



Interregional Distribution Grid (IDG) Company of North-West

Consolidated Interim Condensed Financial Statements
for the nine months ended 30 September 2014
(Unaudited)



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of the North-West

Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income for the 9 months ended 30 September 2014 (Unaudited)

(in thousands of Russian roubles, except share and per share data)

| | Notes | For the nine months ended 30 September | |
|--|-------|--|----------------|
| | | 2014 | 2013 |
| Revenue and government subsidies | 6 | 33,972,043 | 31,224,611 |
| Operating expenses | 7 | (33,511,608) | (30,526,178) |
| Other income, net | | 626,879 | 298,124 |
| Result from operating activities | | 1,087,314 | 996,557 |
| Finance costs, net | | (915,727) | (708,149) |
| Profit before income tax | | 171,587 | 288,408 |
| Income tax expense | | (77,631) | (232,638) |
| Profit for the period | | 93,956 | 55,770 |
| Other comprehensive income | | | |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> | | | |
| Net change in fair value of available-for-sale financial assets | | (1,165) | (954) |
| Income tax on items that are or may be reclassified subsequently to profit or loss | | 233 | 142 |
| <i>Total items that are or may be reclassified subsequently to profit or loss</i> | | <i>(932)</i> | <i>(812)</i> |
| <i>Items that will never be reclassified to profit or loss:</i> | | | |
| Remeasurements of the defined benefit liability | | 54,180 | 29,599 |
| Income tax on items that will never be reclassified to profit or loss | | (10,836) | (5,920) |
| <i>Total items that will not be reclassified to profit or loss</i> | | <i>43,344</i> | <i>23,679</i> |
| Other comprehensive income for the period, net of income tax | | 42,411 | 22,867 |
| Total comprehensive income for the period | | 136,367 | 78,637 |

The accompanying notes on pages 11 to 23 are an integral part of these consolidated interim condensed financial statements.

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Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income for the 9 months ended 30 September 2014 (Unaudited)

(in thousands of Russian roubles, except share and per share data)

| | Notes | For the nine months ended 30 September | |
|---|-------|--|----------------|
| | | 2014 | 2013 |
| Profit attributable to: | | | |
| Equity holders of the Company | | 93,933 | 55,764 |
| Non-controlling interests | | 23 | 6 |
| Profit for the period | | 93,956 | 55,770 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 136,344 | 78,631 |
| Non-controlling interests | | 23 | 6 |
| Total comprehensive income for the period | | 136,367 | 78,637 |
| Profit earnings per share | | | |
| Basic and diluted earnings per share (expressed in RUB) | | 0.0014 | 0.0008 |
| Weighted average number of ordinary shares in issue | 9 | 95,785,923,138 | 95,785,923,138 |

General Director

Letyagin A.V.

Deputy General Director for economy and finances

Nikiforov D.S.

Chief Accountant

Maksimova T.V.

24 November 2014

**ROSSETI**Interregional
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of the North-West

Consolidated Condensed Statement of Financial Position as at 30 September 2014 (Unaudited)

(in thousands of Russian roubles)

| | Notes | 30 September 2014 | 31 December 2013 |
|---|-------|-------------------|-------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 6 | 36,064,646 | 35,915,430 |
| Intangible assets | | 91,286 | 142,209 |
| Deferred tax assets | | 19,107 | 20,888 |
| Investment in securities and other financial assets | | 225,077 | 56,797 |
| Other non-current assets | | 773,116 | 701,602 |
| TOTAL NON-CURRENT ASSETS | | 37,173,232 | 36,836,926 |
| CURRENT ASSETS | | | |
| Accounts receivable and prepayments | | 16,737,321 | 12,338,947 |
| Income tax receivable | | 21,825 | 112,013 |
| Inventories | | 1,006,524 | 821,951 |
| Other current assets | | 597,701 | 517,245 |
| Cash and cash equivalents | | 1,040,738 | 839,959 |
| TOTAL CURRENT ASSETS | | 19,404,109 | 14,630,115 |
| TOTAL ASSETS | | 56,577,341 | 51,467,041 |
| EQUITY AND LIABILITIES | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 9 | 9,578,592 | 9,578,592 |
| Retained earnings | | 1,809,395 | 1,792,091 |
| Merger reserve | 9 | 10,457,284 | 10,457,284 |
| Other reserves | | 332,630 | 290,219 |
| EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY | | 22,177,901 | 22,118,186 |
| Non – controlling interests | | 311 | 288 |
| TOTAL EQUITY | | 22,178,212 | 22,118,474 |

The accompanying notes on pages 11 to 23 are an integral part of these consolidated interim condensed financial statements.

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Consolidated Condensed Statement of Financial Position as at 30 September 2014 (Unaudited)

(in thousands of Russian roubles)

| | Notes | 30 September 2014 | 31 December 2013 |
|--|-------|-------------------|-------------------|
| NON-CURRENT LIABILITIES | | | |
| Long-term loans and borrowings | 8 | 15,823,056 | 13,953,056 |
| Retirement benefit obligations | | 1,630,908 | 1,673,495 |
| Deferred tax liabilities | | 2,271,836 | 2,135,546 |
| Other non-current liabilities | | 1,205,403 | 1,086,187 |
| TOTAL NON-CURRENT LIABILITIES | | 20,931,203 | 18,848,284 |
| CURRENT LIABILITIES | | | |
| Accounts payable and advances received | | 10,831,674 | 6,755,988 |
| Current taxes payable | | 684,564 | 832,035 |
| Income tax payable | | 268 | 1,486 |
| Current loans and borrowings | 8 | 1,822,515 | 2,776,630 |
| Current provisions | | 128,905 | 134,144 |
| TOTAL CURRENT LIABILITIES | | 13,467,926 | 10,500,283 |
| TOTAL LIABILITIES | | 34,399,129 | 29,348,567 |
| TOTAL EQUITY AND LIABILITIES | | 56,577,341 | 51,467,041 |

General Director

Letyagin A.V.

Deputy General Director for economy and finances

Nikiforov D.S.

Chief Accountant

Maksimova T.V.

24 November 2014



Consolidated Condensed Statement of Changes in Equity for the nine months ended 30 September 2014 (Unaudited)

(in thousand of Russian roubles)

| | Attributable to equity holders of the Company | | | | | Non- controlling interests | Total equity |
|--|---|----------------------|-------------------|-------------------|-------------------|----------------------------------|-------------------|
| | Share capital | Retained earnings | Merger reserve | Other reserves | Total | | |
| Balance at 01 January 2013 | 9,578,592 | 1,420,990 | 10,457,284 | 509,219 | 21,966,085 | 277 | 21,966,362 |
| Total comprehensive income for the period | | | | | | | |
| <i>Profit for the period</i> | - | 55,764 | - | - | 55,764 | 6 | 55,770 |
| <i>Other comprehensive income for the period</i> | - | - | - | 22,867 | 22,867 | - | 22,867 |
| Total comprehensive income for the period | - | 55,764 | - | 22,867 | 78,631 | 6 | 78,637 |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Dividends to equity holders | - | (15,461) | - | - | (15,461) | - | (15,461) |
| Total transactions with owners, recorded directly in equity | - | (15,461) | - | - | (15,461) | - | (15,461) |
| Balance at 30 September 2013 | 9,578,592 | 1,461,293 | 10,457,284 | 532,086 | 22,029,255 | 283 | 22,029,538 |
| | | | | | | | |
| Balance at 01 January 2014 | 9,578,592 | 1,792,091 | 10,457,284 | 290,219 | 22,118,186 | 288 | 22,118,474 |
| Total comprehensive income for the period | | | | | | | |
| <i>Profit for the period</i> | - | 93,933 | - | - | 93,933 | 23 | 93,956 |
| <i>Other comprehensive income</i> | - | - | - | 42,411 | 42,411 | - | 42,411 |
| Total comprehensive income for the period | - | 93,933 | - | 42,411 | 136,344 | 23 | 136,367 |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Dividends to equity holders | - | (76,629) | - | - | (76,629) | - | (76,629) |
| Total transactions with owners, recorded directly in equity | - | (76,629) | - | - | (76,629) | - | (76,629) |
| Balance at 30 September 2014 | 9,578,592 | 1,809,395 | 10,457,284 | 332,630 | 22,177,901 | 311 | 22,178,212 |

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Consolidated Condensed Statement of Cash Flows

for the nine months ended 30 September 2014 (Unaudited)*(in thousands of Russian roubles)*

| | 9 months ended 30 September | |
|--|-----------------------------|--------------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Profit for the period | 93,956 | 55,770 |
| <i>Adjustments for non-cash transactions:</i> | | |
| Income tax expense recognised in profit or loss | 77,631 | 232,638 |
| Net finance costs | 915,727 | 731,427 |
| Depreciation and amortisation of non-current assets | 3,068,518 | 2,632,382 |
| Loss/(profit) from disposal of PPE | 10,136 | (7,512) |
| Provision for inventory obsolescence | (36) | 1,631 |
| Other non-cash loss | - | 22,726 |
| Operating cash flows before changes in working capital and provisions | 4,165,932 | 3,669,062 |
| <i>Working capital changes</i> | | |
| Change in accounts receivable and prepayments | (4,683,779) | (5,835,576) |
| Change in inventories | (184,536) | (186,754) |
| Change in other current assets | (80,456) | (145,897) |
| Change in provisions and employee benefits | 17,042 | (28,406) |
| Change in accounts payable, advances received and provisions | 3,403,733 | 1,389,759 |
| Cash generated by operations | 2,637,937 | (1,137,812) |
| Interest paid | (1,061,910) | (724,921) |
| Income tax paid | 138,808 | 20,168 |
| Net cash generated by operating activities | 1,714,834 | (1,842,565) |

The accompanying notes on pages 11 to 23 are an integral part of these consolidated interim condensed financial statements.

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Consolidated Condensed Statement of Cash Flows

for the nine months ended 30 September 2014 (Unaudited)

(in thousands of Russian roubles)

| | 9 months ended 30 September | |
|--|-----------------------------|--------------------|
| | 2014 | 2013 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from disposal of property, plant and equipment | 21,769 | 61,237 |
| Purchase of property, plant and equipment and other non-current assets | (2,489,668) | (3,108,834) |
| Interest received | 142,839 | 6,992 |
| Other investment income received | (33,052) | (47,801) |
| Net cash used in investing activities | (2,358,112) | (3,088,406) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from loans and borrowings | 7,958,776 | 15,087,458 |
| Repayments of loans and borrowings | (7,039,276) | (9,845,531) |
| Dividends paid | (75,443) | (15,365) |
| Net cash used in financing activities | 844,057 | 5,226,562 |
| Net decrease in cash and cash equivalents | 200,779 | 295,591 |
| Cash and cash equivalents at the beginning of the period | 839,959 | 726,997 |
| Cash and cash equivalents at the end of the period | 1,040,738 | 1,022,588 |

The accompanying notes on pages 11 to 23 are an integral part of these consolidated interim condensed financial statements.



Notes to the Consolidated Interim Condensed Financial Statements

for the 9 months ended 30 September 2014 (Unaudited)



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I. THE GROUP AND ITS OPERATIONS

Background

Open Joint Stock Company Interregional Distribution Grid Company of North-West (“IDGC of North-West” or the “Company”) was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of JSC “RAO UES of Russia” (“RAO UES”) as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningradskaya oblast, 188300, the Russian Federation. The Company’s main offices are at Constitution Square, building 3 “A”, Saint Petersburg, 196247, the Russian Federation.

Formation of the Group

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the Interregional Distribution Grid Company incorporated IDGC of North-West with seven branches, located in territory of seven federal subject of North-West regional: The Karelya Republic, The Komi Republic, Arkhangelsk Region, Vologda Region, Murmansk Region, Novgorod Region, Pskov Region, and subsidiaries (the “Group”). The principal subsidiaries are listed in Note 4.

The branches were formed on the basis of seven Regional Distribution Grid Companies: JSC “Karelenenergo”, JSC “AEK Komienergo”, JSC “Arkhenenergo”, JSC “Vologdaenergo”, JSC “Kolenergo”, JSC “Novgorodenergo”, JSC “Pskovenergo”, all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.4% of the Company’s shares to JSC IDGC Holding, a state-controlled entity. On 4 April 2013 in accordance with decision of General stockholders meeting JSC IDGC Holding has been formally renamed Joint Stock Company Russian Grids.

Relations with the state and current regulations

The Group’s business is a natural monopoly which is under the influence of the Russian Government. The government of the Russian Federation directly affects the Group’s operations through state tariffs.

In accordance with legislation, the Group’s tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise the capital required to maintain and expand current capacity.

As at 22 February 2013 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier in-charge of the service area of OJSC “Kolskaya Energy Retail Company” effective from 1 March 2013. As at 22 March 2013 the Ministry of Energy



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of the Russian Federation assigned the Company with the same status in respect of the service area of OJSC “Novgorodoblenergosbyt” effective from 1 April 2013.

The status of guaranteeing supplier in both cases is assigned for the period till the assigning of guaranteeing supplier status to the winner of the tender in respect of specified service area, but not more than for the period of 12 months.

The Group established separate unit within its Kolenergo and Novgorodenergo branches for the purpose of energy sales activities. The assigning of guaranteeing supplier status does not entail the change in assets, liabilities and equity of the Group at the date of status assignment. Financial information of these segments are disclosed in Note 5.

As at 01 January 2014 guaranteeing electric power supplier function in Novgorod region of the service area of OJSC “Novgorodoblenergosbyt” was assigned to another company by Ministry of Order № 912 issued on as at 23 December 2013.

Russian business environment

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

2. BASIS OF PREPARATION

Statement of compliance

These consolidated interim condensed financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*. It does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2012.

The Group companies maintain their accounting records in Russian Roubles (“RUB”) in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated interim condensed financial statements, which have been prepared using the Group’s statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as of 1 January 2007 by an independent appraiser to determine deemed cost as part of the adoption of IFRSs.



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Functional and presentation currency

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

Use of estimates

In the application of the Group’s accounting policies management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing this consolidated interim condensed financial report significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim condensed financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2013.

4. GROUP SUBSIDIARIES

The Group’s consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

| Subsidiary | Principal activity | Ownership as at 30 September 2014, % | Ownership as at 31 December 2013, % |
|--------------------------|-------------------------------|---|--|
| Pskovenergosbyt | Sale of electricity | 100 | 100 |
| Pskovenergoagent | Collection services | 100 | 100 |
| Energoservice North-West | Electricity metering services | 100 | 100 |
| Lesnaya skazka | Recreation | 98 | 98 |

5. OPERATING SEGMENTS

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

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



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(branches of IDGC North-West) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyzes financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

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

- Transmission Segments - Arkhenergo, Vologdaenergo, Karelenegero, Kolenergo, Komienegero, Novgorodenergo and Pskovenergo;
- Energy Retail Segments – Kolenergo, Novgorodenergo; Pskovenergosbyt;
- Other Segments – other Group companies.

Unallocated balances comprise mainly of corporate assets (primarily the Group headquarters), including cash balances, obligations on loans, deferred income tax assets and liabilities.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for consolidated financial statements prepared under IFRSs.

The major differences relate to:

- difference in the measurement of property, plant and equipment;
- recognition of employee benefits obligations; and
- differences in accounting for deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated interim condensed financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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



Segment results for the 9 months ended 30 September 2014 are presented below:

| | Transmission | | | | | | | Energy Retail | | | Other Segments | Unallocated | Total |
|--|------------------|-------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-----------------|------------------|-------------------|
| | Arkh energo | Vologd aenergo | Karel energo | Kol energo | Komi energo | Novgorod energo | Pskov energo | Kolenergo | Novgorod energo | Pskov-energosbyt | | | |
| Revenues | | | | | | | | | | | | | |
| Power transmitting | 3,452,655 | 4,564,566 | 2,901,354 | 2,635,700 | 4,760,557 | 2,298,042 | 151,670 | - | - | - | - | - | 20,764,544 |
| Connection to power network | 64,175 | 14,014 | 17,103 | 10,787 | 36,741 | 38,157 | 46,046 | - | - | - | - | - | 227,022 |
| Sale of electricity | - | - | - | - | - | - | - | 5,875,990 | 2,692,574 | 3,982,641 | - | - | 12,551,205 |
| Other revenue | 196,212 | 30,197 | 6,516 | 21,577 | 38,472 | 28,833 | 23,198 | - | - | - | 5,440 | - | 350,444 |
| Intersegment revenue | - | - | 4 | - | - | - | 2,048,442 | - | - | 284,471 | 181,367 | - | 2,514,283 |
| Total revenues | 3,713,041 | 4,608,777 | 2,924,977 | 2,668,064 | 4,835,769 | 2,365,032 | 2,269,355 | 5,875,990 | 2,692,574 | 4,267,112 | 186,807 | - | 36,407,498 |
| Profit/(loss) before income tax | 327,927 | 161,758 | 193,004 | (414,034) | (122,627) | (155,373) | (151,004) | 468,561 | (61,221) | (7,866) | (12,118) | - | 227,007 |
| As at 30 September 2014: | | | | | | | | | | | | | |
| Total assets | 6,704,494 | 13,099,287 | 5,744,566 | 3,984,708 | 10,905,998 | 6,406,451 | 5,133,757 | 2,385,558 | 556,710 | 612,524 | 92,327 | 4,865,994 | 60,492,373 |
| <i>Including property, plant and equipment</i> | <i>3,749,469</i> | <i>9,254,186</i> | <i>3,794,014</i> | <i>3,179,158</i> | <i>9,319,049</i> | <i>5,915,462</i> | <i>4,549,131</i> | <i>6,426</i> | <i>-</i> | <i>650</i> | <i>11,438</i> | <i>27,928</i> | <i>39,806,912</i> |



Segment results for the 9 months ended 30 September 2013 are presented below:

| | Transmission | | | | | | | Energy Retail | | | | Unallocated | Total |
|--|------------------|-------------------|------------------|------------------|------------------|--------------------|------------------|------------------|--------------------|----------------------|-------------------|------------------|-------------------|
| | Arkh energo | Vologd aenergo | Karel energo | Kol energo | Komi energo | Novgorod energo | Pskov energo | Kolenergo | Novgorod energo | Pskov- energosbyt | Other Segments | | |
| Revenues | | | | | | | | | | | | | |
| Power transmitting | 3,117,135 | 4,742,538 | 2,447,521 | 2,754,511 | 4,689,887 | 1,654,796 | 68,668 | - | - | - | - | - | 19,475,056 |
| Connection to power network | 19,404 | 12,932 | 590,495 | 3,102 | 60,840 | 8,492 | 15,454 | - | - | - | - | - | 710,719 |
| Sale of electricity | - | - | - | - | - | - | - | 4,999,720 | 1,522,111 | 4,154,690 | - | - | 10,676,521 |
| Other revenue | 214,549 | 40,426 | 6,540 | 18,517 | 39,457 | 21,571 | 14,060 | - | - | - | 5,550 | - | 360,670 |
| Intersegment revenue | - | - | 4 | - | - | - | 2,053,493 | - | - | 22,340 | 212,098 | - | 2,287,935 |
| Total revenues | 3,351,088 | 4,795,896 | 3,044,560 | 2,776,130 | 4,790,184 | 1,684,859 | 2,151,675 | 4,999,720 | 1,522,111 | 4,177,030 | 217,648 | - | 33,510,901 |
| Profit/(loss) before income tax | 37,867 | 123,054 | 316,157 | 125,491 | 272,737 | (458,361) | (179,494) | 146,589 | (107,954) | (310) | (8,173) | - | 267,603 |
| As at 30 September 2013: | | | | | | | | | | | | | |
| Total assets | 6,434,281 | 11,602,379 | 5,932,151 | 4,239,675 | 9,983,405 | 5,846,828 | 4,983,685 | 1,443,651 | 378,023 | 552,311 | 194,006 | 1,679,399 | 53,269,793 |
| <i>Including property, plant and equipment</i> | <i>3,385,979</i> | <i>8,921,094</i> | <i>3,553,779</i> | <i>3,143,083</i> | <i>8,759,525</i> | <i>5,522,662</i> | <i>4,475,622</i> | <i>7,947</i> | <i>1,223</i> | <i>1,121</i> | <i>13,181</i> | <i>23,826</i> | <i>37,809,042</i> |



The reconciliation of profit before income tax measured as reported to the Management Board with similar item in these consolidated interim condensed financial statements is presented below:

| | For the nine months ended 30 September | |
|---|---|----------------|
| | 2014 | 2013 |
| Segment results - profit before income tax | 227,007 | 267,603 |
| Accrued salaries and wages | - | 44,652 |
| Intragroup dividends | (1,163) | - |
| Adjustments for financial costs | 3,225 | (4,228) |
| Adjustment for depreciation of property, plant and equipment | (46,842) | (11,523) |
| Other adjustments | (10,641) | (8,096) |
| Profit before income tax per Consolidated Condensed Statement of Profit or Loss and Other Comprehensive Income | 171,587 | 288,408 |

6. REVENUE AND GOVERNMENT SUBSIDIES

| | For the nine months ended 30 September | |
|-----------------------------|---|-------------------|
| | 2014 | 2013 |
| Power transmitting | 20,764,544 | 19,475,056 |
| Sale of electricity | 12,551,205 | 10,677,176 |
| Connection to power network | 227,022 | 710,718 |
| Other revenue | 349,825 | 360,276 |
| Total revenue | 33,892,596 | 31,223,226 |
| Government subsidies | 79,447 | 1,385 |
| Total revenue | 33,972,043 | 31,224,611 |

7. OPERATING EXPENSES

| | For the nine months ended 30 September | |
|---|---|-------------|
| | 2014 | 2013 |
| Power transmitting services | 9,534,605 | 7,905,742 |
| Salaries and other personnel expenses | 7,357,394 | 6,909,346 |
| Electric purchases for resale | 6,802,862 | 6,219,429 |
| Depreciation and amortization of non-current assets | 3,068,518 | 2,632,653 |
| Electric purchases to cover losses | 2,608,751 | 2,380,259 |
| Raw materials used | 1,291,525 | 1,325,750 |
| Network and equipment repair services | 613,524 | 638,490 |



| | For the nine months ended 30 September | |
|--|--|-------------------|
| | 2014 | 2013 |
| Taxes other than income tax | 264,712 | 221,731 |
| Electricity and heat power for own needs | 176,845 | 187,484 |
| Telecommunication and information services | 165,701 | 146,174 |
| Impairment of trade and other receivables | 164,434 | 625,553 |
| Other operating expenses | 1,462,737 | 1,333,567 |
| Total operating expenses | 33,511,608 | 30,526,178 |

8. PROPERTY, PLANT AND EQUIPMENT

| | Building and structures | Power transmission lines | Power conversion equipment | Other | Assets under construction | Total |
|--|-------------------------|--------------------------|----------------------------|--------------------|---------------------------|---------------------|
| <i>Cost/Deemed cost</i> | | | | | | |
| Opening balance as at 1 January 2013 | 5,186,851 | 23,481,202 | 11,792,915 | 5,049,099 | 2,193,558 | 47,703,625 |
| Additions and transfers | 277,546 | 1,266,121 | 832,704 | 393,494 | 739,754 | 3,509,619 |
| Disposals | (22,977) | (1,509) | (5,565) | (51,674) | (24,214) | (105,939) |
| Closing balance as at 30 September 2013 | 5,441,420 | 24,745,814 | 12,620,054 | 5,390,919 | 2,909,098 | 51,107,305 |
| <i>Accumulated depreciation and impairment</i> | | | | | | |
| Opening balance as at 1 January 2013 | (1,371,685) | (7,894,482) | (3,158,145) | (2,028,426) | - | (14,452,738) |
| Charge for the period | (199,017) | (1,310,682) | (618,312) | (490,552) | - | (2,618,563) |
| Disposals | 7,537 | 1,051 | 3,360 | 40,259 | - | 52,207 |
| Closing balance as at 30 September 2013 | (1,563,165) | (9,204,113) | (3,773,097) | (2,478,719) | - | (17,019,094) |
| Net book value as at 1 January 2013 | 3,815,166 | 15,586,720 | 8,634,770 | 3,020,673 | 2,193,558 | 33,250,887 |
| Net book value as at 30 September 2013 | 3,878,255 | 15,541,701 | 8,846,957 | 2,912,200 | 2,909,098 | 34,088,211 |



| | Building and structures | Power transmission lines | Power conversion equipment | Other | Assets under construction | Total |
|--|-------------------------|--------------------------|----------------------------|--------------------|---------------------------|---------------------|
| <i>Cost/Deemed cost</i> | | | | | | |
| Opening balance as at 1 January 2014 | 5,852,279 | 26,157,905 | 13,641,066 | 5,984,540 | 2,205,440 | 53,841,230 |
| Additions and Transfers | 453,094 | 996,463 | 475,389 | 200,902 | 1,056,044 | 3,181,892 |
| Disposals | (2,285) | (6,555) | (5,289) | (21,802) | (20,542) | (56,473) |
| Closing balance as at 30 September 2014 | 6,303,088 | 27,147,813 | 14,111,166 | 6,163,640 | 3,240,942 | 56,966,649 |
| <i>Accumulated depreciation and impairment</i> | | | | | | |
| Opening balance as at 1 January 2014 | (1,630,338) | (9,675,319) | (3,988,622) | (2,631,521) | - | (17,925,800) |
| Charge for the period | (224,001) | (1,531,226) | (695,338) | (553,304) | - | (3,003,869) |
| Disposals | 1,622 | 2,841 | 3,796 | 19,407 | - | 27,666 |
| Closing balance as at 30 September 2014 | (1,852,717) | (11,203,704) | (4,680,164) | (3,165,418) | - | (20,902,003) |
| Net book value as at 1 January 2014 | 4,221,941 | 16,482,586 | 9,652,444 | 3,353,019 | 2,205,440 | 35,915,430 |
| Net book value as at 30 September 2014 | 4,450,371 | 15,944,109 | 9,431,002 | 2,998,222 | 3,240,942 | 36,064,646 |

9. EQUITY AND RESERVES

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognized for the group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

Authorised, issued and fully paid share capital

As at 30 September 2014 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2013: 95,785,923,138) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

**Merger reserve**

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Based on the application of predecessor accounting, the difference between the value of the share capital issued and the IFRS carrying values of the contributed assets and non-controlling interests was recorded as a merger reserve within equity.

Retained earnings and dividends

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

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

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

Earnings per share

Earnings per share were calculated using the weighted average number of ordinary shares. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share.

10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

| | <u>30 September 2014</u> | <u>31 December 2013</u> |
|------------------------------------|--------------------------|-------------------------|
| <i>Non-current liabilities</i> | | |
| Unsecured bank loans | 15,823,056 | 13,953,056 |
| | 15,823,056 | 13,953,056 |
| <i>Current liabilities</i> | | |
| Current portion of unsecured loans | 1,382,060 | 1,383,336 |
| Unsecured bank loans | 440,455 | 1,393,294 |
| | 1,822,515 | 2,776,630 |



The Group raised the following bank loans during the 9 months ended 30 September 2014:

| Amount | Interest rate | Maturity |
|------------|----------------|----------|
| 110,000 | 11.40% | 2014 |
| 329,500* | 7.84% - 11.00% | 2014 |
| 1,350,000* | 7.01% - 7.18% | 2015 |
| 2,360,000* | 8.10% - 8.75% | 2016 |
| 200,000* | 9.43% - 10.00% | 2017 |
| 10,000 | 11.80% | 2017 |

The Group repaid the following significant bank facilities during the 9 months ended 30 September 2014:

| | Amount |
|--------|-----------|
| Loans* | 6,140,676 |
| Loans | 898,600 |

*- Loans from state-controlled entities.

11. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 30 September 2014 the Group was controlled by JSC Russian Grids, a state controlled entity.

Transactions with state-controlled entities

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

Revenue from state-controlled entities for the 9 months ended 30 September 2014 constitute 14.9% (9 months ended 30 September 2013: 12.9%) of total Group revenue, including 9.8% (9 months ended 30 September 2013: 8.7%) of electricity transmission revenues.

Electricity transmission cost due to for state-controlled entities for the 9 months ended 30 September 2014 constitute 63.5% (9 months ended 30 September 2013: 50.2%) of total transmission costs.

Significant loans from state controlled entities are disclosed in Note 10.

Pricing policies

Related party revenue for electricity transmission and energy retail is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commissions.



12. COMMITMENTS AND CONTINGENCIES

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Taxation contingencies in Russian Federation

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

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

Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Capital expenditure commitments

As at 30 September 2014 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 3,888,486 thousand (as at 31 December 2013: RUB 2,864,999 thousand).

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

**Insurance policies**

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with dangerous production units.

As at 30 September 2014 the Group has insured its industrial assets for the amount of RUB 43,659,377 thousand (as at 31 December 2013: RUB 43,659,377 thousand). Also, as at 30 September 2014 the Group has insured vehicles below 10 years of age for the amount of RUB 573,298 thousand (as at 31 December 2013: RUB 545,753 thousand).

13. FINANCIAL RISK MANAGEMENT

During the period the Group had been exposed to the same risks as those which existed during the year ended 31 December 2013, and applied the same approach to financial risk management that was applied during the year ended 31 December 2013.

14. EVENTS AFTER THE REPORTING PERIOD

As at 01 October 2014 guaranteeing electric power supplier function in Novgorod region of the service area of OJSC “Novgorodoblectro” was assigned to another company by Ministry of Order № 638 issued on as at 24 September 2014.