OJSC Enel OGK-5

Consolidated Financial Statements

For the year ended 31 December 2013
With independent auditors' report

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Independent auditors' report

To the Shareholders and Board of Directors of OJSC "Enel OGK-5"

We have audited the accompanying consolidated financial statements of OJSC "Enel OGK-5" and its subsidiaries (the "Group"), which comprise consolidated statement of financial position as at 31 December 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 financial statements.

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

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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 the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

6 March 2014

Thousands of Russian Roubles, unless otherwise stated

	Notes	31 December 2013	31 December 2012 (restated)	31 December 2011 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	5	109,822,570	108,132,493	101,003,887
Intangible assets	6	664,120	809,876	818,550
Available-for-sale financial assets		28,480	44,230	52,960
Non-current derivative assets	22	112,670	14,990	108,460
Other non-current assets	7	367,511	555,790	720,866
Total non-current assets		**110,995,351**	**109,557,379**	**102,704,723**
Current assets				
Inventories	9	3,631,263	3,654,960	3,324,734
Trade and other receivables	8	8,715,720	9,065,500	7,637,664
Income tax receivable		27,739	231,857	572,180
Current derivative asset	22	611,648	3,660	–
Cash and cash equivalents	10	8,618,040	5,350,480	4,736,990
Total current assets		**21,604,410**	**18,306,457**	**16,271,568**
TOTAL ASSETS		**132,599,761**	**127,863,836**	**118,976,291**
EQUITY AND LIABILITIES				
Equity	11			
Share capital		35,371,898	35,371,898	35,371,898
Share premium		6,818,747	6,818,747	6,818,747
Treasury shares		(411,060)	(411,060)	(411,060)
Fair value reserve		3,950	11,680	21,360
Hedge reserve	11	129,580	(30,763)	380,690
Retained earnings	14	36,212,889	32,149,212	27,212,369
Total equity attributable to equity holders of OJSC Enel OGK-5		**78,126,004**	**73,909,714**	**69,394,004**
Non-controlling interest		**(22,400)**	**1,813**	**16,783**
Total equity		**78,103,604**	**73,911,527**	**69,410,787**
Non-current liabilities				
Loans and borrowings	13	20,532,420	25,077,980	30,890,888
Deferred tax liabilities	12,14	8,188,585	7,704,799	7,277,904
Employee benefits	14	3,797,530	2,666,001	1,376,654
Provisions	17	903,410	566,120	514,430
Non-current derivative liabilities	22	68,590	477,660	169,790
Other non-current liabilities		270	149	–
Total non-current liabilities		**33,490,805**	**36,492,709**	**40,229,666**
Current liabilities				
Loans and borrowings	13	7,407,260	5,240,610	1,288,712
Current derivative liabilities	22	–	39,240	111,660
Trade and other payables	15	11,717,698	10,582,721	5,675,946
Other taxes payable	16	1,190,980	811,300	1,424,260
Provisions	17	689,414	785,729	835,260
Total current liabilities		**21,005,352**	**17,459,600**	**9,335,838**
Total liabilities		**54,496,157**	**53,952,309**	**49,565,504**
TOTAL EQUITY AND LIABILITIES		**132,599,761**	**127,863,836**	**118,976,291**

General Director E. Viale

Chief Accountant E.A. Dubtcova

6 March 2014

The notes on pages 8 to 40 are an integral part of these consolidated financial statements.

Thousands of Russian Roubles, unless otherwise stated

	Notes	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
Revenue	18	69,722,598	66,545,962
Operating expenses	19,14	(61,824,525)	(57,837,421)
Other operating income		1,954,249	765,871
Operating profit		**9,852,322**	**9,474,412**
Finance income	20	1,335,330	774,320
Finance costs	20,14	(4,501,720)	(3,450,061)
Profit before income tax		**6,685,932**	**6,798,671**
Income tax expense	12,14	(1,747,040)	(1,395,960)
Profit for the year		**4,938,892**	**5,402,711**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(10,390)	(12,100)
Income tax effect		2,660	2,420
Effective portion of changes in fair value of cash flow hedges	21	200,429	(450,908)
Income tax effect		(40,086)	39,455
Net other comprehensive income to be reclassified to profit and loss in subsequent periods		**152,613**	**(421,133)**
Actuarial losses on defined benefits plans	14	(1,134,890)	(918,087)
Income tax effect	14	235,462	183,617
Net other comprehensive income not being reclassified to profit and loss in subsequent periods		**(899,428)**	**(734,470)**
Total comprehensive income for the year		**4,192,078**	**4,247,108**
Profit attributable to:			
Owners of OJSC Enel OGK-5		4,963,105	5,417,681
Non-controlling interest		(24,213)	(14,970)
Total comprehensive income attributable to:			
Owners of OJSC Enel OGK-5		4,216,290	4,262,078
Non-controlling interest		(24,213)	(14,970)
Earnings per ordinary share for profit attributable to the equity holders of OJSC Enel OGK-5 – basic and diluted (in Russian Roubles per share)	11	**0.1409**	**0.1538**

General Director — E. Viale

Chief Accountant — E.A. Dubtcova

6 March 2014

Thousands of Russian Roubles, unless otherwise stated

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**6,685,932**	**6,798,671**
Adjustments for:			
Depreciation and amortisation	5, 6, 19	6,183,580	4,815,663
Loss on disposal of property, plant and equipment	19	766,850	20,460
Impairment loss in respect of property, plant and equipment	5	–	11,859
Finance income	20	(1,335,330)	(774,320)
Finance costs	20	4,501,720	3,450,061
Loss on sales of trade receivables		71,486	
Change in allowance for impairment of trade and other receivables	8	811,683	513,947
Change in other provisions	17	213,462	(74,137)
Changes in defined benefit obligation	14	(208,960)	193,266
Adjustments for other non-cash transactions		(12,436)	4,865
		17,677,987	**14,960,335**
Increase in trade and other receivables		(515,684)	(1,799,196)
Increase in inventories		(199,450)	(366,003)
Increase in trade and other payables		1,198,712	3,504,401
Increase/(decrease) in taxes payable, other than income tax		379,680	(612,960)
Net cash inflow from operating activities before income tax paid		**18,541,245**	**15,686,577**
Income tax paid		(861,000)	(403,250)
Net cash from operating activities		**17,680,245**	**15,283,327**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and other non-current assets		(8,560,883)	(10,802,553)
Proceeds from disposal of property, plant and equipment		30,537	24,530
Interest received		275,031	211,840
Net cash used in investing activities		**(8,255,315)**	**(10,566,183)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of current loans and borrowings		1,000,000	–
Repayment of loans and borrowings		(5,335,036)	(1,243,312)
Interest paid		(1,647,834)	(1,642,347)
Proceeds from derivatives		9,326,262	22,348,382
Payment on derivatives		(9,500,762)	(23,566,377)
Net cash from financing activities		**(6,157,370)**	**(4,103,654)**
Net increase in cash and cash equivalents		**3,267,560**	**613,490**
Cash and cash equivalents at 1 January		**5,350,480**	**4,736,990**
Cash and cash equivalents at 31 December	10	**8,618,040**	**5,350,480**

General Director E. Viale

Chief Accountant E.A. Dubtcova

6 March 2013

The notes on pages 8 to 40 are an integral part of these consolidated financial statements.

Thousands of Russian Roubles, unless otherwise stated

		Attributable to equity holders of OJSC Enel OGK-5								
	Note	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012		35,371,898	6,818,747	(411,060)	21,360	380,690	27,956,949	70,138,584	16,783	70,155,367
Changes in accounting policy	14	–	–	–	–	–	(744,580)	(744,580)	–	(744,580)
Balance at 1 January 2012 (restated)		35,371,898	6,818,747	(411,060)	21,360	380,690	27,212,369	69,394,004	16,783	69,410,787
Profit for the year		–	–	–	–	–	5,417,681	5,417,681	(14,970)	5,402,711
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedges, net of tax	21	–	–	–	–	(411,453)	253,632	(157,821)	–	(157,821)
Net change in fair value of available-for-sale financial assets, net of tax		–	–	–	(9,680)	–	–	(9,680)	–	(9,680)
Actuarial losses on defined benefits plans	14	–	–	–	–	–	(734,470)	(734,470)	–	(734,470)
Total other comprehensive income		–	–	–	(9,680)	(411,453)	(480,838)	(901,971)	–	(901,971)
Total comprehensive income for the year		–	–	–	(9,680)	(411,453)	4,936,843	4,515,710	(14,970)	4,500,740
Balance at 31 December 2012		35,371,898	6,818,747	(411,060)	11,680	(30,763)	32,149,212	73,909,714	1,813	73,911,527

General Director E. Viale

Chief Accountant E.A. Dubtcova

6 March 2014

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Thousands of Russian Roubles, unless otherwise stated

		Attributable to equity holders of OJSC Enel OGK-5								
	Note	Share capital	Share premium	Treasury shares	Fair value reserve	Hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2013		**35,371,898**	**6,818,747**	**(411,060)**	**11,680**	**(30,763)**	**32,149,212**	**73,909,714**	**1,813**	**73,911,527**
Profit for the year		–	–	–	–	–	4,963,105	**4,963,105**	(24,213)	**4,938,892**
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedges, net of tax	21	–	–	–	–	160,343	–	**160,343**	–	**160,343**
Net change in fair value of available-for-sale financial assets, net of tax		–	–	–	(7,730)	–	–	**(7,730)**	–	**(7,730)**
Actuarial losses on defined benefits plans	14	–	–	–	–	–	(899,428)	**(899,428)**	–	**(899,428)**
Total other comprehensive income		–	–	–	**(7,730)**	**160,343**	**(899,428)**	**(746,815)**	–	**(746,815)**
Total comprehensive income for the year		–	–	–	**(7,730)**	**160,343**	**4,063,677**	**4,216,290**	**(24,213)**	**4,192,077**
Balance at 31 December 2013		**35,371,898**	**6,818,747**	**(411,060)**	**3,950**	**129,580**	**36,212,889**	**78,126,004**	**(22,400)**	**78,103,604**

General Director E. Viale

Chief Accountant E.A. Dubtcova

6 March 2014

The notes on pages 8 to 40 are an integral part of these consolidated financial statements.

1 BACKGROUND

a) Organisation and operations

Open Joint-Stock Company “Enel OGK-5” (the “Company”, previously known as OJSC “The Fifth Generating Company of the Wholesale Electric Power Market”) was established on 27 October 2004 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Government of the Russian Federation on 1 September 2003.

Enel Investment Holding B.V. is a parent company with share in the net assets of the Company amounted 56.43%. Ultimate parent company is Enel S.p.A., listed on Milan Stock Exchange.

On 11 May 2012 – PFR Partners Fund I Limited purchased 9,350,472,893 (26.43%) of voting shares of Enel OGK-5 OJSC from Inter RAO UES OJSC and became minority shareholder of the Company. PFR Partners Fund I Limited is non-public investment fund incorporated in Cyprus.

The Enel OGK-5 Group (the “Group”) operates 4 State District Power Plants (“SDPP”) and its principal activity is electricity and heat generation. Furthermore, the Company owns:

- a wholly-owned subsidiary LLC “OGK-5 Finance”;
- 60% interest subsidiary OJSC “Teploprogress”. The State Property Committee of Sredneuralsk holds the remaining 40% ownership interest in OJSC “Teploprogress”.

The Company is registered by the Lenin District Inspectorate of the Russian Federation Ministry of Taxation of Yekaterinburg, Sverdlovsk Region. The Company’s office is located at bld. 1, 7, Pavlovskaya, 115093, Moscow, Russia.

b) Relations with the State and its influence on the Group’s activities

The Group’s customer base includes a large number of entities controlled by or related to the state. Moreover, the state controls a number of the Group’s fuel and other suppliers.

The Government of the Russian Federation directly affects the Group’s operations through regulation by the Federal Tariff Service (“FTS”), with respect to its wholesale energy sales, and by the Regional Energy Commissions (“RECs”) or by the Regional Tariff Services (“RTSs”), with respect to its heat sales. The operations of all generating facilities are coordinated by OJSC “System Operator – the Central Despatch Unit of Unified Energy System” (“SO-CDU”) in order to meet system requirements in an efficient manner. SO-CDU is controlled by NP “Administrator of trade system”.

Tariffs which the Group may charge for sales of electricity and heat are calculated on the basis of legislative documents, which regulate pricing of heat and electricity. Tariffs are calculated in accordance with the “Cost-Plus” method of indexation. Costs are determined under the Regulations on Accounting and Reporting of the Russian Federation, a basis of accounting which significantly differs from International Financial Reporting Standards (“IFRS”).

c) Russian business environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. At the beginning of 2013 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future consolidated financial position, consolidated results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, further deterioration in the areas described above could negatively affect the Company's results and financial position in a manner not currently determinable.

2 BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standard ("IFRS"). Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation 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 derivative financial instruments, investments at fair value through profit or loss, 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 financial statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand, except where otherwise indicated. Each entity in the Group determines the same functional currency and items included in the financial statements of each entity are measured using that functional currency.

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 and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual outcomes 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.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the consolidated financial statements is described below:

Impairment of trade accounts receivable

Management believes that the majority of customers, the balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale market of electric power, which is regulated by NP ATS (Non-commercial Partnership "Administrator of Trade System").

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows.

Further details about the assumptions used are given in Note 8.

Useful lives of property, plant and equipment

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

Further details about the useful lives applied are given in Note 3 (e).

2 BASIS OF PREPARATION (continued)

d) Use of judgments, estimates and assumptions (continued)

Pension benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency of benefits payment and with maturities approximating the terms of the related benefit liabilities.

Further details about the assumptions used are given in Note 14.

Fair value of financial instruments

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

Further details about the assumptions used are given in Note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Basis of consolidation

(i) 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 non-controlling interest has been presented as part of equity.

(ii) 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.

(iii) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interest as transactions with the owners in their capacity of owners. In case of acquisition of non-controlling interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recognised in equity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) 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 on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

c) Financial instruments

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are represented by trade receivables (Note 8), long-term loans issued (Note 7), bank deposits and bank bills of exchange.

Cash and cash equivalent comprises cash in hand and call deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Held-to-maturity investments

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the profit or loss within finance items (net), in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the comprehensive income as part of finance income when the Group’s right to receive payments is established.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as gains and losses from investment securities.

Dividends on available-for-sale equity instruments are recognised in the comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the comprehensive income. Impairment losses recognised in the comprehensive income on equity instruments are not reversed through profit or loss.

Except for loans and receivables and available-for-sale investments, the Group did not have other financial assets in the year ended 31 December 2012 or the year ended 31 December 2013.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 are recognized in the income statement in cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial instruments (continued)

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the income statement in other financial expenses.

Amounts recognized as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

d) Equity

Ordinary shares

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

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Dividends

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

e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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 their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, plant and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the asset when it is available for use.

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

Electricity and heat generation	9-60 years
Electricity transmission	8-33 years
Heating networks	15-41 years
Other	6-63 years

Social assets are not capitalized as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

f) Intangible assets

(i) Patents and licenses

Patents and licenses that are acquired by the Group are measured on initial recognition at cost at the acquisition date.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

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

The amortization charge on all intangible assets with finite useful lives is accrued on a straight-line basis over their useful life starting from the month following the month in which the asset is available for use.

The amortization charge is recognized in the income statement as an operating expense.

The useful life of intangible assets is 5-10 years.

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

Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Cash and cash equivalents

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

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

i) Borrowings

Borrowings are recognised initially at their fair value. Fair value is determined using the prevailing market rate of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, borrowing are stated at amortised cost using the effective interest rate; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

The Group capitalises borrowing costs in qualifying assets in accordance with IAS 23 *Borrowing Costs*.

j) Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions related to defined benefit pension plans are recorded in other comprehensive income.

Past service cost resulting from a plan amendment or a curtailment and related to defined benefit pension plans shall be recognized as an expense.

k) Provisions

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

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for (see Note 17).

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Environmental obligations

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

m) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Revenue

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer of electricity and heat or non-utility goods and services. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services sold/provided. Revenue is stated net of value added tax.

o) Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and impairment losses on financial assets other than trade receivables (see note 22). Borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

p) Income taxes

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, such as items recognised in equity at preparing the Group’s first set of consolidated IFRS financial statements, or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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 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 liabilities and assets, 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.

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.

q) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Segment reporting

The Group has a single reportable segment – the generation of electric power and heat in the Russian Federation as the management does not review profit measures for individual SDPPs or any other components in order to make a decision about allocation of resources. The Group generates its revenues from the generation of electricity and heat in the Russian Federation. The Group holds assets in the same geographical area – the Russian Federation.

s) New and amended standards and interpretations

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

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

IAS 19 Employee Benefits (Revised 2011)

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

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

All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period.

IAS 19 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 14.

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified (‘recycled’) to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group’s financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

IFRS 13 Fair Value Measurement

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

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/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Investments in equity and debt securities

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

b) Trade and other receivables

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

c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

d) Derivatives

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Thousands of Russian Roubles, unless otherwise stated

5 PROPERTY, PLANT AND EQUIPMENT

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost						
At 1 January 2013	**66,377,679**	**7,813,016**	**604,780**	**20,354,414**	**32,820,119**	**127,970,008**
Additions	–	–	–	162,225	8,252,824	**8,415,049**
Transfers from construction in progress	4,600,948	4,765,248	–	628,527	(9,994,723)	**–**
Disposals	(909,114)	(6,139)	(250)	(105,232)	–	**(1,020,735)**
At 31 December 2013	**70,069,513**	**12,572,125**	**604,530**	**21,039,934**	**31,078,220**	**135,364,322**
Accumulated depreciation						
At 1 January 2013	**11,572,122**	**2,174,112**	**132,926**	**5,958,355**	**–**	**19,837,515**
Depreciation charge	3,708,206	770,802	17,692	1,414,419	–	**5,911,119**
Disposals	(140,576)	(5,109)	(129)	(61,068)	–	**(206,882)**
At 31 December 2013	**15,139,752**	**2,939,805**	**150,489**	**7,311,706**	**–**	**25,541,752**
Net book value at 1 January 2013	**54,805,557**	**5,638,904**	**471,854**	**14,396,059**	**32,820,119**	**108,132,493**
Net book value at 31 December 2013	**54,929,761**	**9,632,320**	**454,041**	**13,728,228**	**31,078,220**	**109,822,570**

	Heat and electricity generation	Electricity transmission	Heating networks	Other	Construction in progress	Total
Cost						
At 1 January 2012	**65,730,547**	**7,793,413**	**604,780**	**19,834,519**	**22,327,137**	**116,290,396**
Additions	–	–	–	193,508	11,694,109	**11,887,617**
Transfers from construction in progress	675,447	81,466	–	440,032	(1,196,945)	**–**
Disposals	(26,779)	(59,293)	–	(75,768)	–	**(161,840)**
Impairment loss	(1,536)	(2,570)	–	(37,877)	(4,182)	**(46,165)**
At 31 December 2012	**66,377,679**	**7,813,016**	**604,780**	**20,354,414**	**32,820,119**	**127,970,008**
Accumulated depreciation						
At 1 January 2012	**8,935,283**	**1,612,437**	**115,211**	**4,623,578**	**–**	**15,286,509**
Depreciation charge	2,650,139	599,658	17,715	1,377,299	–	**4,644,811**
Disposals	(13,058)	(37,652)	–	(38,199)	–	**(88,909)**
Impairment loss	(242)	(331)	–	(4,323)	–	**(4,896)**
At 31 December 2012	**11,572,122**	**2,174,112**	**132,926**	**5,958,355**	**–**	**19,837,515**
Net book value at 1 January 2012	**56,795,263**	**6,180,976**	**489,569**	**15,210,941**	**22,327,137**	**101,003,887**
Net book value at 31 December 2012	**54,805,557**	**5,638,904**	**471,854**	**14,396,059**	**32,820,119**	**108,132,493**

At 31 December 2013 construction in progress includes prepayments for property, plant and equipment of RUB 4,536,816 thousand (31 December 2012: RUB 4,492,291 thousand).

The Group had no impairment loss in respect of obsolete fixed assets (31 December 2012: RUB 41,269 thousand).

During the year ended 31 December 2013 the Group capitalized no borrowing costs into property, plant or equipment (31 December 2012: RUB 169,141 thousand). The Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on specific borrowings attributable to qualifying assets.

As at 31 December 2013 and 31 December 2012, no property, plant or equipment was pledged as collateral under the loan agreements.

During 2013, the net book value of assets related to damaged Sredneuralskaya GRES CCGT gas turbine amounted to RUB 764,279 thousand and was fully written off.

Thousands of Russian Roubles, unless otherwise stated

5 PROPERTY, PLANT AND EQUIPMENT (continued)

Operating leases (continued)

The assets transferred to the Group upon privatization did not include the land on which the Company's buildings and facilities are situated. The Group holds lease agreements in respect of these land plots with local governments.

The leases typically run for an initial period of 5 to 45 years with an option to renew the lease after that date. The lease payments are subject to regular reviews that may result in adjustments to reflect market conditions.

Non-cancellable operating lease rentals are payable for land plots as follows:

	31 December 2013	31 December 2012
Not later than one year	47,432	35,061
Later than one year and not later than five years	149,830	39,545
Later than five years	52,130	73,857
Total	**249,392**	**148,463**

6 INTANGIBLE ASSETS

	Patents and licenses	Software	Total
Cost			
At 1 January 2013	**123,231**	**1,126,732**	**1,250,052**
Additions	20,488	100,377	**120,776**
Disposals	(142)	(2,442)	**(2,584)**
At 31 December 2013	**143,577**	**1,224,667**	**1,368,244**
Accumulated amortization			
At 1 January 2013	**53,020**	**387,156**	**440,176**
Amortization charge	40,974	225,558	**266,532**
Disposal	(142)	(2,442)	**(2,584)**
At 31 December 2013	**93,852**	**610,272**	**704,124**
Net book value at 1 January 2013	**70,300**	**739,576**	**809,876**
Net book value at 31 December 2013	**49,725**	**614,395**	**664,120**

	Patents and licenses	Software	Total
Cost			
At 1 January 2012	**72,830**	**1,030,788**	**1,103,618**
Additions	53,829	112,622	**166,451**
Disposals	(3,338)	(16,678)	**(20,016)**
At 31 December 2012	**123,321**	**1,126,732**	**1,250,053**
Accumulated amortization			
At 1 January 2012	**38,706**	**246,362**	**285,068**
Amortization charge	17,653	157,472	**175,125**
Disposal	(3,338)	(16,678)	**(20,016)**
At 31 December 2012	**53,020**	**387,156**	**440,177**
Net book value at 1 January 2012	**34,124**	**784,426**	**818,550**
Net book value at 31 December 2012	**70,300**	**739,576**	**809,876**

Intangible assets mostly represent the costs associated with SAP/R3 implementation.

Thousands of Russian Roubles, unless otherwise stated

7 OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012
Long-term other receivables	147,650	181,470
Promissory notes	14,060	149,460
Other	205,801	224,860
Total	**367,511**	**555,790**

Long-term other receivables include mostly the non-current portion of loans given to the Group's employees.

Promissory notes are those obtained by the Group in a settlement for certain overdue trade accounts receivable. They are accounted as held-to-maturity financial assets.

8 TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Trade receivables (net of impairment allowance of RUB 1,842,323 thousand at 31 December 2013, RUB 1,016,804 thousand at 31 December 2012)	7,101,575	7,827,522
Prepayments issued to suppliers (net of impairment allowance of RUB 36,679 thousand at 31 December 2013 and at 31 December 2012)	667,895	554,170
Value added tax recoverable (net of impairment allowance of RUB 313,321 thousand at 31 December 2013 and at 31 December 2012)	168,870	388,980
Promissory notes	164,553	102,687
Other receivables	612,827	192,141
Total	**8,715,720**	**9,065,500**

The table below provides information about the changes in allowance for impairment of receivables:

	For the year ended 31 December 2013	For the year ended 31 December 2012
At 1 January	1,366,804	852,857
Charge for the year	1,169,408	515,803
Unused amounts reversed	(343,870)	(1,856)
Utilized	(19)	–
At 31 December	**2,192,323**	**1,366,804**

Trade receivables impairment allowance increased mainly due to the accrual during the period of additional allowance amounting to RUB 934,082 thousand (RUB 314,157 thousand in 2012) for the companies deprived from the retail market operator status following the breach of the retail market rules.

9 INVENTORIES

	31 December 2013	31 December 2012
Fuel supplies	2,456,870	2,660,410
Materials and supplies	1,021,790	844,170
Spare parts and other inventories	165,533	165,020
Total inventories	**3,644,193**	**3,669,600**
Less: Allowance for obsolescence of inventories	(12,930)	(14,640)
Total	**3,631,263**	**3,654,960**

As at 31 December 2013 and as at 31 December 2012 none of the inventories held were pledged as collateral according to loan agreements.

10 CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Bank balances	162,425	172,758
Call deposits	8,455,615	5,177,722
Total	**8,618,040**	**5,350,480**

The Group's exposure to interest rate and currency risk is disclosed in Note 22.

11 EQUITY

a) Share capital

The Group's share capital as at 31 December 2013 and 2012 was RUB 35,371,898 thousand comprising 35,371,898,370 ordinary shares with a par value of RUB 1.00. All shares authorised are issued and fully paid.

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 Company.

b) Treasury shares

The nominal value of treasury shares as at 31 December 2013 and 2012 was RUB 156,223 thousand.

c) Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below.

	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
Weighted average number of shares issued, in thousands	35,371,898	35,371,898
Adjustment for weighted average number of treasury shares, in thousands	(156,223)	(156,222)
Weighted average number of shares outstanding, in thousands	**35,215,676**	**35,215,676**
Profit attributable to shareholders of OJSC Enel OGK-5	4,963,106	5,417,681
Profit per share – basic and diluted (RUB per share)	**0.1409**	**0.1538**

12 INCOME TAXES

	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
Current income tax expense	1,065,736	743,573
Deferred tax expense	681,304	652,387
Total income tax expense	**1,747,040**	**1,395,960**

During the year ended 31 December 2013, the Group entities were subject to 20% income tax rate on taxable profits. This rate was used for the calculation of the deferred tax assets and liabilities.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

Thousands of Russian Roubles, unless otherwise stated

12 INCOME TAXES (continued)

A reconciliation of the theoretical income tax, calculated at the tax rate effective in the Russian Federation, to the amount of actual income tax expense recorded in the statement of comprehensive income, is as follows:

	For the year ended 31 December 2013		For the year ended 31 December 2012 (restated)	
Profit before income tax	**6,685,932**	**100%**	**6,798,671**	**100%**
Income tax at applicable tax rate	(1,337,186)	20%	(1,359,734)	20%
(Non-deductible expenses) / non-taxable income, net	(158,877)	2%	(36,226)	1%
Other	(250,977)	4%	–	–
	(1,747,040)	**26%**	**(1,395,960)**	**21%**

The tax effects of temporary differences that give rise to deferred taxation are presented below:

	1 January 2013 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2013
Tax effect of deductible temporary differences				
Trade and other receivables	271,517	122,660	–	394,177
Non-current loans and borrowings and derivatives	103,381	(49,060)	(40,603)	13,718
Provisions	191,517	45,545	–	237,062
Employee benefits	519,424	(15,157)	235,462	739,729
Other	274,415	(64,552)	2,660	212,523
Deferred tax assets	**1,360,254**	**39,438**	**197,518**	**1,597,210**
Tax effect of taxable temporary differences				
Property, plant and equipment	(8,788,583)	(239,858)	–	(9,028,441)
Trade and other receivables	(173,839)	(317,146)	–	(490,985)
Other	(102,631)	(163,737)	–	(266,369)
Deferred tax liabilities	**(9,065,053)**	**(720,741)**	**–**	**(9,785,795)**
Net deferred tax liabilities	**(7,704,799)**	**(681,304)**	**197,518**	**(8,188,585)**

	1 January 2012 (restated)	Recognised in profit or loss (restated)	Recognised in other comprehensive income (restated)	31 December 2012 (restated)
Tax effect of deductible temporary differences (restated)				
Trade and other receivables	175,826	95,691	–	271,517
Non-current loans and borrowings and derivatives	143,249	(39,868)	–	103,381
Provisions	207,261	(15,744)	–	191,517
Employee benefits	218,961	116,846	183,617	519,424
Other	155,346	119,069	–	274,415
Deferred tax assets	**900,643**	**275,994**	**183,617**	**1,360,254**
Tax effect of taxable temporary differences (restated)				
Property, plant and equipment	(7,892,413)	(896,170)	–	(8,788,583)
Inventories	(3,306)	3,306	–	
Trade and other receivables	(155,477)	(18,362)	–	(173,839)
Other	(127,351)	(17,155)	41,875	(102,631)
Deferred tax liabilities	**(8,178,547)**	**(928,381)**	**41,875**	**(9,065,053)**
Net deferred tax liabilities	**(7,277,904)**	**(652,387)**	**225,492**	**(7,704,799)**

Thousands of Russian Roubles, unless otherwise stated

13 LOANS AND BORROWINGS

			31 December 2013		31 December 2012	
	Currency	Maturity	Carrying value	Face value	Carrying value	Face value
Non-current borrowings						
Royal Bank of Scotland	EUR	2022	6,172,894	6,550,255	6,192,311	6,592,100
EBRD	EUR	2021	3,648,898	3,692,265	3,759,701	3,811,130
EIB	EUR	2025	5,710,628	5,735,706	5,125,968	5,149,261
Sberbank	RUB	2015	5,000,000	5,000,000	5,000,000	5,000,000
Commercial papers	RUB	2014	–	–	5,000,000	5,000,000
Total non-current borrowings			**20,532,420**	**20,978,226**	**25,077,980**	**25,552,491**

		31 December 2013		31 December 2012	
	Currency	Carrying value	Face value	Carrying value	Face value
Current borrowings and current portion of non-current borrowings					
Commercial papers	RUB	5,000,000	5,000,000	4,000,000	4,000,000
Sberbank	RUB	1,000,000	1,000,000	–	–
Current portion of non-current borrowings (Royal Bank of Scotland)	EUR	818,782	818,782	732,459	732,456
Current portion of non-current borrowings (EIB)	EUR	20,439	20,439	–	–
Current portion of non-current borrowings (EBRD)	EUR	568,039	568,039	508,151	508,151
Total current borrowings		**7,407,260**	**7,407,260**	**5,240,610**	**5,240,607**

At the end of 2013 the interest rates varied from 1.75% to 5.04% for borrowings nominated in EUR and from 7.1% to 8.38% for borrowings nominated in RUR. All loans and borrowings are unsecured. The amount of undrawn borrowing facilities was RUB 15,798,796 thousand as at 31 December 2013.

14 EMPLOYEE BENEFITS

The Group operates a defined benefit pension plan under Collective agreement, which requires contributions to be made to a separately administered fund. IAS 19R has been applied retrospectively from 1 January 2012. As a result for the Group, unvested past service costs can no longer be deferred and recognised over the future vesting period. Instead, all past service costs are recognised at the earlier of when the amendment occurs and when the Group recognises related restructuring or termination costs. Until 2012, the Group's unvested past service costs were recognised as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to IAS 19R, past service costs are recognised immediately if the benefits have vested immediately following the introduction of, or changes to, a pension plan. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions related to defined benefit pension plans are recorded in other comprehensive income.

	31 December 2013	31 December 2012	1 January 2012
Impact of transition to IAS 19R:		(restated)	(restated)
Impact on consolidated statement of financial position			
Increase in the defined benefit plan obligation (non-current)	(2,019,331)	(2,019,331)	(860,264)
Decrease in deferred tax liabilities (non-current)	390,090	390,090	115,684
Net impact on total equity	**(1,629,241)**	**(1,629,241)**	**(744,580)**
Equity holders of the parent	(1,629,241)	(1,629,241)	(744,580)
Non-controlling interest	–	–	–

Thousands of Russian Roubles, unless otherwise stated

14 EMPLOYEE BENEFITS (continued)

	2013	**2012**
Impact on consolidated income statement		
Increase in operating expenses	–	(204,980)
Increase in finance costs	–	(36,000)
Decrease in tax expense	–	90,789
Net decrease of profit for the period	**–**	**(150,191)**
Attributable to equity holders of parent	–	(150,191)
Non-controlling interest	–	–
Actuarial losses on defined benefits plans	(1,134,890)	(918,087)
Income tax effect	235,462	183,617
Net decrease of other comprehensive income not being reclassified to profit and loss in subsequent periods	**(899,428)**	**(734,470)**
Net decrease in total comprehensive income	**(899,428)**	**(884,661)**
Attributable to equity holders of parent	(899,428)	(884,661)
Non-controlling interest	–	–

The tables below provide information about the employee benefit obligations and actuarial estimations used for the year ended 31 December 2013 and for the year ended 31 December 2012. Amounts recognised in the Group's consolidated statement of financial position are as follows:

	31 December 2013	**31 December 2012**
		(restated)
Present value of defined benefit obligation	3,768,409	2,647,620
Unrecognised actuarial losses	–	–
Unrecognised past service costs	–	–
Net pension liabilities in the statement of financial position	**3,768,409**	**2,647,620**

Amounts recognised in profit or loss are as follows:

	For the year ended 31 December 2013	**For the year ended 31 December 2012**
		(restated)
Current service cost	249,856	361,506
Interest cost	167,028	177,995
Net actuarial loss recognised in the period	39,171	2
Curtailment and plan amendments effect	(11,376)	301,992
Total expense recognised in profit or loss	**444,679**	**841,495**

Changes in the present value of the Group's employee benefit obligations are as follows:

	For the year ended 31 December 2013	**For the year ended 31 December 2012**
		(restated)
Present value of defined benefit obligations at the beginning of year	**2,647,620**	**1,360,588**
Current service cost	249,856	361,506
Interest cost	167,028	177,995
Remeasurements recognised in other comprehensive income	1,173,461	918,089
Benefits paid	(497,351)	(472,549)
Immediate recognition of (gain)/losses arising during the year	39,171	2
Curtailment and plan amendments effect	(11,376)	301,992
Present value of defined benefit obligation at the end of period	**3,768,409**	**2,647,620**

Thousands of Russian Roubles, unless otherwise stated

14 EMPLOYEE BENEFITS (continued)

Principal actuarial assumptions are as follows:

	31 December 2013	31 December 2012
Nominal discount rate	7.90%	7.0%
Future salary increase	6.0%	6.0%
Future pensions increase and inflation rate	6.0%	5.0%

The mortality data was applied that has been used is Russian Federation 2011.

The retirement schedule was based on the Company's statistics on retirements.

Funded status of the plan is as follows:

	31 December 2013	31 December 2012 (restated)
Present value of defined benefit obligation (restated)	3,768,409	2,647,620
Deficit in plan (restated)	3,768,409	2,647,620
Losses arising from experience adjustments on plan liabilities	–	–

Expected benefit payments under the schemes during the year ended 31 December 2014 are RUB 288,293 thousand.

Included in the employee benefits in the consolidated balance sheet are the amounts payable under the long term employees incentive plan of RUB 29,121 thousand as at 31 December 2013 (2012: RUB 18,381 thousand).

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

Assumptions	**Discount rate**		**Inflation rate**		**Salary increase**	
Sensitivity level	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on the net defined benefit obligation	(306,273)	356,514	12,075	(10,010)	286,880	(250,897)

Assumptions	**Turnover**		**Life expectancy**	
Sensitivity level	1% increase	1% decrease	1 year increase	1 year decrease
Impact on the net defined benefit obligation	(111,549)	123,648	193,544	(195,626)

15 TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Trade payables	10,007,031	8,254,251
Accrued liabilities and other payables	1,638,827	2,248,840
Interest payable	71,840	79,630
Total	**11,717,698**	**10,582,721**

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they bear the same characteristics. Those suppliers are mainly providers of repair and maintenance services.

Thousands of Russian Roubles, unless otherwise stated

16 OTHER TAXES PAYABLE

	31 December 2013	31 December 2012
Value added tax	1,120,290	463,320
Property tax	5,620	287,910
Payroll tax	5,340	4,000
Other taxes	59,730	56,070
Total	**1,190,980**	**811,300**

17 PROVISIONS

	Restructuring	Onerous contract	Provision for legal claims	Other	Total
Balance at 1 January 2013	**290,838**	**484,134**	**42,084**	**534,793**	**1,351,849**
Provisions made during the period	343,987	212,295	21,067	877,509	**1,519,248**
Unwinding of discount	–	24,010	–	6,093	**30,103**
Provision reversed during the period	(184,166)	–	(40,600)	(23,519)	**(312,675)**
Provisions used during the period	(106,673)	(120,549)	(1,485)	(766,994)	**(995,701)**
Balance at 31 December 2013	**343,986**	**599,890**	**21,065**	**627,882**	**1,592,824**
Non-current	278,315	478,609	–	146,486	**903,410**
Current	65,671	121,281	21,066	481,396	**689,414**
Total	**343,986**	**599,890**	**21,066**	**627,886**	**1,592,824**

	Restructuring	Onerous contract	Provision for legal claims	Other	Total
Balance at 1 January 2012	**640,370**	**332,299**	**60,242**	**316,779**	**1,349,690**
Provisions made during the period	–	180,939	40,600	1,404,288	**1,625,827**
Unwinding of discount	31,813	36,348	–	8,135	**76,296**
Provision reversed during the period	(223,975)	–	(40,000)	–	**(263,975)**
Provisions used during the period	(157,370)	(65,452)	(18,758)	(1,194,409)	**(1,435,989)**
Balance at 31 December 2012	**290,838**	**484,134**	**42,084**	**534,793**	**1,351,849**
Non-current	–	370,842	40,600	154,678	**566,120**
Current	290,838	113,292	1,484	380,115	**785,729**
Total	**290,838**	**484,134**	**42,084**	**534,793**	**1,351,849**

a) Restructuring

As at December 2013, a new restructuring provision of RUB 343,987 had been recognized for the optimization of organizational structure and redundancy of employees. During 2013, expenditures of RUB 106,673 thousand were charged against the previous provision and the amount of RUB 184,166 thousand was reversed. The reversal arises from actual costs being lower than expected in the previous restructuring provision.

b) Onerous contract

The onerous contract provision relates to future supplies to customers from the Caucasus region. The provision is based on estimates of incremental costs associated with electricity supplies. The Group expects the resulting outflow of economic benefits over the next four years.

c) Provision for legal claims

Legal provision at the yearend relates to individually minor litigations.

Thousands of Russian Roubles, unless otherwise stated

17 PROVISIONS (continued)

d) Other

Other provisions include provision for annual bonus to employees, provision for unused vacation, environmental charges and reclaiming provision.

In 2013, provision for losses in the amount of RUB 23,519 thousand was reversed due to reaching the agreement with the contractor.

Land reclamation provision has been recognized for incremental decommissioning cost associated with future restoration of the underlying ash dump in the amount of RUB 146,486 thousand.

18 REVENUE

	For the year ended 31 December 2013	For the year ended 31 December 2012
Power	48,873,596	47,429,071
Capacity	16,667,879	15,331,760
Heating	3,602,410	3,230,350
Water for heating network	15,078	12,836
Rent	52,322	62,573
Water circulation	322,548	264,295
Other	188,766	215,077
Total	**69,722,598**	**66,545,962**

19 OPERATING EXPENSES

	Notes	For the year ended 31 December 2013	For the year ended 31 December 2012 (Restated)
Fuel cost		36,877,743	35,589,130
Purchased electricity		5,762,040	5,818,290
Employee benefits		4,141,719	4,008,800
Depreciation and amortisation of property, plant and equipment and intangible assets	5	6,183,580	4,815,663
Provisions	17	213,462	(74,137)
Impairment loss in respect of property, plant and equipment	5	–	11,859
Taxes other than income tax and payroll taxes		931,360	1,332,036
Repairs and technical maintenance		1,294,560	1,230,880
Fees to Trade System Administrator, Centre of financial settlements and System Operator		1,009,800	961,130
Water usage		781,590	770,680
Raw materials and supplies		971,740	904,440
Advisory, legal and information services		814,360	140,780
Security		201,520	191,510
Allowance for impairment of trade and other receivables		811,683	518,129
Lease costs		164,300	162,600
Transport cost		91,940	106,930
Loss on disposal of property, plant and equipment	5	766,850	20,460
Insurance		167,320	145,130
Pollution cost		115,390	185,220
Bank services		30,880	2,740
Media and communication cost		62,700	90,400
Travel cost		83,950	97,850
Public utilities		103,370	99,690
Other		242,668	707,211
Total		**61,824,525**	**57,837,421**

Thousands of Russian Roubles, unless otherwise stated

19 OPERATING EXPENSES (continued)

Employee benefits expenses comprise the following:

	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
Wages and other benefits to employees and related taxes	3,474,540	2,954,886
Contributions to State Pension Fund	389,528	390,416
Non-governmental pension fund expenses (Note 14)	277,651	663,498
Total	**4,141,719**	**4,008,800**

20 FINANCE INCOME AND FINANCE COSTS

	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
Interest income	148,120	211,840
Exchange differences	–	562,480
Change in fair value of derivatives, net	1,187,210	–
Finance income	**1,335,330**	**774,320**
Interest expense	(2,250,190)	(2,200,330)
Effect of discounting, net	(171,590)	(225,990)
Exchange differences	(2,044,120)	–
Change in fair value of derivatives	–	(966,960)
Other financial expenses	(35,820)	(56,781)
Finance costs	**(4,501,720)**	**(3,450,061)**

Interest expense relates to financial liabilities measured at amortised cost.

Finance income arose from interest accrued on call deposits, maintained with commercial banks.

21 COMPONENTS OF OTHER COMPREHENSIVE INCOME/LOSS

	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
Cash flow hedge:		
Reclassification during the year to income statement	(240,265)	426,032
Other reclassifications	–	(253,632)
Net gains/(losses) during the year	400,608	(583,853)
Effective portion of changes in fair value of cash flow hedges (net of income tax)	**160,343**	**(411,453)**
Available-for-sale financial assets:		
Net losses arising during the year	(7,730)	(9,680)
Net change in fair value of available-for-sale financial assets	**(7,730)**	**(9,680)**
Actuarial losses on defined benefits plans	**(899,428)**	**(734,471)**

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

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 activities expose it to a variety of financial risks, including the effects of changes in interest rates, forex risk and the collectability of receivables.

In the course of 2013 the Group implemented operating and financial risk assessment through the analysis of the main business processes and put in place internal control system on financial reporting.

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 and investment securities.

(i) Trade receivables

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

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references.

Majority of the Group's customers have been transacting with the Group for over several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. Given this management does not expect any counterparty to fail to meet its obligations.

(iii) Cash balances and deposits

The majority of cash balances and short-term deposits are held with reliable banks or financial institutions. The Group places funds in financial institutions characterized by a quite stable financial status.

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

b) Credit risk (continued)

(iv) 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:

	31 December 2013	31 December 2012
Available-for-sale financial assets	28,480	44,230
Trade receivables	7,101,575	7,827,522
Promissory notes (current portion)	164,553	102,687
Cash and cash equivalents	8,618,040	5,350,480
Long-term trade and other receivables	147,650	181,470
Promissory notes (non-current portion)	14,060	149,460
Total	**16,074,358**	**13,655,849**

The aging of financial assets, excluding cash and cash equivalents, at the reporting date was as follows:

	31 December 2013		31 December 2012	
	Gross	Impairment allowance	Gross	Impairment allowance
Not past due	4,795,009	–	4,492,216	–
Past due for less than 3 months	1,042,070	7,162	2,658,296	307,365
Past due for 3 to 12 months	1,338,202	689,844	750,819	207,756
Past due for more than one year	2,123,357	1,145,327	1,420,842	501,683
Total	**9,298,638**	**1,842,323**	**9,322,173**	**1,016,804**

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 approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities, ability of the Group to fulfil the current obligations. In order to implement the main investment projects the Group have already attracted long-term financing for 12-15 years. The short term financing for not more than 1 year is attracted to cover the temporary cash shortage for operating activity. The given allocation of financial liabilities by terms enables to ensure that:

- at the required moment the Group has the needed amount of monetary funds in order to fulfill all required financial liabilities of the Group;
- at the required moment the Group will be able to redeem all its financial liabilities in full.

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

c) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, excluding estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(i) Non-derivative financial liabilities

	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
At 31 December 2013					
Bank loans	22,939,680	23,385,490	2,407,260	7,307,250	13,670,980
Commercial papers	5,000,000	5,000,000	5,000,000	–	–
Trade and other payables	11,717,698	11,717,698	11,717,698	–	–
Total	**39,657,378**	**40,103,188**	**19,124,958**	**7,307,250**	**13,670,980**
At 31 December 2012					
Bank loans	21,318,600	21,793,097	1,240,606	7,795,718	12,756,773
Commercial papers	9,000,000	9,000,000	4,000,000	5,000,000	–
Trade and other payables	10,582,721	10,582,721	10,582,721	–	–
Total	**40,901,321**	**41,375,818**	**15,823,327**	**12,795,718**	**12,756,773**

(ii) Derivative financial assets and liabilities

	Contractual cash flows	1 year	1-2 years	2-3 years	3-4 years
At 31 December 2013					
Currency and interest rate swaps:					
Outflow	(6,893,381)	(5,021,481)	(1,692,633)	(179,266)	–
Inflow	6,899,866	5,125,885	1,588,215	185,766	–
Net	**6,485**	**104,404**	**(104,418)**	**6,500**	–
Discounted	**426,549**	**348,599**	**48,514**	**29,436**	–
Forward exchange contracts:					
Outflow	(9,022,474)	(9,022,474)	–	–	–
Inflow	9,137,164	9,137,164	–	–	–
Net	**114,690**	**114,690**	–	–	–
Discounted	**227,300**	**227,300**	–	–	–

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

c) Liquidity risk (continued)

	Contractual cash flows	1 year	1-2 years	2-3 years	3-4 years
At 31 December 2012					
Currency and interest rate swaps:					
Outflow	(6,108,225)	(2,165,827)	(2,070,499)	(1,692,633)	(179,266)
Inflow	5,087,454	1,782,016	1,727,067	1,413,402	164,969
Net	**(1,020,771)**	**(383,810)**	**(343,432)**	**(279,231)**	**(14,297)**
Discounted	**(462,670)**	**(285,260)**	**(150,927)**	**(43,513)**	**17,029**
Forward exchange contracts:					
Outflow	(8,470,290)	(8,470,290)	–	–	–
Inflow	8,071,210	8,071,210	–	–	–
Net	**(399,080)**	**(399,080)**	–	–	–
Discounted	**(39,240)**	**(39,240)**	–	–	–

	31 December 2013	31 December 2012
Fair values		
Currency and interest rate swap	495,140	14,990
Forwards	229,178	–
Derivative assets	**724,318**	**14,990**
Currency and interest rate swap	(68,590)	(477,660)
Forwards	–	(39,240)
Derivative liabilities	**(68,590)**	**(516,900)**

Swaps measured at fair value through other comprehensive income and are designated as hedging instruments in cash flow hedges of euro denominated borrowings.

These hedges were assessed to be highly effective and net unrealised losses of RUB 400,608 thousand, with a deferred tax liability of RUB 100,152 thousand are included within other comprehensive income for 2013 (2012: RUB 729,816 thousand and RUB 145,963 thousand respectively). No significant element of ineffectiveness required recognition in the consolidated income statement.

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk, these other contracts are not designated in hedge relationships and are measured at fair value through profit and loss.

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.

Currency risk

The risk management strategy of the Group is aimed to minimize currency risks to which the Group is exposed. For this reason the hedging strategy is implemented through derivative transactions, whereby the major risk is attributed to borrowings and other liabilities when such are denominated in currencies other than the functional currency of the Company.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

d) Market risk (continued)

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2013		31 December 2012	
	USD	**EUR**	**USD**	**EUR**
Bank loans	–	(17,385,490)	–	(11,798,098)
Trade and other payables	(67,782)	(1,214,457)	(63,742)	(2,374,581)
Gross exposure	**(67,782)**	**(18,599,947)**	**(63,742)**	**(14,172,679)**
Interest rate swaps used for hedging	–	3,607,497	–	3,607,497
Forward exchange contracts	–	4,375,554	–	4,375,554
Net exposure	**(67,782)**	**(10,616,896)**	**(63,742)**	**(6,189,627)**

The following exchange rates applied during the period:

	Average rate		Reporting date spot rate	
RUB	**For the year ended 2013**	**For the year ended 2012**	**31 December 2013**	**31 December 2012**
USD	31.8480	31.0930	32.7292	30.3727
EUR	42.3129	39.9524	44.9699	40.2286

Sensitivity analysis

A weakening of the Russian rouble, as indicated below, against the USD and EUR at 31 December 2013 and 2012 would have decreased profit of the Group by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

Effect in thousands of Russian roubles

	Profit or loss
At 31 December 2013	
EUR (10 percent weakening)	1,061,690
USD (10 percent weakening)	6,778
At 31 December 2012	
EUR (10 percent weakening)	618,963
USD (10 percent weakening)	6,374

A strengthening of the Russian rouble against the above currencies at 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The financing strategy of the Group envisages appropriate hedging against interest rate risk.

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

	Carrying amount	
	31 December 2013	**31 December 2012**
Fixed rate instruments		
Financial assets	8,455,610	5,166,075
Financial liabilities	(18,722,740)	(21,050,750)
	(10,267,130)	**(15,884,675)**
Variable rate instruments		
Financial liabilities	(4,216,940)	(4,267,850)
	(4,216,940)	**(4,267,850)**

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

d) Market risk (continued)

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 not have increased (decreased) profit or loss because the Group uses the cross currency interest rate swaps to transform variable rate liability into fixed-rate liability.

e) Fair value of financial instruments

Management believes that the fair value of the Group's financial assets and liabilities at 31 December 2013 approximates their carrying value.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2013	2012
Derivatives	6.56%-8.18%	6.73%-8.18%
Loans and borrowings	1.75%-8.38%	1.8%-8.5%

Fair value hierarchy

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

- Level 1: 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)

	Level 1	Level 2	Level 3	Total
Assets measured at fair value at 31 December 2013				
Available-for-sale financial assets	28,480	–	–	**28,480**
	28,480	–	–	**28,480**
Interest rate swaps used for hedging	–	495,140	–	**495,140**
Forward exchange contracts	–	230,110	–	**230,110**
	–	**725,250**	–	**725,250**
Liability measured at fair value at 31 December 2013				
Interest rate swaps used for hedging	–	(68,590)	–	**(68,950)**
Forward exchange contracts	–	–	–	–
	–	**(68,590)**	–	**(68,950)**

Thousands of Russian Roubles, unless otherwise stated

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

e) Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
Assets measured at fair value at 31 December 2012				
Available-for-sale financial assets	44,230	–	–	**44,230**
	44,230	–	–	**44,230**
Interest rate swaps used for hedging	–	14,990	–	**14,990**
Forward exchange contracts	–	–	–	–
	–	**14,990**	–	**14,990**
Liability measured at fair value at 31 December 2012				
Interest rate swaps used for hedging	–	(477,660)	–	**(477,660)**
Forward exchange contracts	–	(39,240)	–	**(39,240)**
	–	**(516,900)**	–	**(516,900)**

f) Capital risk management

The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- Share capital can not be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation, if not rectified within 6 months after the year end.

As at 31 December 2013, the Group has been in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, 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 statement of financial position, less cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

	31 December 2013	31 December 2012
Total borrowings (Note 13)	27,939,680	30,318,590
Less: Cash and cash equivalents (Note 10)	(8,618,040)	(5,350,480)
Net debt	**19,321,640**	**24,968,110**
Equity	**78,103,604**	**73,911,526**
Debt to equity ratio	**24.74%**	**33.78%**

23 COMMITMENTS

a) Fuel commitments

The Group has entered into several long-term contracts for the supply of gas and coal that will be used in the ordinary course of the Group's activities. The terms of these contracts are based on market.

b) Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 4,663,702 thousand at 31 December 2013 (at 31 December 2012: RUB 10,159,534 thousand).

24 CONTINGENCIES

a) Political environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, in Russia.

b) Insurance

The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks which are not covered by the existing insurance policies.

c) Legal proceedings

An overseas contractor has commenced an action against the Group claiming, among other matters, losses and damages associated with the equipment idle time. The Company filed a counter claim for losses due to failure by the contractor to meet scheduled construction timeline. In Y2013 a mutual agreement was signed in order to release any obligations and/or liabilities arising from this case.

The Group was not a party to any other significant legal proceedings which, upon final disposition, will have a material adverse effect on the financial position of the Group, except those for which provision has been accrued and recorded in this financial statement.

d) Tax contingency

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, 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.

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.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market level of prices. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUB 2 billion in 2013 and RUB 3 billion in 2012. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2013 and 2012, the Group determined its tax liabilities arising from “controlled” transactions using actual transaction prices.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Thousands of Russian Roubles, unless otherwise stated

24 CONTINGENCIES (continued)

e) Environmental matters

The Group and its predecessor have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluate 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. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, except for the land restoration provision. The land restoration provision relates to incremental decommissioning cost associated with future restoration of the underlying ash dump (refer to Note 17).

Due to the attraction of financing for an investment project to construct a new combined cycle gas turbine unit with a capacity of 410 MW at Nevinnomysskaya SDPP, the Group undertook to follow EU environmental standards.

This circumstance significantly reduces the risks of the Company as well as the fact that the Company is a material subsidiary of the Enel Group, which pays special attention to environmental and safety matters.

25 RELATED PARTIES DISCLOSURES

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

In the normal course of business the Group enters into transactions with related parties.

Related parties include shareholders, directors, subsidiaries and enterprises controlled by the state.

Transactions with Enel Group

For the year ended 31 December 2013 the Group had the following transactions with Enel Group entities:

	For the year ended 31 December 2013	For the year ended 31 December 2012
Sale of electricity	670,463	478,181
Other revenue	135,176	155,746
Purchases	(2,060,930)	(2,072,850)

As at 31 December 2013 the Group had the following balances with Enel Group entities:

	31 December 2013	31 December 2012
Trade and other receivables	357,925	238,147
Advances issued for capital construction	–	50,171
Trade and other payables	(2,562,685)	(3,059,845)

Transactions with state controlled entities

In the normal course of business the Group enters into transactions with other entities under government control or significant influence. Prices for natural gas, electricity and heat are based on tariffs set by FTS and RTS. Taxes are charged and paid under the Russian tax legislation.

During the year ended 31 December 2013 the Group purchased more than 90% of natural gas from the state controlled entities.

Thousands of Russian Roubles, unless otherwise stated

25. RELATED PARTIES DISCLOSURES (continued)

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Total remuneration accrued to the members of the Board of Directors and Management Board For the year ended 31 December 2013 and 2012 was as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2012
Remuneration	137,195	161,217

There were no loans provided to key management personnel during the year ended 31 December 2013.

At 31 December 2013 there were 11 members of the Board of Directors and 5 members of the Management Board.