**	**51 383 874**
Moscow	33 157 217	-	97 543	-	33 254 760
Moscow Region	18 054 917	26 546	47 651	-	18 129 114
31 December 2012					
Total assets	**239 613 393**	**31 139 311**	**3 407 159**	**24 950 777**	**299 110 640**
Moscow	155 230 650	21 424 141	2 802 857	-	179 457 648
Moscow Region	84 382 743	9 715 170	604 302	-	94 702 215
Unallocated	-	-	-	24 950 777	24 950 777
Capital expenditure	**36 094 600**	**68 744**	**48 821**	**-**	**36 212 165**
Moscow	23 905 600	-	48 094	-	23 953 694
Moscow Region	12 189 000	68 744	727	-	12 258 471

Reconciliation of reportable segments assets:

’000 RUB	**2013**	**2012**
Reportable segments assets	285 329 218	270 752 704
Other assets	3 482 313	3 407 159
Unallocated	22 486 491	24 950 777
Total assets per Russian Accounting Standards	**311 298 022**	**299 110 640**
Net-off trade and other receivables and payables	-	(24 737)
Inventories	(2 382 643)	(3 034 095)
Advances given	(6 815 635)	(16 479 942)
Property, plant and equipment	(8 627 716)	(1 356 592)
Impairment losses on property, plant and equipment	(571 770)	(257 644)
Reversal/(allowance) for impairment of account receivable and advances for capital expenditure	3 664 418	(1 224 952)
Deferred tax assets	(3 798 089)	(2 064 078)
Other items	(83 810)	134 370
Eliminations	(6 381 425)	(5 746 429)
Consolidated assets per IFRS	**286 301 352**	**269 056 541**

Segment assets that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment assets represent the assets of each segment without allocation of VAT, cash and cash equivalents, inventory and investments, which are included in “unallocated” component.

Segment liabilities are presented in the table below:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Unallocated**	**Total**
31 December 2013					
Total liabilities	**71 471 924**	**44 142 429**	**1 125 893**	**10 352 924**	**127 093 170**
Moscow	66 784 044	28 351 633	844 442	-	95 980 119
Moscow Region	4 687 880	15 790 796	281 451	-	20 760 127
Unallocated	-	-	-	10 352 924	10 352 924
31 December 2012					
Total liabilities	**60 467 706**	**48 397 324**	**1 544 009**	**12 759 130**	**123 168 169**
Moscow	58 496 585	29 308 221	1 327 256	-	89 132 062
Moscow Region	1 971 121	19 089 103	216 753	-	21 276 977
Unallocated	-	-	-	12 759 130	12 759 130

Reconciliation of reportable segments liabilities:

’000 RUB	**2013**	**2012 (restated)**
Reportable segments liabilities	115 614 353	108 865 030
Other liabilities	1 125 893	1 544 009
Unallocated	10 352 924	12 759 130
Total liabilities per Russian Accounting Standards	**127 093 170**	**123 168 169**
Finance lease liabilities	67 432	1 137 613
Deferred tax liabilities	4 540 498	5 728 236
Employee benefits	4 257 273	3 421 610
Provision for legal claims	-	(119 939)
Effect of discounting	(402 288)	(467 931)
Net-off trade and other receivables and payables	-	(24 737)
Other items	(75 730)	(154 227)
Eliminations	(2 756 665)	(2 578 844)
Consolidated liabilities per IFRS	**132 723 690**	**130 109 950**

Segment liabilities that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment liabilities represent the liabilities of each segment without allocation of VAT, deferred tax liabilities and deferred income, which are included in “unallocated” component.

6 Revenue

	2013 ’000 RUB	**2012 ’000 RUB**
Electricity transmission	110 980 500	100 280 184
Revenue from connection services	16 900 205	22 930 260
Other revenue	1 244 434	2 113 885
	129 125 139	**125 324 329**

Revenue from connection services represents services related to connection of customers’ power receivers to the electricity network of the Group.

Other revenue is comprised of installation services and technical maintenance of electrical equipment and rental income.

7 Operating expenses, net

	2013	**2012**
	'000 RUB	**'000 RUB**
		(restated)
Electricity transmission	(53 664 055)	(45 570 875)
Depreciation and amortisation	(17 918 060)	(17 394 581)
Personnel costs	(16 619 831)	(15 183 987)
Rent	(1 130 907)	(1 335 664)
Repairs, maintenance and installation services	(3 200 444)	(3 191 205)
Connection services	3 067	(1 055 634)
Raw materials and supplies	(2 062 480)	(2 148 204)
Consulting, legal, audit services including professional training	(1 205 240)	(1 685 678)
Electricity count services	(177 463)	(394 302)
Insurance	(787 067)	(653 852)
Impairment losses on property, plant and equipment	(318 906)	(252 911)
Telecommunication services	(673 017)	(682 198)
Taxes other than income tax	(1 176 510)	(953 286)
Security services	(608 825)	(570 042)
Allowance for impairment of trade and other receivables, prepayments and non-current assets	(4 085 845)	(2 857 450)
Provision for legal claims	1 188 162	(2 184 320)
Transportation	(385 430)	(304 033)
Registration of rights to property	(931 552)	(1 377 472)
Provision for inventory obsolescence	(10 017)	(387 935)
Other expenses	(2 995 703)	(4 365 856)
	(106 760 123)	**(102 549 485)**

8 Personnel costs

	2013 '000 RUB	2012 '000 RUB (restated)
Salaries and wages	(12 769 111)	(11 776 657)
Contributions to State pension fund	(2 380 978)	(2 229 285)
Financial aid to employees and pensioners	(812 682)	(674 167)
Expenses in respect of post employment benefits – defined benefit plan	(490 718)	(532 114)
Benefit/(expenses) in respect of post employment benefits – defined contribution plan	63 922	(132 228)
(Expenses)/benefit in respect of long-term service benefits provided	(230 264)	160 464
	(16 619 831)	**(15 183 987)**

The average number of employees during the year was 16 006 (in 2012: 15 998).

9 Other operating income

	2013 '000 RUB	2012 '000 RUB
Other income	4 162 676	3 351 607
	4 162 676	**3 351 607**

10 Finance income and costs

	2013 '000 RUB	2012 '000 RUB (restated)
Finance income		
Interest income	392 684	1 444 972
Initial discount on recognition of financial liabilities	(221)	488 218
Interest on employee benefits obligation (income)	9 917	472
	402 380	**1 933 662**
Finance costs		
Interest on employee benefits obligation, net	(247 134)	(194 804)
Interest expense	(2 138 246)	(1 965 892)
Interest on finance lease	(112 500)	(543 555)
Unwinding of discount on financial liabilities	(60 912)	(25 364)
	(2 558 792)	**(2 729 615)**

11 Income tax expense

	2013 '000 RUB	2012 '000 RUB (restated)
Current tax expense		
Current tax expense	(5 207 205)	(7 210 915)
Overprovided in prior periods	451 645	3 107 958
	(4 755 560)	**(4 102 957)**
Deferred tax		
Origination and reversal of temporary differences	(142 636)	852 285
Change in tax base of PPE	-	(3 182 763)
	(142 636)	**(2 330 478)**
Income tax charge	**(4 898 196)**	**(6 433 435)**

In 2012 the Group recalculated income tax for prior periods (2009-2011) related to the deductibility for tax purposes of certain amounts which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 3 107 958 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in the increase of deferred tax liabilities of the Group in the amount of RUB 3 182 763 thousand.

The Group's applicable tax rate in the Russian Federation is the income tax rate of 20%.

Reconciliation of effective tax rate:

	2013 '000 RUB	%	2012 '000 RUB	%
Profit before income tax	24 371 280	100	25 330 498	100
Income tax at applicable tax rate	(4 874 256)	(20)	(5 066 100)	(20)
Overprovided in prior periods	451 645	2	3 107 958	12
Change in tax base of PPE	-	-	(3 182 763)	(12)
Non-deductible expenses	(475 585)	(2)	(1 292 530)	(5)
	(4 898 196)	**(20)**	**(6 433 435)**	**(25)**

12 Property, plant and equipment

'000 RUB	Land and buildings	Trans-mission networks	Transfor-mers and transformer substations	Other	Construction in progress	Total
At 1 January 2012	25 604 988	109 527 632	41 630 144	47 330 906	42 594 231	266 687 901
Additions	2 529 712	4 167 522	964 297	1 023 542	30 508 605	39 193 678
Disposals	(11 573)	(319 010)	(155 303)	(66 330)	(398 914)	(951 130)
Transfers	868 068	20 831 574	5 937 103	9 480 976	(37 117 721)	-
At 31 December 2012	**28 991 195**	**134 207 718**	**48 376 241**	**57 769 094**	**35 586 201**	**304 930 449**
Depreciation						
At 1 January 2012	(4 593 874)	(25 219 168)	(9 602 489)	(21 011 940)	(526 191)	(60 953 662)
Depreciation charge	(955 769)	(6 298 632)	(2 405 379)	(7 639 954)	-	(17 299 734)
Impairment losses	-	-	-	-	(252 864)	(252 864)
Disposals	2 454	101 983	64 339	50 055	4 119	222 950
At 31 December 2012	**(5 547 189)**	**(31 415 817)**	**(11 943 529)**	**(28 601 839)**	**(774 936)**	**(78 283 310)**
Net book value						
At 1 January 2012	21 011 114	84 308 464	32 027 655	26 318 966	42 068 040	205 734 239
At 31 December 2012	**23 444 006**	**102 791 901**	**36 432 712**	**29 167 255**	**34 811 265**	**226 647 139**
At 1 January 2013	28 991 195	134 207 718	48 376 241	57 769 094	35 586 201	304 930 449
Additions	526 664	4 319 464	654 586	1 471 212	38 224 910	45 196 836
Disposals	(72 290)	(532 843)	(32 599)	(144 753)	(254 122)	(1 036 607)
Transfers	4 870 377	16 270 857	7 402 803	9 878 938	(38 422 975)	-
At 31 December 2013	**34 315 946**	**154 265 196**	**56 401 031**	**68 974 491**	**35 134 014**	**349 090 678**
Depreciation						
At 1 January 2013	(5 547 189)	(31 415 817)	(11 943 529)	(28 601 839)	(774 936)	(78 283 310)
Depreciation charge	(992 159)	(7 132 845)	(3 487 089)	(6 130 374)	-	(17 742 467)
Impairment losses	-	-	-	-	(318 906)	(318 906)
Disposals	16 474	152 752	12 235	133 758	172 873	488 092
At 31 December 2013	**(6 522 874)**	**(38 395 910)**	**(15 418 383)**	**(34 598 455)**	**(920 969)**	**(95 856 591)**
Net book value						
At 1 January 2013	23 444 006	102 791 901	36 432 712	29 167 255	34 811 265	226 647 139
At 31 December 2013	**27 793 072**	**115 869 286**	**40 982 648**	**34 376 036**	**34 213 045**	**253 234 087**

(a) Impairment of property, plant and equipment

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2013. The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2013 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

As a result of impairment testing no impairment loss has been recognized.

During the year the management identified and wrote-off items of construction in progress in the amount of RUB 318 906 thousand (2012: RUB 252 864 thousand) which will not be used in operating activities.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2013 the net book value of leased plant and machinery was RUB 67 686 thousand (31 December 2012: RUB 13 195 294 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

Borrowing costs totalling RUB 1 973 801 thousand as at 31 December 2013 with a capitalisation rate of 8.37% (2012: RUB 2 010 270 thousand with a capitalisation rate of 8.59%) were included in the cost of property, plant and equipment and represent interest on loans.

(d) Advance payments for property, plant and equipment

As at 31 December 2013 construction in progress includes advance payments for property, plant and equipment of RUB 692 739 thousand (31 December 2012: RUB 2 075 258 thousand).

13 Intangible assets

'000 RUB	**Software**	**Certificates and licences**	**Other**	**Total**
At 1 January 2012	577 340	27 987	1 276	606 603
Additions	71 544	34 408	61 583	167 535
Disposals	(107 672)	(10 478)	(18)	(118 168)
At 31 December 2012	**541 212**	**51 917**	**62 841**	**655 970**
Amortisation				
At 1 January 2012	(119 498)	(14 466)	(1)	(133 965)
Amortisation	(88 733)	(21 329)	(129)	(110 191)
Disposals	107 672	10 478	5	118 155
At 31 December 2012	**(100 559)**	**(25 317)**	**(125)**	**(126 001)**
Net book value				
At 1 January 2012	457 842	13 521	1 275	472 638
At 31 December 2012	**440 653**	**26 600**	**62 716**	**529 969**
At 1 January 2013	541 212	51 917	62 841	655 970
Additions	78 390	63 610	44 332	186 332
Disposals	(67 613)	(51 917)	-	(119 530)
At 31 December 2013	**551 989**	**63 610**	**107 173**	**722 772**
Amortisation				
At 1 January 2013	(100 559)	(25 317)	(125)	(126 001)
Amortisation	(115 594)	(54 454)	(5 545)	(175 593)
Disposals	67 612	51 917	-	119 529
At 31 December 2013	**(148 541)**	**(27 854)**	**(5 670)**	**(182 065)**
Net book value				
At 1 January 2013	440 653	26 600	62 716	529 969
At 31 December 2013	**403 448**	**35 756**	**101 503**	**540 707**

14 Investments

	31 December 2013 '000 RUB	31 December 2012 '000 RUB
Non-current		
Promissory notes	-	621 674
	-	**621 674**
Current		
Bank deposit	-	10 001
Promissory notes	682 611	-
	682 611	**10 001**

15 Other non-current assets

	31 December 2013 '000 RUB	31 December 2012 '000 RUB
Long-term advances for connection services	14 782 834	14 932 380
VAT on advances from customers	828 230	1 184 157
Financial assets available-for-sale	343 949	321 530
Other non-current assets	-	14 519
Allowance for impairment on long-term advances	(9 827 726)	(5 736 319)
	6 127 287	**10 716 267**

Financial assets available-for-sale relate to the Group contributions accumulated in solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry. Subject to certain restrictions contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	**Assets**		**Liabilities**		**Net**	
	2013	**2012 (restated)**	**2013**	**2012**	**2013**	**2012 (restated)**
Property, plant and equipment	100 161	90 833	(15 452 944)	(16 199 248)	(15 352 783)	(16 108 415)
Intangible assets	2	2	(1 402)	(721)	(1 400)	(719)
Inventories	128 904	102 862	(512)	-	128 392	102 862
Trade and other receivables	3 695 629	2 797 519	-	(23 935)	3 695 629	2 773 584
Finance lease liability	390 966	2 247 739	-	-	390 966	2 247 739
Loans and borrowings	-	-	(291 624)	(432 492)	(291 624)	(432 492)
Employee benefits	782 665	620 016	-	-	782 665	620 016
Trade and other payables	372 489	-	-	(116 008)	372 489	(116 008)
Provisions	89 443	634 537	-	-	89 443	634 537
Deferred expenses	474 106	498 250	-	-	474 106	498 250
Other	-	75 047	(8 149)	(8 531)	(8 149)	66 516
Tax assets/ (liabilities)	**6 034 365**	**7 066 805**	**(15 754 631)**	**(16 780 935)**	**(9 720 266)**	**(9 714 130)**

(b) Movement in temporary differences during the year

'000 RUB	1 January 2013 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2013
Property, plant and equipment	(16 108 415)	755 632	-	(15 352 783)
Intangible assets	(719)	(681)	-	(1 400)
Inventories	102 862	25 530	-	128 392
Trade and other receivables	2 773 584	922 045	-	3 695 629
Finance lease liability	2 247 739	(1 856 773)	-	390 966
Loans and borrowings	(432 492)	140 868	-	(291 624)
Employee benefits	620 016	26 149	136 500	782 665
Trade and other payables	(116 008)	488 497	-	372 489
Provisions	634 537	(545 094)	-	89 443
Deferred expenses	498 250	(24 144)	-	474 106
Other	66 516	(74 665)	-	(8 149)
	(9 714 130)	**(142 636)**	**136 500**	**(9 720 266)**

'000 RUB	1 January 2012 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012 (restated)
Property, plant and equipment	(12 857 982)	(3 250 433)	-	(16 108 415)
Intangible assets	(6 329)	5 610	-	(719)
Inventories	6 060	96 802	-	102 862
Trade and other receivables	2 296 096	477 488	-	2 773 584
Finance lease liability	2 244 655	3 084	-	2 247 739
Loans and borrowings	(221 256)	(211 236)	-	(432 492)
Employee benefits	442 065	40 442	137 509	620 016
Trade and other payables	(114)	(115 894)	-	(116 008)
Provisions	101 582	532 955	-	634 537
Deferred expenses	401 372	96 878	-	498 250
Other	72 690	(6 174)	-	66 516
	(7 521 161)	**(2 330 478)**	**137 509**	**(9 714 130)**

17 Inventories

	31 December 2013 ’000 RUB	31 December 2012 ’000 RUB
Raw materials and consumables	2 313 042	2 015 612
Other	380 888	445 749
Allowance for impairment of inventories	(405 108)	(395 166)
	2 288 822	**2 066 195**

18 Trade and other receivables

	31 December 2013 ’000 RUB	31 December 2012 ’000 RUB
Trade receivables	11 067 004	11 082 541
Advances given	1 239 439	934 008
VAT on advances from customers	5 210 367	5 521 915
VAT receivable	380 394	-
Other receivables	2 526 664	1 233 911
VAT recoverable	2 124 516	2 699 927
Allowance for impairment of accounts receivable	(811 721)	(1 345 813)
	21 736 663	**20 126 489**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27.

19 Cash and cash equivalents

	31 December 2013 ’000 RUB	31 December 2012 ’000 RUB
Petty cash	203	5 091
Current accounts	1 507 823	8 317 808
Cash equivalents	88 240	9 011
Cash and cash equivalents in the statement of financial position and statement of cash flows	**1 596 266**	**8 331 910**

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

20 Equity

(a) Share capital

Share capital	**Ordinary shares 31 December 2013**	**Ordinary shares 31 December 2012**
Issued shares, fully paid	48 707 091 574	48 707 091 574
Par value (in RUB)	RUB 0.50	RUB 0.50

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

(b) Treasury shares

The Group did not hold any own shares as at 31 December 2013 and 31 December 2012.

(c) Dividends

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

In 2013 the Company declared and paid dividends in amount of RUB 4 296 014 thousand (RUB 0,088 per share) (2012: in amount of RUB 1 217 677 thousand (RUB 0,025 per share)).

(d) Acquisition of non-controlling interests

On 15 February 2012, the Group acquired an additional 9 999 shares of OJSC Energocentr, a subsidiary of the Group, for a cash consideration of RUB 51 000 thousand, increasing its ownership interest in OJSC Energocentr from 50% to 75% minus one share. The carrying amount of OJSC Energocentr's net assets in the Group`s financial statements on the date of the acquisition was RUB 982 002 thousand. As a result of this transaction the Group recognised a decrease in non-controlling interests of RUB 242 228 thousand, and an increase in retained earnings of RUB 191 228 thousand.

The following table summarises the effect of changes in the Company`s ownership interest in OJSC Energocentr.

'000 RUB	**2012**
Company's ownership interest at 1 January	497 547
Effect of increase in Company's ownership interest	242 228
Share of comprehensive income	(32 276)
Company's ownership interest at 31 December	**707 499**

21 Earnings per share

The calculation of earnings per share is based upon the profit for the year attributable to the shareholders and the average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	31 December 2013	**31 December 2012 (restated)**
Number of outstanding shares	48 707 091 574	48 707 091 574
Profit for the year attributable to the shareholders of OJSC “MOESK” (’000 RUB)	19 336 153	18 907 822
Earnings per share (RUB)	0.3970	0.3882

22 Loans and borrowings

This note provides information about the contractual terms of the Group’s loans and borrowings, which are measured at amortised cost. For more information about the Group’s exposure to interest rate and foreign currency risk, see Note 27.

	31 December 2013 ’000 RUB	**31 December 2012 ’000 RUB**
Non-current		
Unsecured bank facility	36 721 317	39 266 231
Unsecured bond issues	15 568 037	10 537 553
Finance lease liabilities	-	233 386
	52 289 354	**50 037 170**
Current		
Unsecured bank facility	110 659	2 997 905
Current portion of unsecured bond issues	492 760	348 296
Current portion of unsecured bank facility	5 392 909	31 299
Current portion of finance lease liabilities	6	693 039
	5 996 334	**4 070 539**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

		2013	2012		2013		2012	
’000 RUB	**Currency**	**Nominal interest rate**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank facility	RUB	9.25%	9.75%	2013	-	-	1 496 928	1 496 928
Unsecured bonds	RUB	-	-	2024	980 875	717 227	1 167 174	709 137
Unsecured bank facility	RUB	9.25%	9.75%	2013	-	-	2 993 658	2 993 658
Unsecured bank facility	RUB	9.25%	9.75%	2013	-	-	2 993 460	2 993 460
Unsecured bank facility	RUB	9.40%	9.75%	2013	-	-	2 991 801	2 991 801
Unsecured bank facility	RUB	9.42%	9.75%	2013	-	-	2 991 646	2 991 646
Unsecured bank facility	RUB	9.44%	9.75%	2013	-	-	621 210	621 210
Unsecured bank facility*	RUB	8.00%	-	2018	10 013 151	10 013 151	-	-
Unsecured bank facility*	RUB	8.00%	-	2020	8 521 317	8 521 317	-	-
Unsecured bank facility*	RUB	7.83%	7.83%	2013	-	-	3 000 473	3 000 473
Unsecured bank facility*	RUB	7.80%	7.80%	2014	2 002 565	2 002 565	2 002 557	2 002 557
Unsecured bank facility*	RUB	7.80%	7.80%	2014	2 002 565	2 002 565	2 002 557	2 002 557
Unsecured bank facility*	RUB	7.72%	7.72%	2015	3 002 539	3 002 539	3 002 532	3 002 532
Unsecured bank facility*	RUB	7.72%	7.72%	2015	3 202 708	3 202 708	3 202 700	3 202 700
Unsecured bank facility*	RUB	7.72%	7.72%	2015	1 501 269	1 501 269	1 501 266	1 501 266
Unsecured bank facility*	RUB	6.87%	6.87%	2014	1 361 823	1 361 823	1 361 807	1 361 807
Unsecured bank facility*	RUB	7.46%	7.46%	2016	2 502 044	2 502 044	2 502 039	2 502 039
Unsecured bank facility*	RUB	-	10.10%	2013	-	-	1 500 000	1 500 000
Unsecured bank facility*	RUB	-	MosPrime rate + 2.83%	2013	-	-	2 127 885	2 127 885
Unsecured bank facility*	RUB	MosPrime rate + 1.4212%	MosPrime rate + 1.4212%	2016	3 000 000	3 000 000	3 001 458	3 001 458
Unsecured bank facility*	RUB	MosPrime rate + 1.4212%	MosPrime rate + 1.4212%	2016	3 000 000	3 000 000	3 001 458	3 001 458
Unsecured bank facility*	RUB	8.08%	-	2019	2 002 655	2 002 655	-	-
Unsecured bank facility	RUB	7.94%	-	2014	52 449	52 449	-	-
Unsecured bank facility	RUB	12.50%	-	2014	59 800	59 800	-	-
Unsecured bonds	RUB	8.80%	8.80%	2015	5 122 961	5 116 458	5 111 461	5 111 461
Unsecured bonds	RUB	8.80%	8.80%	2015	5 077 151	5 070 209	5 065 251	5 065 251
Unsecured bonds	RUB	8.50%	-	2016	5 161 836	5 156 903	-	-
Finance lease liabilities	RUB	-	-	-	-	6	-	926 425
					58 567 708	**58 285 688**	**53 639 321**	**54 107 709**

*Loans from state controlled entities

Finance lease liabilities are payable as follows:

	2013			2012		
’000 RUB	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	6	-	6	808 894	115 855	693 039
Between one and five years	-	-	-	367 467	141 959	225 508
More than five years	-	-	-	9 449	1 571	7 878
	6	**-**	**6**	**1 185 810**	**259 385**	**926 425**

All bank loans are unsecured. The finance lease liabilities are secured by the leased assets (see Note 12). During 2013 the Group used an option of early repayment of finance lease liability.

OJSC Energocentr

By July 2010 OJSC Energocentr failed to pay the fifth, sixth and part of the fourth semi-annual coupons on its bonds in the amount of RUB 757 317 thousand and failed to repurchase bonds in the amount of RUB 2 478 172 thousand, due to liquidity problems.

On 8 February 2012, the Arbitration court of the Moscow region passed a ruling on the approval of the agreement, concluded between OJSC Energocentr and the representative of the creditors. On 18 April 2012, the ruling was cancelled by the Federal Arbitration court of the Moscow region.

On 30 July 2012, the Arbitration court of the Moscow region iteratively passed a ruling on the approval of the agreement, concluded between OJSC Energocentr and the representative of the creditors. According to the agreement, OJSC Energocentr undertakes to repay debts in accordance with the approved schedule of repayment of the debt. According to the court decision, the bankruptcy proceedings of OJSC Energocentr were terminated.

23 Employee benefits

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

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

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

Amounts recognised in the consolidated statement of financial position:

	31 December 2013 ’000 RUB	**31 December 2012 ’000 RUB (restated)**
Present value of post-employment benefits obligation	4 173 254	3 271 985
Present value of other long-term employee benefit obligation	84 019	149 625
Total present value of benefit obligation	**4 257 273**	**3 421 610**

Amounts recognised in profit or loss are as follows:

	Year ended 31 December 2013 ’000 RUB	**Year ended 31 December 2012 ’000 RUB (restated)**
Service cost	498 023	392 748
Remeasurement of other long-term employee benefit obligation	(71 227)	(4 419)
Interest expenses	247 134	194 804
Total loss recognised in profit or loss	**673 930**	**583 133**

Amounts recognised in other comprehensive income are as follows:

	Year ended 31 December 2013 ’000 RUB	**Year ended 31 December 2012 ’000 RUB (restated)**
Actuarial loss arising from demographic assumptions	465 250	433 236
Actuarial (gain)/ loss arising from financial assumptions	(190 750)	166 002
Actuarial loss arising from experience adjustment	407 999	88 306
Total actuarial loss recognised in other comprehensive income	**682 499**	**687 544**

Movements in net defined benefit liability are as follows:

	Present value of post-employment benefits obligation		**Present value of other long-term employee benefit obligation**		**Present value of defined benefit liability**	
	Year ended 31 December 2013	**Year ended 31 December 2012 (restated)**	**Year ended 31 December 2013**	**Year ended 31 December 2012 (restated)**	**Year ended 31 December 2013**	**Year ended 31 December 2012 (restated)**
Benefit obligations as at the beginning of the year	3 271 985	2 351 893	149 625	310 999	3 421 610	2 662 892
Current service cost	138 902	124 193	12 059	12 187	150 961	136 380
Past service cost	351 816	424 598	(4 754)	(168 230)	347 062	256 368
Interest cost	236 528	182 617	10 606	12 187	247 134	194 804
Remeasurement loss (gain) of the defined benefit liability arising from:						
Actuarial loss (gain) arising from demographic assumptions	465 250	433 236	(62 187)	1 102	403 063	434 338
Actuarial (gain) loss arising from financial assumptions	(190 750)	166 002	(8 960)	4 978	(199 710)	170 980
Actuarial loss (gain) arising from experience adjustment	407 999	88 306	(80)	(10 499)	407 919	77 807
Benefits paid	(508 476)	(498 860)	(12 290)	(13 099)	(520 766)	(511 959)
Benefit obligations as at the end of the year	**4 173 254**	**3 271 985**	**84 019**	**149 625**	**4 257 273**	**3 421 610**

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

	Year ended 31 December 2013 ’000 RUB	Year ended 31 December 2012 ’000 RUB
1 January	1 564 501	876 957
Movement in amount of restatement	682 499	687 544
31 December	**2 247 000**	**1 564 501**

The significant actuarial assumptions are as follows:

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

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

	Change in the assumption	Impact on obligation	Sensitivity
Discount rate	Increase/decrease by 0.5%	Decrease/increase by	3.77%
Future salary growth	Increase/decrease by 0.5%	Increase/decreas by	0.82%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by	3.06%
Average level of staff movement	Increase/decrease by 10%	Decrease/increase by	1.08%
Mortality	Increase/decrease by 10%	Decrease/increase by	1.27%

24 Provisions

'000 RUB	Legal claims
Balance at 1 January 2012	**988 365**
Provisions accrued during the year	2 507 606
Provisions reversed during the year	(323 286)
Balance at 31 December 2012	**3 172 685**
Provisions accrued during the year	440 371
Provisions reversed during the year	(1 628 533)
Provisions used during the year	(1 537 309)
Balance at 31 December 2013	**447 214**

Provision for legal claims relates to the claims brought against the Group within the ordinary course of business. The balance of the provision at 31 December 2013 is expected to be utilised in 2014. Management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

25 Trade and other payables

	31 December 2013 '000 RUB	31 December 2012 '000 RUB
Non-current		
Advances received	6 536 118	8 038 079
Other payables	1 098 780	1 306 445
	7 634 898	**9 344 524**
Current		
Accounts payable – trade	9 280 556	9 556 130
Advances received	40 899 042	37 382 903
Other payables and accrued expenses	1 900 917	1 984 914
	52 080 515	**48 923 947**

As at 31 December 2013 overdue advances received for connection services were RUB 10 515 541 thousand (31 December 2012: RUB 12 197 841 thousand). The Group's approach to managing liquidity is entering into additional agreements with revised terms of execution.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

26 Other taxes payable

	31 December 2013 '000 RUB	31 December 2012 '000 RUB
Property tax	238 297	69 394
Other taxes	11 453	14 449
Employee taxes	5 016	2 827
Value added tax	39 901	903 959
	294 667	**990 629**

27 Financial risk management

(a) Overview

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

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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

(b) Credit risk

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

(i) Trade and other receivables

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

Approximately 75.5% (2012: 70%) of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over seven years, and, historically, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. The Group's management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

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

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

Exposure to credit risk

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

	Carrying amount	
'000 RUB	**31 December 2013**	**31 December 2012**
Trade and other receivables	12 827 735	11 020 024
Cash and cash equivalents	1 596 266	8 331 910
Investments	682 611	631 675
Available-for-sale financial assets	343 949	321 530
	15 450 561	**20 305 139**

The Group's most significant customer is controlled by the Government of Russian Federation and accounts for RUB 6 995 268 thousand of the trade receivables carrying amount at 31 December 2013 (2012: RUB 8 457 269 thousand).

Impairment losses

The aging of trade and other receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
'000 RUB	**2013**	**2013**	**2012**	**2012**
Not past due	9 294 075	35 779	10 038 582	-
Past due less than 3 months	1 970 410	27 240	538 410	-
Past due from 3 to 6 months	160 656	-	31 862	-
Past due from 6 months to one year	564 470	115 658	419 768	114 043
More than one year	1 571 049	554 248	1 258 966	1 153 521
	13 560 660	**732 925**	**12 287 588**	**1 267 564**

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

	31 December 2013	**31 December 2012**
	’000 RUB	**’000 RUB**
Balance at 1 January	1 267 564	1 206 836
Increase during the period	199 808	199 852
Decrease due to reversal/write-off	(734 447)	(139 124)
Balance at 31 December	**732 925**	**1 267 564**

The impairment provision at 31 December 2013 of RUB 732 925 thousand (2012: RUB 1 267 564 thousand) relates to disputable accounts receivable with no payment.

Based on past experience and analysis performed by the credit department, Group management believes that no impairment allowance is necessary in respect of accounts receivable not past due because the customers to which these balances relate have a good credit history.

(ii) Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents are now deposited only with financial institutions that at the time of deposit the management considers to have minimal risk of default. Bank deposits, cash and cash equivalents are mainly held at OJSC Sberbank, OJSC Bank VTB.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s objective of liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Group monitors and manages liquidity risk by maintaining bank credit lines, obtaining loans (Note 22) and sufficient cash balances on its settlement accounts (see Note 19).

The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements:

2013 **'000 RUB**	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans	42 224 885	53 431 228	8 707 667	10 470 220	10 520 829	1 643 305	19 944 873	2 144 333
Bonds issued	16 060 797	18 433 683	1 330 015	11 337 810	5 147 534	75 331	77 100	465 893
Finance lease liabilities	6	6	6	-	-	-	-	-
Trade payables	9 280 556	9 280 556	9 280 556	-	-	-	-	-
	67 566 244	**81 145 473**	**19 318 244**	**21 808 030**	**15 668 363**	**1 718 636**	**20 021 973**	**2 610 226**

2012 **'000 RUB**	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans	42 295 435	53 177 379	6 589 834	14 433 211	17 305 804	5 081 364	7 235 795	2 531 371
Bonds issued	10 885 849	13 602 809	1 030 595	972 186	10 878 828	98 924	74 674	547 602
Finance lease liabilities	926 425	1 185 810	808 894	112 064	120 935	99 029	35 439	9 449
Trade payables	9 556 130	9 556 130	9 556 130	-	-	-	-	-
	63 663 839	**77 522 128**	**17 985 453**	**15 517 461**	**28 305 567**	**5 279 317**	**7 345 908**	**3 088 422**

(d) Market risk

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

(i) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
'000 RUB	**2013**	**2012**
Fixed rate instruments		
Financial assets	2 278 877	8 963 585
Financial liabilities	(52 285 682)	(45 976 908)
	(50 006 805)	**(37 013 323)**
Variable rate instruments		
Financial liabilities	**(6 000 000)**	**(8 130 801)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
'000 RUB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2013				
Cash flow sensitivity (net)	**(60 509)**	**60 509**	**(60 509)**	**60 509**
2012				
Cash flow sensitivity (net)	**(81 308)**	**81 308**	**(81 308)**	**81 308**

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(e) Fair values versus carrying amounts

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

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

(f) Fair value hierarchy

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

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

'000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2013				
Available-for-sale financial assets	343 949	-	-	343 949
Total assets	**343 949**	**-**	**-**	**343 949**
31 December 2012				
Available-for-sale financial assets	321 530	-	-	321 530
Total assets	**321 530**	**-**	**-**	**321 530**

(g) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position.

	Carrying amount	
'000 RUB	**2013**	**2012**
Total borrowings (Note 22)	58 285 688	54 107 709
Less: Cash and cash equivalents (Note 19)	(1 596 266)	(8 331 910)
Net debt	56 689 422	45 775 799
Equity	153 577 662	138 946 591
Debt to equity ratio	**36.91%**	**32.94%**

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

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

(h) Master netting or similar agreements

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

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

'000 RUB	**Trade and other receivables**	**Trade and other payables**
31 December 2013		
Gross amounts	133 735	416 636
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	133 735	416 636
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	30 554	30 554
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	**103 181**	**386 082**

'000 RUB	**Trade and other receivables**	**Trade and other payables**
31 December 2012		
Gross amounts	1 254 912	86 946
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	1 254 912	86 946
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	59 376	59 376
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	**1 195 536**	**27 570**

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

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2013	**31 December 2012**
	'000 RUB	**'000 RUB**
Less than one year	596 192	1 274 814
Between one and five years	894 817	922 404
More than five years	5 459 934	4 478 551
	6 950 943	**6 675 769**

The Group leases a number of plots of land owned by local governments under operating lease. Land lease payments are determined by lease agreements.

The plots of land leased by the Group are the areas where the Group's electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

29 Commitments

Future capital expenditures for which contracts have been signed as at 31 December 2013 amount to RUB 33 787 836 thousand (31 December 2012: RUB 39 689 257 thousand). Capital commitments for current finance lease agreements for the items of property, plant and equipment as at 31 December 2013 amount to RUB 0 thousand (31 December 2012: RUB 1 247 494 thousand).

30 Contingencies

(a) Insurance

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

(b) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group's operating results.

(c) Taxation contingencies in the Russian Federation

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

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

(d) Environmental matters

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

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

31 Related party transactions

(a) Control relationships

As at 31 December 2013 the Parent of the Group was JSC "Russian Grids", a state controlled entity. The party with ultimate control over the Group is the Government of the Russian Federation, which held the majority of the voting rights of JSC "Russian Grids".

(b) Transactions with parent company and other related parties relationships

'000 RUB	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2013	**2012**	**2013**	**2012**
Sale of goods and services:	**259 493**	**2 102**	**819 399**	**-**
Parent company	256	2 102	-	-
Fellow subsidiaries	259 237	-	819 399	-
Purchase of goods and services:	**7 465 889**	**549 674**	**1 433 743**	**36 157**
Parent company	360 483	430 046	425 371	25 373
Fellow subsidiaries	7 105 406	119 628	1 008 372	10 784
Advances given:	**-**	**-**	**35 713**	**-**
Parent company	-	-	-	-
Fellow subsidiaries	-	-	35 713	-
Advances received:	**-**	**-**	**101 720**	**-**
Parent company	-	-	-	-
Fellow subsidiaries	-	-	101 720	-

(c) Transactions with management and close family members

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

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

'000 RUB	**2013**	**2012**
Short-term employee benefits	506 821	392 219
Termination benefits	19 052	89 496
	525 873	**481 715**

(d) 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.

Revenues from state-controlled entities for the year ended 31 December 2013 constitute 77 % (2012: 76%) of total Group revenues, including 89 % (2012: 94%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2013 constitute 62% (2012: 77%) of total transmission costs.

Due to the fact that on 14 June 2013 the state-owned shares (79.64%) of JSC "FGC UES" were handed over from the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) to JSC "Russian Grids", the share of the cost of electricity transmission to government-related entities decreased.

Significant loans from state-controlled entities are disclosed in Note 22.

(e) Pricing policies

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

In accordance with the Company Charter documents, the following transactions are subject to the approval of the Board of Directors, if the amount of the transaction is below 2% of total assets of the Company as determined in accordance with RAP, and are subject to approval at the Shareholders` meeting if the amount of the transaction exceeds 2% of the total assets of the Company as determined in accordance with RAP:

- Transactions involving the entities where the shareholders of the Company have ownership interest of 20% or more;
- Transaction involving the entities where the management of the Company also act in management capacity.

32 Events subsequent to the reporting date

On 12 February 2014 amount RUB 211 900 thousand related to coupon income on bond (BO-3) was paid.

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Краснихина Т.Е.
Директор ЗАО «КПМГ»

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