RUSHYDRO GROUP

**Consolidated Financial Statements
prepared in accordance with IFRS
with independent auditor's report**

As at and for the year ended 31 December 2013

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company Federal Hydro-Generating Company – RusHydro (OJSC RusHydro)

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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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 2013 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

20 March 2014

Moscow, Russian Federation

T.V. Sirotinskaya, Director (licence no. 01-000527),
ZAO PricewaterhouseCoopers Audit

Audited entity: OJSC RusHydro

Certificate of inclusion in the Unified State Register of Legal Entities № 1042401810494 issued on 26 December 2004

51 Respubliki str, Krasnoyarsk, Krasnoyarsky region, Russian Federation, 660075

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

RusHydro Group
Consolidated Statement of Financial Position
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	7	633,846	604,461	568,629
Investments in associates and joint ventures	8	30,301	17,860	33,686
Available-for-sale financial assets	9	5,794	14,326	19,738
Other non-current assets	10	24,976	25,048	36,136
Total non-current assets		**694,917**	**661,695**	**658,189**
Current assets				
Cash and cash equivalents	11	34,472	39,819	47,337
Income tax receivable		2,679	2,842	3,718
Accounts receivable and prepayments	12	45,385	46,670	46,153
Inventories	13	21,449	19,578	17,972
Other current assets	14	53,144	53,787	9,944
		157,129	**162,696**	**125,124**
Assets of subsidiary acquired exclusively with a view for resale	2	-	28,479	28,470
Non-current assets classified as held for sale	8	-	1,397	-
Total current assets		**157,129**	**192,572**	**153,594**
TOTAL ASSETS		**852,046**	**854,267**	**811,783**
EQUITY AND LIABILITIES				
Equity				
Share capital	15	386,255	317,637	290,302
Treasury shares	15	(10,662)	(10,662)	(10,662)
Share premium	15	39,202	39,202	21,434
Retained earnings and other reserves		164,735	168,909	196,611
Equity attributable to the shareholders of OJSC RusHydro		**579,530**	**515,086**	**497,685**
Non-controlling interest		17,177	25,319	27,711
TOTAL EQUITY		**596,707**	**540,405**	**525,396**
Non-current liabilities				
Deferred income tax liabilities	16	31,000	39,482	44,245
Non-current debt	18	131,890	67,283	102,624
Other non-current liabilities	19	12,030	12,079	13,451
Total non-current liabilities		**174,920**	**118,844**	**160,320**
Current liabilities				
Current debt and current portion of non-current debt	18	19,887	73,752	21,414
Accounts payable and accruals	20	49,473	46,164	40,030
Accounts payable in respect of share issues	15	-	50,000	43,604
Current income tax payable		115	509	407
Other taxes payable	21	10,944	8,540	7,611
		80,419	**178,965**	**113,066**
Liabilities of subsidiary acquired exclusively with a view for resale	2	-	16,053	13,001
Total current liabilities		**80,419**	**195,018**	**126,067**
TOTAL LIABILITIES		**255,339**	**313,862**	**286,387**
TOTAL EQUITY AND LIABILITIES		**852,046**	**854,267**	**811,783**

Chairman of Management Board E. V. Dod

Chief Accountant D. V. Finkel

20 March 2014

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Revenue	22	313,632	298,805
Government grants	23	13,246	10,796
Expenses	24	(272,784)	(271,181)
Impairment of property, plant and equipment	7	(18,995)	(19,332)
Impairment of long-term promissory notes	10	(1,633)	(9,363)
Impairment of available-for-sale financial assets	9	(7,944)	(8,041)
Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale	2	(4,804)	(4,144)
Impairment of goodwill and intangible assets	10	-	(2,975)
Curtailment in pension plan	17	1,609	-
Gain on disposal of subsidiaries and associates		517	133
Operating profit / (loss)		**22,844**	**(5,302)**
Finance income	25	9,008	5,079
Finance costs	25	(9,222)	(6,780)
Profit / (loss) in respect of associates and joint ventures	8	2,555	(14,199)
Profit / (loss) before income tax		**25,185**	**(21,202)**
Total income tax expense	16	(4,192)	(4,122)
Profit / (loss) for the year		**20,993**	**(25,324)**
Attributable to:			
Shareholders of OJSC RusHydro		19,767	(22,631)
Non-controlling interest		1,226	(2,693)
Earnings / (loss) per ordinary share for profit attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)	26	0.0638	(0.0780)
Weighted average number of shares outstanding – basic and diluted (thousands of shares)	26	309,873,684	290,262,445

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Profit / (loss) for the year		20,993	(25,324)
Other comprehensive income / (loss), net of tax:			
Items that will not be reclassified to profit or loss			
Impairment of revalued property, plant and equipment	7	(19,637)	(10,646)
Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale	2	(646)	-
Remeasurement of pension benefit obligations	17	101	2,058
Total items that will not be reclassified to profit or loss		**(20,182)**	**(8,588)**
Items that may be reclassified subsequently to profit or loss			
Loss arising on available-for-sale financial assets	9	(647)	(296)
Loss arising on impaired available-for-sale financial assets	9	(289)	(3,438)
Accumulated loss on available-for-sale financial assets recycled to the Income Statement	9	350	6,451
Other comprehensive loss		(51)	-
Total items that may be reclassified subsequently to profit or loss		**(637)**	**2,717**
Total comprehensive income / (loss) for the year		**174**	**(31,195)**
Attributable to:			
Shareholders of OJSC RusHydro		(785)	(27,887)
Non-controlling interest		959	(3,308)

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		**25,185**	**(21,202)**
Depreciation of property, plant and equipment and intangible assets	7, 24	18,218	18,232
Loss on disposal of property, plant and equipment, net	24	1,447	1,925
(Profit) / loss in respect of associates and joint ventures	8	(2,555)	14,199
Gain on disposal of subsidiaries and associates		(517)	(133)
Finance income	25	(9,008)	(5,079)
Finance costs	25	9,222	6,780
Impairment of property, plant and equipment	7	18,995	19,332
Impairment of goodwill and intangible assets	10	-	2,975
Impairment of available-for-sale financial assets	9	7,944	8,041
Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale	2	4,804	4,144
Impairment of long-term promissory notes	10	1,633	9,363
Impairment of accounts receivable, net	24	4,895	5,611
Effect of Share Option Programme expenses		-	141
Curtailment in pension plan	17	(1,609)	-
Pension expenses		568	260
Other (income) / loss		(55)	396
Operating cash flows before working capital changes, income tax paid and changes in other assets and liabilities		**79,167**	**64,985**
Working capital changes:			
Increase in accounts receivable and prepayments		(4,312)	(6,490)
Increase in inventories		(2,326)	(1,468)
(Decrease) / increase in accounts payable and accruals		(1,034)	9,363
Increase in other taxes payable		2,751	765
Increase in other non-current assets		(277)	(4,454)
(Decrease) / increase in other non-current liabilities		(1,119)	1,988
Income tax paid		(10,422)	(5,813)
Net cash generated by operating activities		**62,428**	**58,876**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(61,641)	(83,042)
Proceeds from sale of property, plant and equipment		356	168
Investment in bank deposits and purchase of other investments		(110,567)	(75,925)
Redemption of bank deposits and proceeds from sale of other investments		111,763	33,187
Contribution to share capital of associates and joint ventures		(533)	(504)
Interest received		7,554	4,490
Proceeds from sale of associates	8	1,913	-
Net cash used in investing activities		**(51,155)**	**(121,626)**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from current debt	18	87,352	46,416
Proceeds from non-current debt	18	67,554	48,841
Repayment of debt	18	(153,114)	(75,928)
Interest paid		(13,580)	(11,574)
Dividends paid to the shareholders of OJSC RusHydro		(3,586)	(2,408)
Dividends paid by subsidiaries to non-controlling interest holders		(160)	(170)
Prepayments and proceeds from share issue	15	22	51,498
Finance lease payments		(1,194)	(1,404)
Purchase of non-controlling interest in subsidiaries		-	(58)
Net cash (used in) / generated by financing activities		**(16,706)**	**55,213**
Foreign exchange gain / (loss) on cash balances		48	(20)
Decrease in cash and cash equivalents		**(5,385)**	**(7,557)**
Cash and cash equivalents at the beginning of the year		**39,857**	**47,414**
Cash and cash equivalents at the end of the year	**11**	**34,472**	**39,857**

(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Available-for-sale financial assets	Remeasu-rement of pension benefit obligation	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Non-controlling interest	Total equity
As at 1 January 2012		**290,302**	**(10,662)**	**21,434**	**(127,216)**	**228,680**	**(2,273)**	**-**	**98,225**	**498,490**	**27,169**	**525,659**
Application of IAS 19 revised		-	-	-	-	-	-	(150)	(655)	(805)	542	(263)
As at 1 January 2012 (restated)	2	**290,302**	**(10,662)**	**21,434**	**(127,216)**	**228,680**	**(2,273)**	**(150)**	**97,570**	**497,685**	**27,711**	**525,396**
Loss for the year		-	-	-	-	-	-	-	(22,631)	(22,631)	(2,693)	(25,324)
Loss arising on available-for-sale financial assets	9	-	-	-	-	-	(226)	-	-	(226)	(70)	(296)
Loss arising on impaired available-for-sale financial assets	9	-	-	-	-	-	(3,438)	-	-	(3,438)	-	(3,438)
Accumulated loss on available-for-sale financial assets recycled to the Income Statement	9	-	-	-	-	-	6,451	-	-	6,451	-	6,451
Remeasurement of pension benefit obligations	17	-	-	-	-	-	-	1,070	-	1,070	988	2,058
Impairment of revalued property, plant and equipment	7	-	-	-	-	(9,113)	-	-	-	(9,113)	(1,533)	(10,646)
Total comprehensive loss		**-**	**-**	**-**	**-**	**(9,113)**	**2,787**	**1,070**	**(22,631)**	**(27,887)**	**(3,308)**	**(31,195)**
Share issue		27,335	-	17,768	-	-	-	-	-	45,103	-	45,103
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	-	2,448	2,448	1,086	3,534
Dividends	15	-	-	-	-	-	-	-	(2,431)	(2,431)	(170)	(2,601)
Effect of Share Option Programme		-	-	-	-	-	-	-	141	141	-	141
Purchase of subsidiaries		-	-	-	-	-	-	-	27	27	-	27
Transfer of revaluation reserve to retained earnings		-	-	-	-	(810)	-	-	810	-	-	-
As at 31 December 2012 (restated)	2	**317,637**	**(10,662)**	**39,202**	**(127,216)**	**218,757**	**514**	**920**	**75,934**	**515,086**	**25,319**	**540,405**

RusHydro Group
Consolidated Statement of Changes in Equity
(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Treasury shares	Share premium	Merger reserve	Revaluation reserve	Available-for-sale financial assets	Remeasu-rement of pension benefit obligation	Retained earnings	Equity attributable to shareholders of OJSC RusHydro	Non-controlling interest	Total equity
As at 31 December 2012 (restated)	2	**317,637**	**(10,662)**	**39,202**	**(127,216)**	**218,757**	**514**	**920**	**75,934**	**515,086**	**25,319**	**540,405**
Profit for the year		-	-	-	-	-	-	-	19,767	19,767	1,226	20,993
Loss arising on available-for-sale financial assets	9	-	-	-	-	-	(587)	-	-	(587)	(60)	(647)
Loss arising on impaired available-for-sale financial assets	9	-	-	-	-	-	(289)	-	-	(289)	-	(289)
Accumulated loss on available-for-sale financial assets recycled to the Income Statement	9	-	-	-	-	-	350	-	-	350	-	350
Remeasurement of pension benefit obligations	17	-	-	-	-	-	-	(45)	-	(45)	146	101
Impairment of revalued property, plant and equipment	7	-	-	-	-	(19,593)	-	-	-	(19,593)	(44)	(19,637)
Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale	2	-	-	-	-	(337)	-	-	-	(337)	(309)	(646)
Other comprehensive loss		-	-	-	-	-	-	-	(51)	(51)	-	(51)
Total comprehensive income		**-**	**-**	**-**	**-**	**(19,930)**	**(526)**	**(45)**	**19,716**	**(785)**	**959**	**174**
Share issue		68,618	-	-	-	-	-	-	-	68,618	-	68,618
Transactions with the Government and companies under common control	15	-	-	-	(7,859)	-	-	-	6,252	(1,607)	(6,270)	(7,877)
Effect of changes in non-controlling interest	15	-	-	-	-	-	-	-	1,812	1,812	(2,671)	(859)
Dividends	15	-	-	-	-	-	-	-	(3,594)	(3,594)	(160)	(3,754)
Transfer of revaluation reserve to retained earnings		-	-	-	-	(812)	-	-	812	-	-	-
As at 31 December 2013		**386,255**	**(10,662)**	**39,202**	**(135,075)**	**198,015**	**(12)**	**875**	**100,932**	**579,530**	**17,177**	**596,707**

Note 1. The Group and its operations

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for OJSC RusHydro (hereinafter referred to as "the Company") and its subsidiaries (hereinafter referred to as the "Group").

The Company was incorporated and is domiciled in the Russian Federation. The Company is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Group's primary activities are generation and sale of electricity and capacity on the Russian wholesale and retail markets, as well as generation and sale of heat energy.

Economic environment in the Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it takes all the necessary measures to support the sustainability and development of the Group's business.

Relations with the Government and current regulation. As at 31 December 2013 the Russian Federation owned 66.84 percent of the total voting ordinary shares of the Company (31 December 2012: 60.50 percent).

The Group's major customer base includes a large number of entities controlled by, or related to the Government. Furthermore, the Government controls contractors and suppliers, which provide the Group with electricity dispatch, transmission and distribution services, and a number of the Group's fuel and other suppliers (Note 6).

In addition, the Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- regulation of tariffs for electricity, capacity and heating;
- approval and monitoring of the Group's investment programme, including volume and sources of financing.

Economic, social and other policies of the Russian Government could have a material effect on operations of the Group.

Overview of the electricity and capacity market. Capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

The Russian electricity and capacity market consists of wholesale and retail markets.

Participants of the wholesale market include: generating companies, electricity sales companies (including guaranteeing suppliers), electricity export / import operator, Federal Grid Company (in terms of electricity purchases to cover transmission losses), large electricity consumers. Participants of the wholesale market can act as electricity and capacity sellers and buyers.

Participants of the retail markets include: consumers, providers of public utilities, guaranteeing suppliers, electricity sales (supply) companies, electricity generators of retail markets, grid companies, participants of electricity dispatch.

Wholesale electricity and capacity market. The wholesale electricity and capacity market operates in accordance with the Resolution of the Russian Government No. 1172 dated 27 December 2010.

A wholesale market for electricity and capacity functions on the territory of the regions, which are integrated in pricing areas. European Russia and Urals are included in the first pricing area, Siberia is included in the second pricing area. In non-pricing areas (Arkhangelsk and Kaliningrad regions, Komi Republic, regions of the Far East), where the competitive market relationships are not possible due to technological reasons, sales of electricity and capacity are carried out based on regulated tariffs.

In the isolated energy systems which are not technically integrated into the country's unified energy system, there is no electricity and capacity wholesale market and electricity is supplied through the regulated retail markets.

Wholesale electricity market

The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery time frames: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market.

During 2013 the electricity traded in pricing zones of wholesale market was sold at unregulated prices excluding of volumes designated for delivery to population, groups of customers equivalent to population and customers located in North Caucasus and Republic of Tyva.

Electricity and capacity supply tariffs for the Russian Federation are calculated using the price indexing formulas determined by the Federal Tariff Service (hereinafter referred to as "the FTS").

Electricity and capacity supply volumes are determined based on the estimated consolidated balance of electricity production and supply prepared by the FTS, so that for the electricity and capacity generator supply under regulated contracts does not exceed 35 percent of the total electricity and capacity supply to the wholesale market determined by the decision on balance for such generator.

Electricity volumes that are not covered by the regulated contracts are sold at unregulated prices on the day-ahead market (DAM) and balancing market (BM).

DAM is a competitive selection of seller and buyer price bids on the day ahead of actual electricity supply, including prices and volumes for each of 24 hours. The selection is managed by the Commercial Operator of the wholesale market (OJSC ATS). On DAM, the price is determined by balancing the demand and supply, and such price is applied to all market participants. To mitigate the price manipulation risk, DAM introduced a system encouraging the participants to submit competitive price bids – in accordance with the trading rules, the lowest price bids for electricity supply are satisfied first.

Price indices and trade volumes in DAM are published daily on the web-site of OJSC ATS.

Electricity volumes sold under bilateral contracts and on DAM constitute scheduled electricity consumption. However, actual consumption is inevitably different from the planned one. Deviations from scheduled production / consumption are traded on a real-time basis on BM, and the System Operator of the wholesale market (OJSC SO UES) holds additional tenders to select bids every three hours.

Under unregulated bilateral contracts, the market participants independently determine supply counter parties, prices and volumes.

Wholesale capacity market

The Resolution of the Russian Government No. 89 dated 24 February 2010 approved amendments to regulations of the electricity and capacity market providing for organisation of long-term capacity market.

Capacity is traded based on the following trading mechanisms:

- purchase / sale of capacity under capacity sales contracts, concluded as a result of capacity competitive selection of bids;
- purchase / sale of capacity under unregulated contracts, including concluded through the exchange;
- purchase / sale of capacity under contracts to provide capacity and under sale contracts of new nuclear power plants and hydroelectric power plants, similar to capacity sale contracts;
- purchase / sale of capacity produced by forced generators;
- purchase / sale of capacity under regulated contracts (within the volumes for delivery to population and groups of customers equivalent to population);
- purchase / sale of capacity of generating facilities selected by additional screening of investment projects performed when capacity selected through capacity competitive selection of bids in any area does not guarantee meeting the demand for capacity;
- purchase / sale of capacity of generating facilities determined upon the results of competitive selection of investment projects on developing the prospective technological capacity reserves.

During 2013 and 2012, similar to trading operations with electricity, capacity is supplied under regulated contracts only in the volumes required for supply to the population, equivalent consumer categories and consumers operating in some parts of the wholesale market pricing zones, consisting Russian constituent territories as determined by the Russian Government (North Caucasus and Republic of Tyva).

During 2013 and 2012, the volumes of capacity of hydropower plants located in the second pricing area were supplied for tariffs approved by the FTS.

In the capacity market, capacity tenders are held based on the demand estimated for the respective supply period by OJSC SO UES. If the actual demand for capacity is above the forecast one, additional tender selection may be held for adjusting it.

The tender first selects capacity commissioned under capacity supply contracts (CSC) entered into with heating generation sites and contracts with nuclear power plants and hydro power plants similar to CSC. Non-selected capacity that failed to pass through the tender is not paid for, excluding the capacity of the generating sites that are required to maintain the technological operating modes of the energy system or supply heat (“forced” generators). The capacity of “forced” generators is paid for using the tariff set up by the FTS.

In December 2010 first capacity sale contracts for new hydroelectric power plants and pump storage power plants were concluded. Heating generation site commissioned under CSC, receives guaranteed payment for capacity for 10 years, to offset the maintenance cost and capital expenditures covered by agreement. Under these contracts such power plants receive guaranteed payment for capacity for 20 years. Maintenance and capital expenditures used to calculate the cost of capacity under capacity supply contracts are determined by Resolution of the Russian Government No. 238 dated 13 April 2010.

Non-pricing zone of the Far East

Territories of the Amur Region, Primorsky Region, Khabarovsk Region, Jewish Autonomous Region and the Southern District of the Sakha Republic (Yakutia) are integrated into a single non-pricing zone of the wholesale electricity and capacity market of the Far East. There are specific features of managing electricity and capacity trading operations due to limitations in the competition among electricity suppliers and grid-imposed limitations for electricity flow.

Tariffs for electricity supplied by the Far East energy companies to the consumer (end-consumer tariffs) are approved by regional regulatory authorities based on the threshold tariff levels approved by the FTS for the regulated period.

The threshold tariff levels for electricity supplied to population or equivalent consumer categories and other consumers in the Russian constituent territories are determined by the FTS in accordance with the forecast of social and economic development in the Russian Federation for the regulated period.

The single buyer wholesale market model is implemented in the Far East non-pricing zone. Suppliers of the wholesale market supply electricity and capacity to the wholesale market using the tariffs established for them by the FTS.

The single buyer purchases electricity and capacity on the wholesale market at indicative prices calculated by OJSC ATS based on the tariffs for suppliers of wholesale market approved by the FTS.

OJSC ATS makes sure settlements between the electricity generators and buyers. Functions of the single buyer are assigned to OJSC DEK on the territory of Amur Region, Jewish Autonomous Region, Khabarovsk Region, Primorsky Region and the Southern District of the Sakha Republic (Yakutia).

However there are regions with only retail market operations – they are isolated energy systems of Kamchatsky Region, Magadan Region, Chukotsk Autonomous Region, Western and Central Regions of Sakha Republic (Yakutia) and Sakhalin Region where systems are not technically integrated into the unified energy system.

Retail electricity market. In the retail electricity markets the sales of electricity purchased on the wholesale electricity and capacity market and electricity of generating companies which are not participants of the wholesale market are carried out.

The retail market rules were approved by Resolution of the Government No. 442 dated 4 May 2012 “On functioning of retail electricity markets, complete and (or) partial constraint of electricity consumption” (hereinafter referred to as “the retail market rules”).

In the territories of the constituent regions of the Russian Federation integrated into pricing zones of the wholesale market electricity is sold at unregulated prices except for electricity sales to population and equivalent consumer categories.

Electricity is supplied to population and groups of customers equivalent to population at regulated prices (tariffs) approved by executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation.

Regulated prices are established based on forecast of social and economic development of Russian Federation for the next year approved by the Government. The FTS determines the threshold levels for regulated tariffs for electricity supplied to population and equivalent consumer categories.

The guaranteeing suppliers sell electricity at unregulated prices within the threshold limits of unregulated prices determined and applied according to the retail market rules. Electricity sales (supply) companies sell electricity at unregulated prices. Electricity generators in the retail markets sell electricity at unregulated prices except for sales of electricity to guaranteeing supplier.

In the territories of the constituent regions of the Russian Federation integrated into non-pricing zones of the wholesale market for determination of prices for electricity supplied to final customers in the retail markets principles of prices translation of wholesale market established by the retail market rules and Rules of application of the prices (tariffs) approved by the order of the FTS No. 364-э/4 dated 30 November 2010 are applied. Translation of prices of wholesale market is performed for all final customers except for population and equivalent consumer categories.

Translation prices calculated by electricity sales companies according to the Rules of application of the prices (tariffs) are determined based on regulated tariffs set up for the respective group of customers and cost of purchase of electricity and capacity by guaranteeing supplier (electricity sales company) in the wholesale market. Population and equivalent consumer categories pay for electricity under the tariffs set up by executive authorities of the constituent regions of the Russian Federation.

In the territories of isolated energy systems – sales of electricity to all consumer categories are carried out at regulated prices approved by the FTS and executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation in the territories where such energy systems are located.

Heating market. Operations of the heating market are regulated by Federal Law No.190-FZ “On Heating” dated 27 July 2010 and Resolution of the Government No. 1075 dated 22 October 2012 “On pricing of heating supply”.

The Group’s entities that are included into the segment RAO Energy System of the East Group are participants on the retail heating markets in the territories of their presence. Heat energy is supplied on the centralised basis from the heat power plants and boiling houses operated by the energy systems. And a number of energy systems are involved in supplies of heat, generating and distributing heat energy, while others – just generate heat energy.

Heating market provides for:

- supply of heat and heat transfer public utilities relating to hot water and heating supply needs;
- supply of heat for the entities’ technological needs.

According to the Russian legislation, sales of heat energy are fully regulated.

Prices (tariffs) for heat supplied by utilities for all consumer groups are approved by executive authorities in the Russian constituent regions responsible for state regulation of prices (tariffs).

Service fee for maintenance of spare heat capacity when there is no heat consumption and fee for connection to the system of heating supply are also regulated by executive authorities in the Russian constituent regions responsible for state regulation of prices within the threshold limits of tariffs approved by the FTS.

Market of services for provision of system reliability. Types of services for provision of system reliability (hereinafter referred to as “the system services”), rules of their rendering, pricing mechanism and procedure of selection of the constituents of the utilities industry rendering such services and electricity consumers were introduced by Resolution of the Government No. 117 dated 3 March 2010.

Functions of selection of the constituents of the utilities industry rendering system services, conclusion of contracts with such constituents and service charge as well as coordination of actions of participants of the system services market are assigned to OJSC SO UES.

System services market is commissioned to provide functioning of the economic mechanisms stimulating maintenance and development of equipment in United Energy System (UES) of Russia with specific optional features for all constituents:

- ability to participate in standardized primary frequency regulation;
- ability to participate in automated secondary frequency regulation at heat power plants;
- reactive power regulation with use of generation equipment of the power plants which are not participating in generating of active capacity;
- operation of elements of emergency control system in UES of Russia created for the purpose of increase of carrying capacity in controlled sections of electric grid.

From the outlined system services the Group provides services for reactive power regulation with use of generation equipment of the hydroelectric power plants which are not used for electricity generation during the period of rendering the services.

Renewable-based power generation. Russian Government's order No. 449 of 28 May 2013 *On incentive mechanisms for using renewables in the wholesale electricity and capacity market* and Russian Government's Resolution No. 861-r of 28 May 2013 approved the pricing rules for capacity of renewable ("Renewables") power generation assets and mechanisms and key parameters of support for renewable-based power generation in Russia.

The basic mechanism of support is as follows:

- The Russian Government set out annual limits for capacity commissioning for each of three technologies until 2020: wind, distributed power generation (5 to 25 mW) and solar energy.
- The government established the capital expenditure ceilings, localisation requirements, installed capacity utilisation benchmarks (ICUB) and operating expenses.
- ATS performs the annual competitive selection of capacity for the term of 4 years out of the assets of wholesale market zones 1 and 2 based on the minimal capital expenditure criterion.
- The tender winners sign a capacity supply contract (Renewable CSC), which guarantees the minimum capacity payments to investors over 15 years from the commissioning date.
- The contract provides for penalties for violating the terms and conditions set out in Renewable CSC (failure to meet the commissioning deadlines and localisation requirements, and under-supply of capacity).

On 19 September 2013, ATS published the results of the first tender for the construction of renewable energy projects.

The adoption of the above regulatory framework by the Russian Government guarantees economic efficiency of investments in renewable power generation projects.

The Group currently considers in future participation in the tender for the construction of renewable energy projects.

Note 2. Summary of significant accounting policies

Basis of preparation. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") under the historical cost convention, as modified by the financial instruments initially recognised at fair value, revaluation of property, plant and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the fair value of the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in equity.

Acquisition of subsidiaries from parties under common control. Acquisitions of subsidiaries from parties under common control are accounted for using the predecessor values method. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented, i.e. retrospectively except for acquisition of subsidiaries acquired exclusively with a view for resale which are accounted for using predecessor values method prospectively from the acquisition date.

Investments in associates and joint ventures. Investments in associates and joint ventures are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as profit or loss in respect of associates and joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the profit or loss in respect of associates and joint ventures.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is defined by making of decisions about the relevant activities required the unanimous consent of the parties sharing control.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence on joint ventures and associates.

Unrealised gains on transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Intangible assets and goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include customer base acquired in business combination (Note 10), which is amortised over 5 years, and capitalised computer software. Intangible assets are amortised using the straight-line method over their useful lives. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above (Note 31).

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

Classification of financial assets. Financial assets have the following categories: (i) loans and receivables; (ii) available-for-sale financial assets; (iii) financial assets held to maturity and (iv) financial assets at fair value through profit or loss. The description of categories of financial assets of the Group is given below.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments.

Derivative financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. . Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

All other financial assets are included in the *available-for-sale* category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (i) financial liabilities at fair value through profit or loss and (ii) other financial liabilities. All financial liabilities of the Group including loans are categorised as other and carried at amortized cost.

Available-for-sale financial assets. Available-for-sale financial assets are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Foreign currency. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

As at 31 December 2013, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 32.73: USD 1.00 (31 December 2012: RR 30.37: USD 1.00), between Russian Ruble and Euro was RR 44.97: EUR 1.00 (31 December 2012: RR 40.23: EUR 1.00).

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment (where required). Office buildings and land owned by the Group are stated at cost.

Property, plant and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when the revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Depreciation on the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

Social assets are not capitalised if 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.

Depreciation. Depreciation on other items of property, plant and equipment (except for land) is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively.

The average useful lives of property, plant and equipment by type of facility, in years, were as follows:

Type of facility	Average useful lives
Production buildings	25–80
Facilities	10–100
Plant and equipment	5–40
Other	3–30

Depreciation is charged once an asset is available for service. Land and assets under construction are not depreciated.

Impairment of property, plant and equipment. Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7). If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Investment property. Investment property is property held by the Group to earn rental income which is not occupied by the Group (Note 10). Investment properties are stated at cost. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation; (iv) the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Cost of inventory that is expensed is determined on the weighted average basis.

Non-current assets classified as held for sale. Discontinued operations. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within 12 months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current and / or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than 12 months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Disposal groups or non-current assets that ceases to be classified as held for sale are measured at the lower of (i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not to sell.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Interest payments capitalised as part of the cost of an assets are classified as cash outflows from financing activities.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.

Defined benefit plans. The Group operates defined benefit plans that cover the majority of its employees. Defined benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period less fair value of plan assets.

The defined benefit obligations are calculated by independent actuary using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from remeasurement of pension benefit obligations are recognised in other comprehensive income. Past service cost is immediately recognised in profit or loss within operating expenses.

Defined contribution plans. For defined contribution plans, the Group pays contributions and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Share-based payment transactions. The share option programme allows the Group's key management to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on the delivery of electricity and heat, provisioning for capacity, supply of non-utility services and on the dispatch of goods during the period. Revenue from retail operations is recognised on delivery of electricity and heat to the customer. Revenue amounts are presented exclusive of value added tax.

Revenue transactions under free bilateral contracts are shown net of related purchases of equivalent electricity volumes which the market participant is obliged to make in accordance with the industry regulations. Additional turnover in the amount of RR 10,198 million for the year ended 31 December 2013 (for the year ended 31 December 2012: RR 9,090 million) is shown net for presentation purposes to reflect the economic substance of transactions.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets. Government grants are included in cash flows from operating activities.

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the placement value over the par value of shares issued is recorded as share premium in equity.

***Treasury shares*.** Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

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

Social expenditure. To the extent that the Group's contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the Consolidated Financial Statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of non-financial assets. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Accounting for impairment of non-financial assets includes impairment of property, plant and equipment and impairment of investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 7 and 8.

Fair value estimation for acquisitions. In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgment is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets. Management of the Group use all available information to make these fair value determinations and, for certain acquisitions, engage third-party consultants for assistance. The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a tax payer basis.

Management considered the recoverability of deferred tax assets, including those on tax losses carried forward, as probable (Note 16).

Useful life 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 and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

Discontinued operations. As at 31 December 2012 OJSC DRSK was classified as a subsidiary acquired exclusively with a view for resale due to Group's intentions in respect of OJSC DRSK after receiving of control over it were connected with the transfer of its shares to OJSC Russian Grids.

The changes to the Federal Law "On Electric Power Industry" and article 81 of Federal Law "On Joint Stock Companies" were made at the end of year 2013. According to these changes, lease of OJSC Federal Grid Company's grids is prolonged untill 1 July 2029 for territorial grid companies in a number of regions of the Russian Federation including the Amur Region and Jewish Autonomous Region where OJSC DRSK operates. Thus the Group could be compensated for the shortfall in income which has arisen due to withdrawal of some consumers from "the last mile" agreements, resulting in the Group's intentions concerning the transfer of the shares to change. In November 2013, management made the announcement of the decision not to sell OJSC DRSK.

Based on the above facts, OJSC DRSK is no longer classified as a discontinued operation and as of 31 December 2013 its assets and liabilities of OJSC DRSK are recognised at their recoverable amount at the date of the decision not to sell and a loss in the amount of RR 5,450 million was recognised: RR 4,804 million in profit and loss and RR 646 million (net of tax of RR 144 million) in other comprehensive loss. The Consolidated Income Statement and Consolidated Statement of Cash Flows for the year 2012 are presented as if OJSC DRSK was classified as a part of continuing operations.

Reclassifications

Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material.

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective from 1 January 2013:

IFRS 10, Consolidated Financial Statements *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* replaces all of the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements* and SIC-12, *Consolidation - special purpose entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The standard did not have any material impact on the Group's consolidated financial statements.

IFRS 11, Joint Arrangements *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The standard did not have any material impact on the Group's consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements previously found in IAS 28, *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The standard resulted in additional disclosures in these consolidated financial statements (Notes 4, 8).

IFRS 13, Fair Value Measurement *(issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)* improved consistency and reduced complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value, which management considers is[the last trading price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price.The standard did not have any material impact on the measurement of assets and liabilities of the Group, but resulted in additional disclosures in these consolidated financial statements for assets and liabilities for which fair value was defined. The fair value hierarchy is presented in Note 31.

IAS 27, Separate Financial Statements *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)* was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, *Consolidated Financial Statements*. The amended standard did not have any impact on the Group.

IAS 28, Investments in Associates and Joint Ventures *(revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amended standard did not have any material impact on the Group's consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (*issued in June 2011, effective for annual periods beginning on or after 1 July 2012)* changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to statement of profit or loss and other comprehensive income. The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19, Employee benefits *(issued in June 2011, effective for periods beginning on or after 1 January 2013).* From 1 January 2013 the Group has applied the amendments to IAS 19 retrospectively in accordance with the transition provisions of the standard. Amended IAS 19 makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits. The material impacts of IAS 19 (revised) on the Group's consolidated financial statements are as follows:

- Actuarial gains and losses are renamed "remeasurements" and now are recognised immediately in other comprehensive income and thus, will no longer be deferred using the corridor;
- Past-services costs are recognised immediately though profit and loss when they occur;
- The annual expense for the funded benefit plan now include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This replaces the finance charge on liabilities and expected return on plan assets.

Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 *(issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment requires disclosures that enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendments did not have any material impact on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards *(issued in May 2012 and effective for annual periods beginning 1 January 2013).* The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, *Borrowing costs,* retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that spare parts, stand-by and servicing equipment is classified as property, plant and equipment rather than inventory if it complies with definition of property, plant and equipment. The requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment was removed because this requirement was too restrictive when compared with the definition of property, plant and equipment. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group's consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 *(issued in June 2012 and effective for annual periods beginning 1 January 2013).* The amendments clarify the transition guidance in IFRS 10,*Consolidated Financial Statements.* Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, *Joint Arrangements* and IFRS 12, *Disclosure of Interests in Other Entities*, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group's consolidated financial statements.

Other revised standards and interpretations: IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation did not have significant impact on the Group's consolidated financial statements. Amendments to IFRS 1, *First-time adoption of International Financial Reporting Standards - Government Loans*, which were issued in March 2012 and are effective for annual periods beginning 1 January 2013, give first-time adopters of IFRSs relief from full retrospective application of accounting requirements for loans from government at below market rates. The amendment is not relevant to the Group.

(in millions of Russian Rubles unless noted otherwise)

Change of comparative data

The retrospective changes to the comparative figures of Group's Consolidated Financial Statements driven by application of amended IAS 19 from 1 January 2012 and representation of Consolidated Income Statement items due to changes of intentions of the Group in respect of OJSC DRSK as described above.

	1 January 2012 (as reported)	**Recalculation due to IAS 19 amendments**	**1 January 2012 (restated)**
Retained earnings and other reserves	197,416	(805)	196,611
Non-controlling interest	27,169	542	27,711
Total effect on equity		**(263)**	
Deferred tax liabilities	44,340	(95)	44,245
Other non-current liabilities	13,001	450	13,451
Liabilities of disposal group classified as held for sale	13,093	(92)	13,001
Total effect on liabilities		**263**	

	31 December 2012 (as reported)	**Recalculation due to IAS 19 amendments**	**31 December 2012 (restated)**
Investments in associates and joint ventures	17,865	(5)	17,860
Assets of subsidiary acquired exclusively with a view for resale	28,954	(475)	28,479
Total effect on assets		**(480)**	
Retained earnings and other reserves	168,473	436	168,909
Non-controlling interest	23,745	1,574	25,319
Total effect on equity		**2,010**	
Deferred tax liabilities	39,668	(186)	39,482
Other non-current liabilities	14,035	(1,956)	12,079
Accounts payable and accruals	46,171	(7)	46,164
Liabilities of disposal group classified as held for sale	16,394	(341)	16,053
Total effect on liabilities		**(2,490)**	

(in millions of Russian Rubles unless noted otherwise)

	Year ended 31 December 2012 (as reported)	Recalculation due to IAS 19 amendments	Reclas-sification of OJSC DRSK	Year ended 31 December 2012 (restated)
Revenue	294,979	-	3,826	298,805
Government grants	10,782	-	14	10,796
Expenses	(268,663)	238	(2,756)	(271,181)
Loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale	-	(475)	(3,669)	(4,144)
Operating loss	(2,482)	(235)	(2,585)	(5,302)
Finance costs, net	(1,379)	11	(333)	(1,701)
Loss before income tax	(18,058)	(226)	(2,918)	(21,202)
Total income tax expense	(5,315)	441	752	(4,122)
Loss for the year from continuing operations	(23,373)	215	(2,166)	(25,324)
Loss for the year from discontinued operations	(2,166)	-	2,166	-
Loss for the year	(25,539)	215	-	(25,324)
Attributable to:				
Shareholders of OJSC RusHydro	(22,802)	171	-	(22,631)
Non-controlling interest	(2,737)	44	-	(2,693)
Remeasurement of pension benefit obligations	-	2,058	-	2,058
Total comprehensive loss for the year	(33,468)	2,273	-	(31,195)
Attributable to:				
Shareholders of OJSC RusHydro	(29,128)	1,241	-	(27,887)
Non-controlling interest	(4,340)	1,032	-	(3,308)
Loss per ordinary share attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)	(0.0785)			(0.0780)
Net cash generated by operating activities	59,666	-	(790)	58,876
Net cash used in investing activities	(120,740)	-	(886)	(121,626)
Net cash generated by financing activities	53,576	-	1,637	55,213

As a result of IAS 19 application, the amount of defined benefit plan obligations as at 31 December 2012 decreased by RR 2,297 million, that was primarity driven by the actuatial gains of RR 2,572 million and past service cost of RR 707 million recognised in 2012.

Remeasurement of pension benefit obligations, recognised in 2012, comprised RR 2 058 million (net of tax of RR 514 million) and was recognised in other comprehensive income. Remesurement includes actuarial gains on experience adjustments in the amount of RR 1,374 million and gains due to changes in actuarial assumptions in the amount of RR 1,198 million before income tax.

The effect of change in accounting policy due to IAS 19 amendments on the Consolidated Statement of Cash Flows was immaterial.

Note 3. New accounting pronouncements

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later approved for adoption in the Russian Federation and which the Group has not early adopted:

IFRS 9, Financial Instruments: Classification and Measurement. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 *(issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).* The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect the amendment to have any significant impact on its financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities *(issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).* The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any significant impact on its financial statements.

IFRIC 21 – Levies *(issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).* The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets *(issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).* The amendments remove the requirement to disclose the recoverable amount when a cash generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting *(issued in June 2013 and effective for annual periods beginning 1 January 2014).*The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group does not expect the amendment to have any impact on its financial statements.

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later that are not yet adopted in the Russian Federation and which the Group has not early adopted.

Amendments to IAS 19 – Defined benefit plans: Employee contributions *(issued in November 2013 and effective for annual periods beginning 1 July 2014).* The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group does not expect the amendment to have any impact on its financial statements.

Annual Improvements to IFRSs 2012 *(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).* The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the improvements on its consolidated Group financial statements.

Annual Improvements to IFRSs 2013 *(issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).* The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the improvements on its consolidated Group financial statements.

IFRS 14, Regulatory Deferral Accounts *(issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).* The standard is applicable only to IFRS first-time adopters.

Amendments to IFRS 9 *(issued in November 2013)* removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

(in millions of Russian Rubles unless noted otherwise)

Note 4. Principal subsidiaries

All principal subsidiaries are incorporated and operate in the Russian Federation. Differences between the ownership interest and voting interest held by some subsidiaries represent the effect of preference shares and / or effects of indirect ownership, or non-corporate partnership (LLC).

The Group operates in the three main reportable segments one of which is presented by the Group's parent company – OJSC RusHydro (Note 5). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 31 December 2013 and 31 December 2012.

ESC RusHydro subgroup segment

ESC RusHydro subgroup segment includes the Group's subsidiaries which sell electricity to final customers. All the entities included in this segment with the exception of OJSC ESC RusHydro have the guaranteeing supplier status and are obliged to sign contracts on supplies with all final consumers of their region upon their request.

	31 December 2013		31 December 2012	
	% of ownership	% of voting	% of ownership	% of voting
OJSC ESC RusHydro	100.00%	100.00%	100.00%	100.00%
OJSC Krasnoyarskenergosbyt	65.81%	69.40%	65.81%	69.40%
OJSC Ryazan Power Distributing Company	90.52%	90.52%	90.52%	90.52%
OJSC Chuvashskaya energy retail company	100.00%	100.00%	100.00%	100.00%
LLC ESC Bashkortostan	100.00%	-	100.00%	-

RAO Energy System of East subgroup segment

RAO Energy System of East subgroup segment consists of OJSC RAO Energy System of East and its subsidiaries that generate, distribute and sell electricity and heat in the Far East region of the Russian Federation and render transportation, distribution, construction, repair and other services.

Principal subsidiaries of this segment are presented below:

	31 December 2013		31 December 2012	
	% of ownership	% of voting	% of ownership	% of voting
OJSC RAO Energy System of East*	85.92%	86.20%	66.93%	67.55%
OJSC DEK**	44.92%	52.17%	35.23%	52.17%
OJSC DGK**	44.92%	100.00%	35.23%	100.00%
OJSC DRSK**	44.92%	100.00%	35.23%	100.00%
OJSC Kamchatskenergo	84.83%	98.74%	66.09%	98.74%
OJSC Magadanenergo	42.10%	64.39%	32.80%	64.39%
OJSC Sakhalinenergo	47.72%	55.55%	37.18%	55.55%
OJSC Yakutskenergo	72.21%	79.16%	62.84%	86.63%

** Voting and ownership percent interests in OJSC RAO Energy System of East include 1.80 percent interest held by the Group's subsidiary LLC Vostok-Finance.*

*** Principal subsidiaries included in DEK subgroup.*

The Group's interest in OJSC RAO Energy System of East and its subsidiaries changed following additional share issue of the Company (Note 15).

Other segments

Other segments include:

- the Group's subsidiaries with production and sale of electricity and capacity;
- the Group's subsidiaries primarily engaged in research and development related to the utilities industry and construction of hydropower facilities;
- the Group's subsidiaries engaged in repair, upgrade and reconstruction of equipment and hydropower facilities;
- the Group's subsidiaries engaged primarily in hydropower plants construction;
- minor segments which do not have similar economic characteristics.

(in millions of Russian Rubles unless noted otherwise)

Principal subsidiaries included in all other segments are presented below:

	31 December 2013		31 December 2012	
	% of ownership	% of voting	% of ownership	% of voting
OJSC VNIIG	100.00%	100.00%	100.00%	100.00%
OJSC Geotherm	99.65%	99.65%	92.80%	92.80%
OJSC Gidroremont-VKK	100.00%	100.00%	100.00%	100.00%
OJSC Zagorskaya GAES-2	100.00%	100.00%	100.00%	100.00%
OJSC Zaramag HS	98.35%	98.35%	98.35%	98.35%
OJSC Institute Hydroproject	100.00%	100.00%	100.00%	100.00%
OJSC Kolimaenergo	98.76%	98.76%	98.76%	98.76%
OJSC Lenhydroproject	100.00%	100.00%	100.00%	100.00%
OJSC NIIES	100.00%	100.00%	100.00%	100.00%
OJSC Sulak GidroKaskad	100.00%	100.00%	100.00%	100.00%
OJSC Ust'-Srednekangesstroy	98.76%	100.00%	98.76%	100.00%
OJSC Ust'-Srednekanskaya HPP	99.43%	100.00%	84.60%	85.17%
OJSC Chirkeigesstroy	100.00%	100.00%	100.00%	100.00%
OJSC ESCO UES	100.00%	100.00%	100.00%	100.00%

The Group's interest in OJSC Ust'-Srednekanskaya HPP changed following additional share issue of the Company (Note 15).

Non-controlling interest

Summarised financial information related to subsidiaries with significant amount of non-controlling interest before elimination of operations between the Group's subsidiaries are presented below:

	RAO Energy System of East subgroup		including DEK subgroup	
Financial position	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Percent of non-controlling interest	14.08%	33.07%	55.08%	64.77%
Percent of voting rights, attributable to non-controlling interest	13.80%	32.45%	47.83%	47.83%
Non-current assets	87,925	55,195	53,356	55,059
Current assets	49,753	75,329	25,157	21,654
Non-current liabilities	(59,191)	(33,940)	(41,731)	(32,590)
Current liabilities	(50,207)	(72,500)	(33,061)	(39,543)
Net assets	**28,280**	**24,084**	**3,721**	**4,580**
Carrying value of non-controlling interest	**15,766**	**23,696**	**4,101**	**5,056**
Financial results	**Year ended 31 December 2013**	**Year ended 31 December 2012**	**Year ended 31 December 2013**	**Year ended 31 December 2012**
Revenue	139,596	131,284	91,216	86,383
Profit / (loss)	4,681	(4,824)	1,888	315
Total comprehensive income / (loss)	4,200	(6,807)	1,900	1,702
Profit / (loss), attributable to non-controlling interest	1,576	(3,083)	101	(2,972)
Changes in other comprehensive income, attributable to non-controlling interest	(38)	(369)	(301)	(216)
Cash flows				
Cash generated by operating activities	15,970	16,112	6,979	5,845
Cash used in investing activities	(11,326)	(11,388)	(6,541)	(8,501)
Cash generated by financing activities	(2,911)	(3,312)	1,690	3,278
Increase in cash and cash equivalents	**1,733**	**1,412**	**2,128**	**622**

The rights of the non-controlling shareholders of the presented subgroups are determined by the Federal Law 'On Joint Stock Companies' and the charter documents of OJSC RAO Energy System of East and OJSC DEK.

Note 5. Segment information

Operating segments are components of the Group engaged in operations from which they may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Group. The individual financial information of the segments is available and is regularly reviewed by the chief operating decision maker (CODM) to make operating decisions about resources to be allocated and the performance of segments' operating activities.

In 2012 the Group disclosed Generation segment which contained two subsegments a) Group's parent company – OJSC RusHydro and b) the Group's subsidiaries with production and sale of electricity and capacity. In 2013 the Group started to analyse the information of two subsegments separately. For the presentation purposes the Group adjusted the comparative segment information for the year 2012.

Information concerning the Group is considered by the groups of operations which are consolidated in the following separate reportable segments: OJSC RusHydro (Group's parent company), OJSC ESC RusHydro subgroup, RAO Energy System of East subgroup and other segments (Note 4). Transactions of other segments are not disclosed as reportable segments as the performance is based on quantitative indicators for the periods presented.

Management of operating activities of segments is performed with direct participation of individual segment managers accountable to the CODM. Segment managers on a regular basis submit for approval to the CODM results of operating activities and financial performance of segments. The CODM approves the annual business plan at the level of reportable segments as well as analyses actual financial performance of segments. Management bears responsibility for execution of approved plan and management of operating activities at the level of segments.

In year 2013 due to the changes in business planning system the CODM analyses results of segments' operating activities and other information prepared on the same basis as in the Group's consolidated financial statements prepared in accordance with IFRS. Comparative data for year 2012 were changed for compliance with the current presentation. The effect of change of EBITDA for year 2012 comprised RR 2,451 million and represents primary quantification of distinctions between RSA data used earlier and IFRS data.

The segments' operational results are estimated on the basis of EBITDA, which is calculated as operating profit / loss excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of available-for-sale financial assets, accounts receivable, long-term promissory notes, goodwill and and intangible assets, loss on disposal of property, plant and equipment, loss on remeasurement of net assets of subsidiary asquired exclusively with a view for resale and curtailment in pension plan. This method of definition of EBITDA may differ from the methods applied by other companies. CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

Segment information also contains capital expenditures and the amount of debt as these indicators are analysed by the CODM. Intersegment debt's balances are excluded.

Other information provided to the CODM complies with the information presented in the consolidated financial statements.

Intersegment sales are carried out at market prices.

Segment information for the years ended 31 December 2013 and 31 December 2012 and as at 31 December 2013 and 31 December 2012 is presented below:

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2013	OJSC RusHydro	ESC RusHydro subgroup	RAO Energy System of East subgroup	Other segments	Total segments	Unallocated adjustments and intercompany operations	TOTAL
Revenue	**99,138**	**79,168**	**139,596**	**25,977**	**343,879**	**(30,247)**	**313,632**
including:							
from external companies	*88,882*	*78,712*	*138,925*	*7,285*	*313,804*	*(172)*	*313,632*
sales of electricity	*66,132*	*77,951*	*86,866*	*292*	*231,241*	*-*	*231,241*
sales of heat and hot water sales	*141*	*-*	*33,002*	*4*	*33,147*	*-*	*33,147*
sales of capacity	*22,317*	*-*	*2,786*	*197*	*25,300*	*-*	*25,300*
other revenue	*292*	*761*	*16,271*	*6,792*	*24,116*	*(172)*	*23,944*
from intercompany operations	*10,256*	*456*	*671*	*18,692*	*30,075*	*(30,075)*	*-*
Government grants	-	-	13,233	13	13,246	-	13,246
Gain on disposal of subsidiaries and associates	224	-	-	51	275	242	517
Expenses (excluding depreciation and other non-monetary items)	(36,244)	(78,933)	(135,797)	(25,500)	(276,474)	28,250	(248,224)
EBITDA	**63,118**	**235**	**17,032**	**541**	**80,926**	**(1,755)**	**79,171**
Depreciation of property, plant and equipment and intangible assets	(11,380)	(670)	(5,174)	(1,238)	(18,462)	244	(18,218)
Other non-monetary items of expenses	(28,826	(1,170)	(4,830)	(2,469)	(37,295)	(814)	(38,109)
including:							
(impairment) / reversal of impairment of property, plant and equipment	*(16,927)*	*59*	*-*	*(2,127)*	*(18,995)*	*-*	*(18,995)*
loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale	*-*	*-*	*(4,804)*	*-*	*(4,804)*	*-*	*(4,804)*
impairment of long-term promissory notes	*(1,633)*	*-*	*-*	*-*	*(1,633)*	*-*	*(1,633)*
impairment of accounts receivable, net	*(1,592)*	*(1,229)*	*(1,778)*	*(296)*	*(4,895)*	*-*	*(4,895)*
impairment of available-for-sale financial assets	*(7,944)*	*-*	*-*	*-*	*(7,944)*	*-*	*(7,944)*
(loss) / profit on disposal of property, plant and equipment, net	*(730)*	*-*	*143*	*(46)*	*(633)*	*(814)*	*(1,447)*
curtailment in pension plan	*-*	*-*	*1,609*	*-*	*1,609*	*-*	*1,609*
Operating profit / (loss)	**22,912**	**(1,605)**	**7,028**	**(3,166)**	**25,169**	**(2,325)**	**22,844**
Finance income							9,008
Finance costs							(9,222)
Profit in respect of associates and joint ventures							2,555
Profit before income tax							**25,185**
Total income tax expense							(4,192)
Profit for the year							**20,993**
Capital expenditure	**35,632**	**233**	**16,821**	**22,943**	**75,629**	**(5,375)**	**70,254**
31 December 2013							
Non-current and current debt	**102,576**	**2,196**	**44,492**	**2,513**	**151,777**	**-**	**151,777**

(in millions of Russian Rubles unless noted otherwise)

Year ended 31 December 2012	**OJSC RusHydro**	**ESC RusHydro subgroup**	**RAO Energy System of East subgroup**	**Other segments**	**Total segments**	**Unallocated adjustments and intercompany operations**	**TOTAL**
Revenue	**85,145**	**82,498**	**131,284**	**28,812**	**327,739**	**(28,934)**	**298,805**
including:							
from external companies	*77,189*	*82,260*	*131,102*	*8,254*	*298,805*	*-*	*298,805*
sales of electricity	*54,600*	*81,662*	*83,065*	*348*	*219,675*	*-*	*219,675*
sales of heat and hot water sales	*141*	*-*	*31,346*	*6*	*31,493*	*-*	*31,493*
sales of capacity	*22,185*	*-*	*1,654*	*157*	*23,996*	*-*	*23,996*
other revenue	*263*	*598*	*15,037*	*7,743*	*23,641*	*-*	*23,641*
from intercompany operations	*7,956*	*237*	*182*	*20,558*	*28,933*	*(28,933)*	*-*
Government grants	-	-	10,796	-	10,796	-	10,796
Expenses (excluding depreciation and other non-monetary items)	(35,182)	(81,153)	(129,664)	(26,953)	(272,952)	27,539	(245,413)
EBITDA	**49,963**	**1,345**	**12,416**	**1,859**	**65,583**	**(1,395)**	**64,188**
Depreciation of property, plant and equipment and intangible assets	(12,249)	(865)	(4,374)	(946)	(18,434)	202	(18,232)
Other non-monetary items of expenses	(36,777)	(3,405)	(10,356)	(79)	(50,617)	(641)	(51,258)
including:							
(impairment) / reversal of impairment of property, plant and equipment	*(16,684)*	*-*	*(2,736)*	*88*	*(19,332)*	*-*	*(19,332)*
loss on remeasurement of net assets of subsidiary acquired exclusively with a view for resale	*-*	*-*	*(4,144)*	*-*	*(4,144)*	*-*	*(4,144)*
impairment of long-term promissory notes	*(9,363)*	*-*	*-*	*-*	*(9,363)*	*-*	*(9,363)*
impairment of accounts receivable, net	*(1,652)*	*(428)*	*(3,133)*	*(398)*	*(5,611)*	*-*	*(5,611)*
impairment of available-for-sale financial assets	*(8,041)*	*-*	*-*	*-*	*(8,041)*	*-*	*(8,041)*
impairment of goodwill and intangible assets	*-*	*(2,975)*	*-*	*-*	*(2,975)*	*-*	*(2,975)*
(loss) / profit on disposal of property, plant and equipment, net	*(1,037)*	*(2)*	*(476)*	*231*	*(1,284)*	*(641)*	*(1,925)*
gain on disposal of subsidiaries and associates	*-*	*-*	*133*	*-*	*133*	*-*	*133*
Operating (loss) / profit	**937**	**(2,925)**	**(2,314)**	**834**	**(3,468)**	**(1,834)**	**(5,302)**
Finance income							5,079
Finance costs							(6,780)
Loss in respect of associates and joint ventures							(14,199)
Loss before income tax							**(21,202)**
Total income tax expense							(4,122)
Loss for the year							**(25,324)**
Capital expenditure	**36,906**	**252**	**15,444**	**31,630**	**84,232**	**5,108**	**89,340**
31 December 2012							
Non-current and current debt	**94,851**	**-**	**44,578**	**1,606**	**141,035**	**-**	**141,035**

(in millions of Russian Rubles unless noted otherwise)

Note 6. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party 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.

The Group's principal related parties for the year ended 31 December 2013 were joint ventures, associates (Note 8) of the Group and government-related entities.

Joint ventures

The Group had the following balances with its joint ventures:

	Note	31 December 2013	31 December 2012
Promissory notes	10	4,741	5,804
Loans issued		533	3
Advances received		-	120

The Group had the following transactions with its joint ventures:

	Year ended 31 December 2013	Year ended 31 December 2012
Sales of electricity and capacity	179	184
Other revenue	818	1,252

Associates

The Group had the following balances with its associates:

	Year ended 31 December 2013	Year ended 31 December 2012
Trade and other receivables	198	1,496
Accounts payable	26	1,909

The Group had the following transactions with its associates:

	Year ended 31 December 2013	Year ended 31 December 2012
Sales of electricity and capacity	3,040	1,124
Other revenue	409	779
Construction services	3,193	6,833
Purchased electricity and capacity	319	344

Government-related entities

In the normal course of business the Group enters into transactions with the entities controlled by the Government.

The Group had transactions during the years ended 31 December 2013 and 31 December 2012 and balances outstanding as at 31 December 2013 and 31 December 2012 with the following government-related banks: SC Vnesheconombank, OJSC Sberbank of Russia, OJSC Gazprombank, OJSC VTB Bank, CJSC VTB24, OJSC Bank of Moscow, OJSC Rosselkhozbank (Notes 11, 14, 18). All transactions are carried out on market rates.

The Group's sales of electricity, capacity and heat to government-related entities comprised approximately 28 percent of total sales of electricity, capacity and heat for the year ended 31 December 2013 (for the year ended 31 December 2012: approximately 25 percent). Sales of electricity and capacity under the regulated contracts are conducted directly to the consumers, within the day-ahead market (DAM) – through commission agreements with OJSC Centre of Financial Settlements (hereinafter referred to as "CFS"). Electricity and capacity supply tariffs under the regulated contracts are approved by FTS. On DAM the price is determined by balancing the demand and supply and such price is applied to all market participants. Sales of heat are subject to tariff regulations (Note 1). During the period the Group received government subsidies in amount of RR 13,246 million (in 2012 in the amount of RR 10,796 million) (Note 23).

The Group's purchases of electricity, capacity and fuel from government-related entities comprised approximately 27 percent of total expenses on purchased electricity, capacity and fuel for the year ended 31 December 2013 (for the year ended 31 December 2012: approximately 20 percent).

Electricity distribution services provided to the Group by government-related entities comprised approximately 62 percent of total electricity distribution expenses for the year ended 31 December 2013 (for the year ended 31 December 2012: approximately 51 percent). The distribution of electricity is subject to tariff regulations.

Key management of the Group. Key management of the Group includes members of the Board of Directors of the Company, members of the Management Board of the Company, heads of the business subdivisions of the Company, key management of RAO Energy System of East Group.

Remuneration to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Remuneration to the members of the Management Board and to other key management of the Group is paid for their services in full time management positions and is made up of a contractual salary and performance bonuses depending on the results of the work for the period based on key performance indicators approved by the Board of Directors of the Company.

Main compensation for Key management of the Group generally is short-term excluding future payments under pension plans with defined benefits. Pension benefits for key management of the Group are provided on the same terms as for the rest of employees.

Short-term remuneration paid to the key management of the Group for the year ended 31 December 2013 comprised RR 1,715 million (for the year ended 31 December 2012: RR 2,102 million).

(in millions of Russian Rubles unless noted otherwise)

Note 7. Property, plant and equipment

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2012	**68,697**	**342,120**	**148,798**	**222,895**	**12,625**	**795,135**
Impairment of revalued property, plant and equipment	(1,574)	(18,942)	(3,996)	-	(34)	(24,546)
Additions	191	544	2,008	66,665	845	70,253
Transfer from assets of subsidiary previously acquired with a view for resale	4,701	19,257	12,779	2,490	1,061	40,288
Transfers	7,180	34,943	33,382	(76,085)	580	-
Disposals and write-offs	(483)	(493)	(1,594)	(966)	(457)	(3,993)
Closing balance as at 31 December 2013	**78,712**	**377,429**	**191,377**	**214,999**	**14,620**	**877,137**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2012	**(20,946)**	**(68,659)**	**(52,488)**	**(44,876)**	**(3,705)**	**(190,674)**
Impairment charge	(2,543)	(2,257)	(6,732)	(11,829)	(248)	(23,609)
Reversal of impairment	393	3,194	628	378	21	4,614
Charge for the period	(1,541)	(6,426)	(9,457)	-	(1,419)	(18,843)
Transfer from assets of subsidiary previously acquired with a view for resale	(1,570)	(8,421)	(5,549)	(515)	(447)	(16,502)
Transfers	(1,020)	(25,581)	(3,053)	29,685	(31)	-
Disposals and write-offs	88	145	986	253	251	1,723
Closing balance as at 31 December 2013	**(27,139)**	**(108,005)**	**(75,665)**	**(26,904)**	**(5,578)**	**(243,291)**
Net book value as at 31 December 2013	**51,573**	**269,424**	**115,712**	**188,095**	**9,042**	**633,846**
Net book value as at 31 December 2012	**47,751**	**273,461**	**96,310**	**178,019**	**8,920**	**604,461**

Revalued amount / cost	Buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Opening balance as at 31 December 2011	**67,454**	**342,495**	**121,156**	**180,338**	**11,575**	**723,018**
Impairment of revalued property, plant and equipment	(2,379)	(8,125)	(2,788)	-	(16)	(13,308)
Additions	348	1,483	1,672	85,115	722	89,340
Transfers	3,809	6,527	30,290	(41,488)	862	-
Disposals and write-offs	(535)	(260)	(1,532)	(1,070)	(518)	(3,915)
Closing balance as at 31 December 2012	**68,697**	**342,120**	**148,798**	**222,895**	**12,625**	**795,135**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2011	**(17,591)**	**(52,558)**	**(35,326)**	**(45,068)**	**(3,846)**	**(154,389)**
Impairment charge	(2,214)	(9,062)	(6,403)	(4,774)	(144)	(22,597)
Reversal of impairment	660	-	499	934	1,172	3,265
Charge for the period	(1,534)	(6,554)	(8,942)	-	(1,113)	(18,143)
Transfers	(331)	(529)	(2,962)	3,826	(4)	-
Disposals and write-offs	64	44	646	206	230	1,190
Closing balance as at 31 December 2012	**(20,946)**	**(68,659)**	**(52,488)**	**(44,876)**	**(3,705)**	**(190,674)**
Net book value as at 31 December 2012	**47,751**	**273,461**	**96,310**	**178,019**	**8,920**	**604,461**
Net book value as at 31 December 2011	**49,863**	**289,937**	**85,830**	**135,270**	**7,729**	**568,629**

As at 31 December 2013 included in the net book value of the property, plant and equipment are office buildings and plots of land owned by the Group in the amount of RR 8,014 million (31 December 2012: RR 8,280 million) which are stated at cost.

Assets under construction represent the expenditures for property, plant and equipment that are being constructed, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2013 such advances amounted to RR 49,577 million (31 December 2012: RR 48,326 million).

Additions to assets under construction included capitalised borrowing costs in the amount of RR 6,502 million, the capitalisation rate was 8.09 percent (for the year ended 31 December 2012: RR 7,523 million, the capitalisation rate was 8.32 percent).

Additions to assets under construction included capitalised depreciation in the amount of RR 1,056 million (for the year ended 31 December 2012: RR 687 million).

Other property, plant and equipment include motor vehicles, land, computer equipment, office fixtures and other equipment.

Management of the Group considers that the carrying amount of property, plant and equipment as at 31 December 2013 does not differ materially from their fair value at the end of the reporting period.

Process of fair value of property, plant and equipment assessement

Management of the Group determines the fair value of property, plant and equipment according to the following procedures.

The Group's property, plant and equipment are mainly represented by specialised property: the Group's key assets are represented by unique hydro engineering structures and power equipment manufactured under certain technical specifications for each power plant; such equipment is rarely sold in the market.

The Group's management determines the value of the specialised property on a regular basis, using the cost approach. The cost approach is based on the economic concept which implies that a buyer will pay no more for an asset than it would cost to develop or obtain another asset with the same functionality. The total costs of replacement or reproduction of the analysed asset resulting from such measurement are decreased by the amount of physical, functional and economic depreciation.

The replacement costs are determined based on specialised reference books, regulatory documents, construction rates, manufacturer’s prices in effect as of the valuation date; physical and functional depreciation is measured based on the age of the assets, their actual condition and operating mode, etc.

To determine the economic depreciation of specialised assets, the Group's management calculates the recoverable amount using the income approach. It is based on discounted cash flow method, and the Group uses certain assumptions when building the cash flow forecast. In particular, these assumptions are used to determine the expected cash flows, capital expenditures, discount rates for each cash generating unit, etc. The Group's management determines the forecast horizon, and net cash inflows from the asset's operation are calculated for each period of this horizon. The recoverable amount of the cash generating unit is determined by recalculating the discounted net cash flows. The Group's management believes that the Group subsidiaries and Company's branches are separate cash generating units.

When the recoverable amount of the cash generating unit is higher than the replacement cost less physical and functional depreciation of property, plant and equipment included in this cash generating unit, it is concluded that there is no economic depreciation. If this is not the case, the economic impairment is determined as the difference between the recoverable amount and the replacement costs less physical and functional depreciation.

(in millions of Russian Rubles unless noted otherwise)

Inpairment as at 31 December 2013 and 31 December 2012

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2013 and 31 December 2012:

Key assumptions used in the cash flow testing	Year ended 31 December 2013	Year ended 31 December 2012
Information used	Actual operating results for 2013 and business plans for 2014–2017	Actual operating results for 2012 and business plans for 2013–2016
Forecast period*	10 years (2014–2023)	10 years (2013–2022)
Forecasted growth rates in terminal period	3.0 – 3.9 percent, depending on the length of the forecast period	3.3 percent
Discount rate before tax (based on weighted average cost of capital)	12.4 – 14.0 percent (RR)	11.0 – 14.8 percent (RR)
Forecast of electricity and capacity tariffs in the isolated energy systems and in non-pricing zone of the Far East	Based on methodology of tariffs calculation adopted by regulatory authority	
Forecast of electricity and capacity prices in competitive market	Based on the forecast prepared by reputable independent company CJSC Energy Forecasting Agency	
Forecast of capacity prices related to competitive capacity selection	For 2014 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2015–2023 – adjusted on consumer index price	For 2013 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2014–2022 – adjusted on consumer index price
Forecast of electricity and capacity volumes	Based on the Company's management assessment of future trends in the business	
Forecast of capital expenditures	Based on the management valuation of capital expenditures on modernisation and reconstruction programme	

** Management considers that a forecast period greater than five years is appropriate as the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will not be stabilised within five years. However a forecast period of cash flows was defined by remaining useful life of assets tested. For hydroelectric power plants this period exceeds 100 years due to the fact that key asset is a dam. In this regard the recoverable amount of assets was defined based on cash flows during the forecast period and terminal values.*

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Due to the deterioration in expectations as regards the achievable sales prices and volumes in the new market conditions for a number of cash-generating units net book value of property, plant and equipment as at 31 December 2013 decreased for the total amount of RR 43,541 million. As a result, impairment loss in the amount of RR 18,995 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 24,546 million (before income tax of RR 4,909 million) – in other comprehensive loss.

The net book value of property, plant and equipment of the Group decreased for the total amount of RR 43,541 million, the effects relate mainly to the following cash-generating units:

- Cascade of Verkhnevolzhskie HPPs – impairment loss in the amount of RR 2,723 million and decrease of previous revaluation reserve in the amount of RR 2,360 million;
- Cascade of Kubanskiye HPPs – impairment loss in the amount of RR 3,076 million and decrease of previous revaluation reserve in the amount of RR nil million;
- Karachaevo-Cherkessian branch – impairment loss in the amount of RR 2,175 million and decrease of previous revaluation reserve in the amount of RR 82 million;
- Saratovskaya HPP – impairment loss in the amount of RR 2,541 million and decrease of previous revaluation reserve in the amount of RR 12,618 million;
- Sayano-Shushenskaya HPP – impairment loss in the amount of RR 2,378 million and decrease of previous revaluation reserve in the amount of RR 4,264 million;
- Cheboksarskaya HPP – impairment loss in the amount of RR 2,916 million and decrease of previous revaluation reserve in the amount of RR 4,840 million;

(in millions of Russian Rubles unless noted otherwise)

- Nizhne-Bureiskaya HPP – impairment loss in the amount of RR 2,748 million and decrease of previous revaluation reserve in the amount of RR nil million.

The sensitivity analysis of the recoverable amounts of cash-generating units for the key assumptions is presened in Note 31.

As at 31 December 2012 net book value of property, plant and equipment decreased for the total amount of RR 32,640 million. As a result, impairment loss in the amount of RR 19,332 million was recognised in Consolidated Income Statement and decrease of previous revaluation reserve in the amount of RR 13,308 million (before income tax of RR 2,662 million) – in other comprehensive loss.

The carrying amount of each class of of property, plant and equipment that would have been recognised had the assets been carried under the cost model is as follows:

	Production buildings	Facilities	Plant and equipment	Assets under construction	Other	Total
Net book value as at 31 December 2013	27,834	107,607	101,344	192,075	4,235	433,095
Net book value as at 31 December 2012	23,564	109,557	79,386	181,999	5,513	400,019

Events on Zagorskaya GAES-2. On 17 September 2013 on Zagorskaya GAES-2 which is under construction the local flooding of the bulding of GAES from lower reservoir via functional joints of station block and cavity in the right junction of the foundation of building of GAES-2 took place.

Currently the Group cannot estimate expenses that may be necessary as a consequences of the flooding and possible write-off of the assets under construction. However such expenses can be material for the Group.

Construction-assembly works as well as equipment are insured. According to the terms of insurance agreements and provisions of current legislation of the Russian Federation recognition of the accident on Zagorskaya GAES-2 as insurable event and subsequent payment of insurance indemnity are possible only after certain conditions are met. Insurance companies need to analyse the causes and nature of the accident.based on the accident investigation act with supporting documentation, as well as studying other documents, which confirm the nature and economic evaluation of the damage, such as: accident recovery work expenses, direct damage to equipment, constructions and facilities, other recovery expenses.

As at 31 December 2013 the total amount of construction costs for Zagorskaya GAES-2 was RR 59,424 million.

Management of the Group considers that no impairment of Zagorskaya GAES-2 is to be recognised due to the fact that long-term capacity supply contracts were concluded in respect of its generating facilities that guarantee payments for capacity during 20 years to cover all the capital expenditures.

Leased equipment. The Group leases equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. As at 31 December 2013 the net book value of leased equipment was RR 4,564 million (31 December 2012: RR 5,932 million). The leased equipment is pledged as a security for the lease obligation.

Operating lease. The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The land areas leased by the Group are the territories on which the Group's hydropower plants and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's operating leases typically run for an initial period of 5-49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The future payments under non-cancellable operating leases are as follows:

	31 December 2013	31 December 2012
Less than one year	2,290	1,875
Between one and five years	3,635	5,148
After five years	35,332	49,274
Total	**41,257**	**56,297**

Pledged assets. There are no property, plant and equipment pledged as collateral for borrowings as at 31 December 2013 (31 December 2012: RR 211 million).

(in millions of Russian Rubles unless noted otherwise)

Note 8. Investments in associates and joint ventures

The Group's interests in associates and joint ventures and its carrying value were as follows:

	Place of business	% held 31 December 2013	% held 31 December 2012	Carrying value 31 December 2013	Carrying value 31 December 2012
Associates					
OJSC Krasnoyarskaya HPP	Russia	25.12%	25.12%	15,209	8,621
OJSC Irkutsk Electronetwork Company (OJSC IENC)	Russia	42.75%	-	8,420	-
OJSC Sakhalin Energy Company (OJSC SEC)	Russia	40.47%	24.53%	3,341	1,812
Other				267	215
Total associates				**27,237**	**10,648**
Joint ventures					
BoGES Group	Russia	50.00%	50.00%	1,960	6,648
BALP Group	Russia	50.00%	50.00%	-	-
Other				1,104	564
Total joint ventures				**3,064**	**7,212**
Total investments in associates and joint ventures				**30,301**	**17,860**

The amounts in respect of associates and joint ventures recognised in the Income Statement are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Associates		
OJSC Krasnoyarskaya HPP	6,589	(12,925)
OJSC IENC	(97)	-
OJSC SEC	266	(21)
Other	55	(99)
Total associates	**6,813**	**(13,045)**
Joint ventures		
BoGES Group	(4,216)	(1,135)
BALP Group	-	-
Other	(42)	(19)
Total joint ventures	**(4,258)**	**(1,154)**
Profit / (loss) in respect of associates and joint ventures	**2,555**	**(14,199)**

Associates

OJSC Krasnoyarskaya HPP

OJSC Krasnoyarskaya HPP operates Krasnoyarsk Hydro Generation Plant with installed capacity of 6,000 mW. The core activity of OJSC Krasnoyarskaya HPP is the generation and sale of electricity and capacity to large consumers and utilities companies, i.e. entities operating in the wholesale electricity and capacity market. OJSC Krasnoyarskaya HPP is controlled by EN+ Group.

The Group's investments in OJSC Krasnoyarskaya HPP represent its strategic assets and allow the Group to use them in the consolidation and asset exchange transactions; in addition, they represent a source of dividends.

OJSC Irkutsk Electronetwork Company (OJSC IENC)

OJSC IENC maintains 0.4–500 kW electric grids of the Irkutsk region with the total length of over 40,000 km and more than 8,900 transforming substations with total capacity of over 26,000 MVA. The core activities of OJSC IENC are provision of services of electricity transmission via electric grids in the interests of large consumers and utilities companies, i.e. entities operating in the wholesale electricity and capacity market. OJSC IENC is controlled by EN+ Group.

The Group's investments in OJSC IENC represent its strategic assets and allow the Group to use them in the consolidation and asset exchange transactions; in addition, they represent a source of dividends.

During the year ended 31 December 2013 in exchange for additional shares of the Company the Group has received 42.75 percent shares of OJSC IENC (Note 15). Independent appraisal of the fair value of identifiable assets and liabilities of OJSC IENC has been completed as at 31 December 2013, goodwill on the date of acquisition was amount of RR 946 million (Note 31).

(in millions of Russian Rubles unless noted otherwise)

OJSC Sakhalin Energy Company (OJSC SEC)

OJSC SEC is the customer-developer of a number of electricity sector assets in the Sakhalin region as part of the federal special purpose program Economic and Social Development of the Far East and Transbaikal until 2013 and the oblast's special purpose program Power Sector Development in the Sakhalin Region until 2010 and for the Long-term Period until 2020. OJSC SEC's major investment project is the Construction of Power Generating Unit No. 4 at Yuzhno-Sakhalinsk Thermal Power Plant-1, to be operated by OJSC Sakhalinenergo, Group's subsidiary, under a lease agreement. Other OJSC SEC's shareholders, in addition to the Group, are the Russian Government and the government of the Sakhalin region represented by the Ministry of Land and Property Affairs of Sakhalin region

The Group's investments in OJSC SEC represent strategic assets which allow a more efficient joint operation of the assets of Sakhalinenergo and OJSC SEC.

The Group's share in OJSC SEC changed as a result of two opposite effects: dilution of the Group's interest following the additional share issues of OJSC SEC and contribution of 24.54 percent interest of OJSC SEC in exchange for additional shares of the Company (Note 15). Additional investment was recognised at the fair value of transferred shares of the Company at the date of acquisition. As at 31 December 2013 the Group's share in OJSC SEC comprised 40.47 percent.

Non-current assets classified as held for sale

OJSC Bureyagesstroy. In January 2013 the Group sold a 25 percent plus 1 share interest in OJSC Bureyagesstroy for the cash consideration in the amount of RR 250 million. As at 31 December 2012 the investment was classified as non-current asset held for sale.

OJSC Trest Gidromontazh. In October 2013 the Group sold a 33.54 percent interest in OJSC Trest Gidromontazh for the cash consideration in the amount of RR 1,663 million. As at 31 December 2012 the investment was classified as non-current asset held for sale.

Summarised financial information for significant associates as at and for the years ended 31 December 2013 and 31 December 2012:

	OJSC Krasnoyarskaya HPP		OJSC IENC		OJSC SEC	
As at 31 December	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Non-current asssets	50,576	31,532	25,489	-	9,361	8,094
Current assets	12,270	8,290	2,129	-	2,537	2,666
Non-current liabilities	(6,787)	(2,736)	(5,638)	-	-	(246)
Current liabilities	(860)	(1,244)	(4,498)	-	(1,207)	(3,126)
Net assets	**55,199**	**35,842**	**17,482**	**-**	**10,691**	**7,388**
For the year ended 31 December	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue	15,569	12,562	11,210	-	1	2
Reversal of impairment / (impairment) of property, plant and equipment	20,778	(20,778)	-	-	-	-
Profit / (loss) for the year	**19,357**	**(15,473)**	**(227)**	**-**	**437**	**(349)**
Total comprehensive income / (loss) for the year	**19,357**	**(15,473)**	**(227)**	**-**	**437**	**(349)**

(in millions of Russian Rubles unless noted otherwise)

Reconciliation of the summarised financial information presented to the carrying value of interest in associates:

	OJSC Krasnoyarskaya HPP	OJSC IENC	OJSC SEC	Others	Total
Net assets as at 31 December 2011	**53,315**	**-**	**5,230**	**3,699**	**62,244**
(Loss) / profit for the year	(15,473)	-	(325)	283	(15,515)
Additional share issue	-	-	2,483	-	2,483
Reclassification to assets classified as held for sale	-	-	-	(3,312)	(3,312)
Dividends	(2,000)	-	-	(33)	(2,033)
Net assets as at 31 December 2012	**35,842**	**-**	**7,388**	**637**	**43,867**
Interest in associates	9,003	-	1,812	200	11,016
Goodwill	8,619	-	-	-	8,619
Accumulated impairment of investments in associates	(9,100)	-	-	-	(9,100)
Accumulated losses	-	-	-	15	15
Other movements	98	-	-	-	98
Carrying value as at 31 December 2012	**8,621**	**-**	**1,812**	**215**	**10,648**
Net assets as at 31 December 2012	**35,842**	**-**	**7,388**	**637**	**43,867**
Net assets at the date of the purchase	-	17,777	-	200	17,977
Profit / (loss) for the year	19,357	(227)	437	(23)	19,544
Additional share issue	-		2,866	-	2,866
Dividends	-	(68)	-	-	(68)
Net assets as at 31 December 2013	**55,199**	**17,482**	**10,691**	**814**	**84,186**
Interest in associates	13,866	7,474	4,327	266	25,933
Goodwill	8,619	946	-	-	9,565
Accumulated impairment of investments in associates	(7,276)	-	-	-	(7,276)
Effect of recognition of fair value of interest received as a result of additional share issues	-	-	(986)	-	(986)
Accumulated losses	-	-	-	1	1
Carrying value as at 31 December 2013	**15,209**	**8,420**	**3,341**	**267**	**27,237**

The Group's share of OJSC Krasnoyarskaya HPP profit for the year ended 31 December 2013 is primarily attributed to the reversal of impairment of property, plant and equipment. Management of the Group has considered that recoverable amount of investment in OJSC Krasnoyarskaya HPP has also increased. As a result, reversal of impairment of the Group's investment in OJSC Krasnoyarskaya HPP in the amount of RR 1,824 million was recognised.

Joint ventures

BoGES Group and BALP Group

Starting from 2006 the Company and RUSAL Group have been jointly implementing the BEMA project based on an agreement for mutual financing, completion and subsequent operation of Boguchanskaya HPP, with an installed capacity of 2,997 MW, and Boguchansky aluminium plant, with a capacity of 600,000 tonnes of aluminium per annum. Within the BEMA project on parity basis joint ventures BoGES Ltd (Cyprus) and BALP Ltd (Cyprus) were formed, which have controlling interests in OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant.

BoGES Ltd and OJSC Boguchanskaya GES together form BoGES Group. BALP Ltd and CJSC Boguchansky Aluminium Plant together form BALP Group.

BoGES Ltd and BALP Ltd provide corporate governance of Boguchanskaya HPP and Boguchansky Aluminium Plant in line with the parity of interests of the investors and are not engaged in other operations.

Starting from November 2012, Boguchanskaya HPP sells electricity and capacity to large consumers and utilities companies, having commissioned hydroelectric generating units of Boguchanskaya HPP and having the status of an entity operating in the wholesale electricity and capacity market.

(in millions of Russian Rubles unless noted otherwise)

The construction of Boguchansky Aluminium Plant is ongoing. Boguchansky Aluminium Plant will become a key consumer of energy generated by Boguchanskaya HPP. The plant's production complex will include electrolytic, casting and anode production facilities.

Summarised financial information for significant joint ventures as at and for the years ended 31 December 2013 and 31 December 2012 is as follows:

	BoGES Group		BALP Group	
As at 31 December	**2013**	**2012**	**2013**	**2012**
Non-current asssets	44,673	47,624	9,999	6,942
Current assets including:	2,054	2,556	1,023	1,585
Cash and cash equivalents	248	10	194	65
Non-current liabilities including:	(41,128)	(34,809)	(32,202)	(18,908)
Non-current financial liabilities (excluding trade payables)	(34,634)	(28,137)	(30,220)	(17,277)
Current liabilities including:	(1,627)	(1,404)	(1,527)	(1,460)
Current financial liabilities (excluding trade payables)	(22)	(17)	(63)	(42)
Net assets	**3,972**	**13,967**	**(22,707)**	**(11,841)**
For the year ended 31 December	**2013**	**2012**	**2013**	**2012**
Revenue	4,249	1,270	252	227
Depreciation of property, plant and equipment	(405)	(282)	(59)	(54)
Interest income	20	1	1	-
Interest expense	(2,401)	(1,528)	(1,963)	(927)
Impairment of property, plant and equipment	(7,296)	-	(9,724)	(9,401)
Loss before income tax	(11,663)	(3,545)	(13,571)	(10,109)
Income tax benefit	1,795	301	2,705	1,998
Loss for the year	**(9,868)**	**(3,244)**	**(10,866)**	**(8,111)**
Other comprehensive loss for the year	(127)	-	-	-
Total comprehensive loss for the year	**(9,995)**	**(3,244)**	**(10,866)**	**(8,111)**

Reconciliation of the summarised financial information presented to the carrying value of interest in joint ventures:

	BoGES Group	BALP Group	Others	Total
Net assets as at 31 December 2011	**17,211**	**(3,730)**	**223**	**13,704**
Net assets at the date of the purchase	-	-	1,012	1,012
Loss for the year	(3,244)	(8,111)	(45)	(11,400)
Net assets as at 31 December 2012	**13,967**	**(11,841)**	**1,190**	**3,316**
Interest in joint ventures	6,984	(5,921)	564	1,627
Non-controlling interest	(336)	-	-	(336)
Accumulated losses	-	5,921	-	5,921
Carrying value as at 31 December 2012	**6,648**	**-**	**564**	**7,212**
Net assets as at 31 December 2012	**13,967**	**(11,841)**	**1,190**	**3,316**
Net assets at the date of the purchase	-	-	1,156	1,156
Loss for the year	(9,995)	(10,866)	(105)	(20,966)
Net assets as at 31 December 2013	**3,972**	**(22,707)**	**2,241**	**(16,494)**
Interest in joint ventures	1,986	(11,354)	1,100	(8,268)
Non-controlling interest	(26)	-	-	(26)
Accumulated losses	-	11,354	4	11,358
Carrying value as at 31 December 2013	**1,960**	**-**	**1,104**	**3,064**

In September 2013 the Annual General Meeting of shareholders of the Company approved agreement between the Company, OJSC RUSAL, that provide financing to CJSC Boguchansky aluminum plant to ensure payments under the loan agreement between CJSC Boguchansky aluminum plant and the State Corporation Vnesheconombank. This general agreement is needed as a for increased loan limit for the construction of the Boguchansky aluminum plant. The loan facility amounts to RR 16,800 million and is equally allocated to the Company and OJSC RUSAL.

The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for OJSC Boguchanskaya HPP for the loan facility in favour of the State Corporation Vnesheconombank (Note 28).

(in millions of Russian Rubles unless noted otherwise)

In accordance with approved investment programme of the Company dated 24 September 2013 the Group has to invest RR 142 million for the period 2014-2016 in construction Boguchanskaya HPP (RR 9,918 million for the period 2013-2015), as well as RR 25,257 million for the period 2014-2016 in construction Boguchansky Aluminium Plant (RR 44,188 million for the period 2013-2015).

Note 9. Available-for-sale financial assets

	31 December 2013		31 December 2012	
	% of ownership	Fair value	% of ownership	Fair value
OJSC INTER RAO UES	4.92%	5,132	4.92%	12,726
OJSC Russian Grids*	0.28%	356	0.93%	831
OJSC FGC UES	0.13%	150	0.13%	334
OJSC Boguchanskaya HPP	2.89%	28	2.89%	317
Other	-	128	-	118
Total available-for-sale financial assets		**5,794**		**14,326**

** On 23 March 2013 OJSC IDGC Holding was renamed as OJSC Russian Grids.*

The fair values of available-for-sale financial assets were calculated based on quoted market prices, for those which are not publicly traded fair values were estimated by reference to the discounted cash flows of the investees (Note 31).

For the year ended 31 December 2013 an impairment of available-for-sale financial assets in respect of shares of OJSC INTER RAO UES was recognised in profit or loss in the amount of RR 7,594 million (for the year ended 31 December 2012: RR 8,041 million).

Loss arising on other available-for-sale financial assets for the year ended 31 December 2013 totaled RR 936 million was recorded within other comprehensive income in amount of RR 586 million, net of tax, (for the year ended 31 December 2012: RR 296 million, net of tax) and in profit or loss in amount of RR 350 million (for the year ended 31 December 2012: RR nil million).

Note 10. Other non-current assets

	31 December 2013	31 December 2012
Long-term promissory notes (Net of discount of RR 17,021 million as at 31 December 2013 and RR 20,255 million as at 31 December 2012)	5,644	6,515
VAT recoverable	5,381	5,419
Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs	5,573	5,668
Customer base of LLC ESC Bashkortostan	1,662	2,214
Goodwill	929	929
Other non-current assets	5,787	4,303
Total other non-current assets	**24,976**	**25,048**
Reference:		
Other non-current assets of subsidiary acquired with a view for resale	-	114

	Rating	Rating agency	Effective interest rate	Maturity date	31 December 2013	31 December 2012
Long-term promissory notes						
OJSC Boguchanskaya HPP	-	-	9.75%	2029	4,741	4,320
CJSC Boguchansky Aluminium Plant	-	-	10.00%	2024	-	1,484
OJSC Alfa Bank	BBB-	Fitch Ratings	10.00–12.20%	2014–2020	668	646
Other			-		235	65
Total long-term promissory notes					**5,644**	**6,515**

(in millions of Russian Rubles unless noted otherwise)

Promissory notes of CJSC Boguchansky Aluminium Plant. As at 31 December 2013 the Group assessed the recoverable amount of non-interest-bearing promissory notes of CJSC Boguchansky Aluminium Plant. The recoverable amount was determined taking into account the following factors:

- continuing aluminium price reduction on the London Metal Exchange (LME) during the 2013 year as well as decrease of aluminium production volumes according to the actual consumption rates;
- growth of US dollar exchange rate against Russian Ruble during the 2013 year and respective growth of amount of liabilities of CJSC Boguchansky Aluminium Plant to the State Corporation Vnesheconombank under the loan agreement;
- cumulative losses of BALP Group, the Group's joint venture, which controls CJSC Boguchansky Aluminium Plant (Note 8).

As a result of the performed analysis, management of the Group concluded that as at 31 December 2013 promissory notes of CJSC Boguchansky Aluminium Plant are highly probable not recoverable and recognised an impairment loss of RR 1,633 million (including unwinding of discount for the period).

Promissory notes of OJSC Boguchanskaya HPP. As at 31 December 2013 the amortised cost of interest-free long-term promissory notes of OJSC Boguchanskaya HPP (payable not earlier than 31 December 2029 with total nominal value of RR 21,027 million) pledged as collateral to the State Corporation Vnesheconombank amounted to RR 4,741 million (31 December 2012: RR 4,320 million) (Note 8).

Promissory notes of LLC Energo-finance. Based on the assessment of the recoverable amount of promissory notes of LLC Energo-finance determined based on forecast net assets of Rusenergo Fund Limited which acted as a guarantor of LLC Energo-finance promissory notes, the management of the Group concluded that as at 31 December 2012 the value of LLC Energo-finance promissory notes may not be recovered. As a result as at 31 December 2012 an impairment loss in amount of RR 9,363 million including accumulated interest was recognised. During year 2013 the net assets of Rusenergo Fund Limited continue to decrease. As consequence as at 31 December 2013 there were no indicators for reversal of impairment of these promissory notes.

Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs. Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs were received in 2011 in the course of additional share issue. They are currently being rented out to OJSC Irkutskenergo under the terms of a long-term operating lease. Management of the Group estimated the recoverable amount of these dams by determining value in use based on future cash flows. Key assumption used for the cash flows analysis is the ability of the Group to renegotiate rental payments. As a result, the carrying value of the dams does not exceed their recoverable amount as at 31 December 2013 and 31 December 2012.

Goodwill and customer base. Presented below is the carrying value of goodwill:

	Year ended 31 December 2013	Year ended 31 December 2012
Gross book value as of 1 January	3,013	3,013
Accumulated impairment losses as of 1 January	(2,084)	-
Carrying amount as of 1 January	**929**	**3,013**
Impairment loss	-	(2,084)
Carrying amount as of 31 December	929	**929**
Gross book value as of 31 December	3,013	3,013
Accumulated impairment losses as of 31 December	(2,084)	(2,084)

Goodwill of OJSC Institute Hydroproject. Goodwill of RR 929 million was recognised at the date of the acquisition of OJSC Institute Hydroproject in October 2010 as the Group was able to receive economic benefits from the expected synergy from the high qualification of engineering specialists and long-term relationships between OJSC Institute Hydroproject and customers, including the Group entities.

As at 31 December 2013 and 31 December 2012, the Group tested goodwill related to OJSC Institute Hydroproject for its potential impairment. For the testing purposes, OJSC Institute Hydroproject was considered as a single cash generating asset.

(in millions of Russian Rubles unless noted otherwise)

Presented below are key assumptions used for the impairment testing purposes for the years ended 31 December 2013 and 31 December 2012:

Key assumptions used for the impairment testing purposes	For the year ended 31 December 2013	For the year ended 31 December 2012
Information used	Actual performance for 2013 and results of business plans for 2014-2018	Actual performance for 2012 and results of business plans for 2013-2017
Forecast period	5 years	5 years
Growth interest rate after the forecast period	3.6 percent	3.0 percent
Discount rate	18.0 percent	18.0 percent
Net cash inflow after the forecast period	Minimum expectation: RR 216 million in 2014, RR 179 million in 2015, RR 200 million in 2016, RR 234 million in 2017, RR 243 million in 2018	Minimum expectation: RR 67 million in 2013, RR 97 million in 2014, RR 173 million in 2015, RR 211 million in 2016, RR 227 million in 2017
Net cash inflow after the forecast period	Minimum expectation: RR 250 million per year	Minimum expectation: RR 235 million per year

Based on the above assumptions, as at 31 December 2013 and 31 December 2012 the recoverable amount of OJSC Institute Hydroproject as a cash generating asset exceeded the carrying amount – there is no economic impairment.

Goodwill of LLC ESC Baskortostan. Goodwill of RR 2,084 million was recognised at the date of the purchase of LLC ESC Baskortostan in September 2011 due to the Group's ability to receive economic benefits from the expected synergy which was related to the Group's strong position on the retail energy market in the Republic of Bashkortostan.

As at 31 December 2013 and 31 December 2012 the Group tested goodwill related to LLC ESC Baskortostan for potential impairment. For the testing purposes LLC ESC Baskortostan was considered as a single cash generating unit.

Presented below are key assumptions used for the impairment testing purposes:

Key assumptions used for the impairment testing purposes	For the year ended 31 December 2013	For the year ended 31 December 2012
Information used	Actual performance for 2013 and results of business plans for 2014-2018	Actual performance for 2012 and results of business plans for 2013-2017
Forecast period*	10 years (2014-2023)	10 years (2013-2022)
Growth interest rate after the forecast period	2.3 percent	3.1 percent
Discount rate	14.2 percent	14.2 percent
Forecast electricity sales	Based on management forecast	
Forecast electricity tariffs	2014 – based on tariffs set by regulators 2015-2023 – based on the consumer price index	2013 – based on tariffs set by regulators 2014-2022 – based on the consumer price index

** The management believes that the forecast period exceeding five years is more reliable as the electricity and capacity market is expected to undergo significant changes during the forecast period, and cash flows will not flatten out within five years.*

During 2012, Rules for the Wholesale Electricity and Capacity Market and a number of other regulations were amended, which significantly changed the position of guaranteeing suppliers and other energy sale companies in the wholesale and retail markets of electricity and capacity, including LLC ESC Baskortostan. The described circumstances and events resulted in the deterioration of the expected recoverable amount of LLC ESC Baskortostan. As a result, the Group recognised goodwill impairment following from LLC ESC Baskortostan acquisition in the full amount of RR 2,084 million. Moreover, a loss on impairment related to the customer base of LLC ESC Baskortostan in the amount of RR 891 million was recognised.

As at 31 December 2013 the recoverable amount of LLC ESC Baskortostan exceeded the carrying amount – no loss on impairment related to the customer base of LLC ESC Baskortostan was recognised.

(in millions of Russian Rubles unless noted otherwise)

Note 11. Cash and cash equivalents

	31 December 2013	31 December 2012
Cash at bank	10,744	10,259
Cash equivalents (contractual interest rate: 4.30-8.75%)	23,712	29,547
Cash in hand	16	13
Total cash and cash equivalents	**34,472**	**39,819**
Reference:		
Cash and cash equivalents of subsidiary acquired with a view for resale	-	38

Cash equivalents held as at 31 December 2013 and 31 December 2012 comprised short-term bank deposits with original maturities of three months or less.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2013 were RR 252 million (31 December 2012: RR 17 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2013 were RR 682 million (31 December 2012: RR 665 million).

As at 31 December 2012 the line “Cash and cash equivalents” in the Consolidated Statement of Cash Flows included RR 38 million of cash and cash equivalents held by OJSC DRSK.

Cash and cash equivalents are deposited in several institutions as follows:

	Rating	Rating agency	31 December 2013	31 December 2012
Cash at banks				
OJSC Sberbank of Russia	Baa1	Moody’s	4,827	2,297
OJSC Gazprombank	BBB-	Standard & Poor’s	2,115	1,268
CJSC Peresvet Bank	B+	Standard & Poor’s	1,940	2,739
OJSC ROSBANK	BBB+	Fitch Ratings	299	590
OJSC VTB Bank	Baa2	Moody’s	258	138
CJSC VTB24	Baa2	Moody’s	106	228
OJSC Alfa-Bank	BBB-	Fitch Ratings	27	227
CJSC Raiffeisenbank	BBB	Standard & Poor’s	22	614
OJSC Bank Vozrozhdenie	BB-	Standard & Poor’s	96	117
LLC Creditinvestbank	-	-	-	296
Other			1,054	1,745
Total cash at banks			**10,744**	**10,259**
Bank deposits				
OJSC Sberbank of Russia	Baa1	Moody’s	7,151	12,040
CJSC UniCredit Bank	BBB	Fitch Ratings	4,500	-
CJSC Peresvet Bank	B+	Standard & Poor’s	3,477	1,750
OJSC Nordea Bank	BBB+	Fitch Ratings	2,910	2,100
OJSC VTB Bank	Baa2	Moody’s	2,150	962
OJSC Gazprombank	BBB-	Standard & Poor’s	1,781	3,133
CJSC Raiffeisenbank	BBB	Standard & Poor’s	652	885
OJSC Alfa-Bank	BBB-	Fitch Ratings	31	5,780
OJSC Transcreditbank	-	-	-	1,420
Other			1,060	1,477
Total cash equivalents			**23,712**	**29,547**

(in millions of Russian Rubles unless noted otherwise)

Note 12. Accounts receivable and prepayments

	31 December 2013	31 December 2012
Trade receivables (Net of provision for impairment of accounts receivable of RR 16,094 million as at 31 December 2013 and RR 11,409 million as at 31 December 2012)	30,342	30,330
VAT recoverable	8,059	9,171
Advances to suppliers and other prepayments (Net of provision for impairment of accounts receivable of RR 460 million as at 31 December 2013 and RR 406 million as at 31 December 2012)	4,152	4,376
Other receivables (Net of provision for impairment of accounts receivable of RR 1,798 million as at 31 December 2013 and RR 2,650 million as at 31 December 2012)	2,832	2,793
Total accounts receivable and prepayments	**45,385**	**46,670**
Reference:		
Accounts receivable and prepayments of subsidiary acquired with a view for resale	-	808

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows (Note 2). The Group believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the carrying value approximates their fair value.

Movements in the impairment provision for accounts receivables and prepayments are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
As at 1 January	14,465	9,695
Charge for the year	7,241	6,657
Reversal of impairment	(2,754)	(1,414)
Trade receivables written-off as uncollectible	(618)	(278)
Transfer of assets of the subsidiary acquired with a view to resale	18	-
Disposal of impairment provision due to disposal of subsidiaries	-	(195)
As at 31 December	**18,352**	**14,465**

The ageing analysis of trade and other accounts receivable is as follows:

	31 December 2013	Provision as at 31 December 2013	31 December 2012	Provision as at 31 December 2012
Not past due	23,855	(548)	23,418	(1,181)
Past due for less than 3 months	5,021	(897)	5,411	(1,009)
Past due for 3 months to 1 year	8,344	(4,854)	5,867	(2,408)
Past due for more than 1 year	13,183	(11,594)	11,587	(9,461)
Total	**50,403**	**(17,893)**	**46,283**	**(14,059)**

The majority of trade debtors which are neither past due nor impaired could be aggregated in several groups based on similarities in their credit quality: large industrial consumers – participants of the wholesale and retail electricity and capacity market as well as public sector entities and population.

The Group does not hold any accounts receivable pledged as collateral.

Note 13. Inventories

	31 December 2013	31 December 2012
Fuel	13,329	12,432
Materials and supplies	6,249	5,221
Spare parts	1,524	1,463
Other materials	536	557
Total inventories before provision for impairment	**21,638**	**19,673**
Provision for impairment of inventories	**(189)**	**(95)**
Total inventories	**21,449**	**19,578**
Reference:		
Inventories of subsidiary acquired with a view for resale	-	331

There are no inventories pledged as collateral for borrowings as at 31 December 2013 and as at 31 December 2012.

(in millions of Russian Rubles unless noted otherwise)

Note 14. Other current assets

	31 December 2013	31 December 2012
Promissory notes and deposits	52,406	53,535
Other short-term investments	738	252
Total other current assets	**53,144**	**53,787**

	Rating	Rating agency	Effective interest rate	31 December 2013	31 December 2012
Promissory notes					
OJSC Alfa-Bank	BBB-	Fitch Ratings	-	416	176
OJSC SO UES	-	-	-	-	705
Other promissory notes				125	311
Deposits					
OJSC Sberbank of Russia	Baa1	Moody's	5.59–7.15%	50,726	50,078
CJSC Peresvet Bank	B3	Moody's	8.75%	833	1,593
Other deposits				306	672
Total promissory notes and deposits				**52,406**	**53,535**

Deposits held as at 31 December 2013 comprised cash in the amount of RR 50,000 million obtained in the course of additional share issue (Note 15).

Note 15. Equity

	Number of issued ordinary shares (Par value of RR 1.00)
As at 31 December 2013	386,255,464,890
As at 31 December 2012	317,637,520,094
As at 31 December 2011	290,302,702,379

Additional share issue 2012–2013. On 16 November 2012 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make a placement of 110,000,000,000 ordinary shares with a par value of RR 1.00 by open subscription with cash and non-cash considerations. On 10 December 2012 the Board of Directors of the Company determined the placement price of RR 1.00 per share.

As part of this issue the Group received:

- in 2012 the funds in amount RR 50,000 million from the Russian Federation to fund construction of four heat power plants in the Far East region;
- 19.54 percent shares of OJSC RAO Energy System of East, 24.54 percent shares of OJSC SEC, 14.83 percent shares of OJSC Ust'-Srednekanskaya HPP, 42.75 percent shares of OJSC IENC, 0.08 percent shares of OJSC Irkutskenergo.

68,617,944,796 shares were actually placed as a result of the issue, which represents 62.38 percent of the additional issue's total number of securities.

As at 31 December 2013 share capital of the Company was increased due to registration of the Report based on the results of additional issue of shares on 26 December 2013.

As at 31 December 2013 the Group recorded RR 50,000 million of cash received from the Russian Federation, represented by the Federal Agency for State Property Management, as a contribution for the additional share issue.

Treasury shares. As at 31 December 2013 and 31 December 2012 treasury shares were represented by 8,703,807,839 ordinary shares in the amount of RR 10,662 million.

Treasury shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by entities within the Group are effectively controlled by management of the Group.

Transactions with the Government and companies under common control. The change of merge reserve for the year ended 31 December 2013 in the amount of RR 7,859 million relates to assets that were received in 2013 from the Russian Federation and companies under common control in the course of additional share issue 2012–2013.

As a result of the increase in Group`s share in OJSC RAO Energy System of East non-controlling interest decreased by RR 6,563 million and retained earnings of the Group increased in the same amount.

(in millions of Russian Rubles unless noted otherwise)

As a result of the increase in Group`s share in OJSC Ust'-Srednekanskaya HPP non-controlling interest increased by RR 293 million and retained earnings of the Group decreased by the same amount due to increase of share of Group's shareholders in losses accumulated by OJSC Ust'-Srednekanskaya HPP.

Effect of changes in non-controlling interest of subsidiaries. In 2013 in the course of additional share issue 2012–2013 the Group also has received shares of OJSC RAO Energy System of East from shareholders which are not controlled by the Government. As a result non-controlling interest decreased by RR 2,671 million and retained earnings of the Group increased by RR 1,812 million.

For the year ended 31 December 2012 non-controlling interest in OJSC RAO Energy System of East increased by RR 1,566 million and retained earnings of the Group decreased by RR 814 million as a result of the Group's interest dilution following the additional ordinary share issue of OJSC RAO Energy System of East, which placement was registered by the Federal Financial Markets Service (FFMS) on 7 February 2012.

On 26 April 2012 the placement of additional share issue of OJSC Ust'-Srednekanskaya HPP was registered by FFMS, main part of the shares issued were bought by the Russian Federation. As the contribution made by the State was higher than the contribution made by the Group, the Group recognised a gain in the amount of RR 3,163 million in retained earnings for the year ended 31 December 2012. As a result of the dilution of the Group's interest in OJSC Ust'-Srednekanskaya HPP non-controlling interest decreased by RR 502 million due to increase of share in losses of OJSC Ust'-Srednekanskaya HPP previously absorbed by shareholders of the Group.

Dividends. In accordance with the Russian legislation the Company and its subsidiaries distribute profits as dividends on the basis of financial statements prepared in accordance with Russian accounting standards.

On 28 June 2013 the Company declared dividends for the year ended 31 December 2012 of RR 0.0096 per share in the total amount of RR 3,594 million.

On 29 June 2012 the Company declared dividends for the year ended 31 December 2011 of RR 0.0079 per share in the total amount of RR 2,431 million.

Dividends in favour of non-controlling interest holders were declared by the Group's subsidiaries in the amount of RR 160 million for the year ended 31 December 2013 (for the year ended 31 December 2012: RR 170 million).

Note 16. Income tax

Income tax expense is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Current income tax expense	10,248	6,908
Deferred income tax benefit	(6,056)	(2,786)
Total income tax expense	**4,192**	**4,122**

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2013 is 20 percent (for the year ended 31 December 2012: 20 percent).

A reconciliation between the expected and actual income tax expense is provided below:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Profit / (loss) before income tax	**25,185**	**(21,202)**
Theoretical tax (expense) / income at a statutory rate of 20 percent	(5,037)	4,240
Tax effect of items which are not deductible or assessable for taxation purposes	(2,335)	(4,204)
Change in unrecognised deferred tax assets in respect of associates and joint ventures (Note 8)	511	(2,840)
Write-off / decrease of deferred tax related to subsidiary acquired exclusively with a view for resale (Note 2)	1,873	381
Unrecognised deferred tax assets related to impairment of available-for-sale financial assets (Note 9)	(1,589)	(1,608)
Change in other unrecognised deferred tax assets	1,695	301
Other	690	(22)
Total income tax expense	**(4,192)**	**(4,122)**

(in millions of Russian Rubles unless noted otherwise)

The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2013 comprised RR 46,574 million (31 December 2012: RR 55,047 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment of several Group's subsidiaries and impairment of available-for-sale financial assets.

Deferred income tax. Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20 percent (for the year ended 31 December 2012: 20 percent).

	31 December 2012 (restated)	Income tax charge	Charged directly to other comprehensive income	Reclassification of discontinued operations	Other movement	31 December 2013
Property, plant and equipment	44,523	(2,875)	(5,066)	2,960	-	39,542
Accounts receivable	(4,835)	(705)	-	(13)	-	(5,553)
Inventories	(27)	28	-	-	-	1
Loans and borrowings	388	16	-	-	-	404
Losses carried forward	(744)	(253)	-	(202)	-	(1,199)
Investment in OJSC DRSK	1,873	(1,873)	-	-	-	-
Other	(1,696)	(394)	29	(415)	281	(2,195)
Deferred income tax liabilities, net	**39,482**	**(6,056)**	**(5,037)**	**2,330**	**281**	**31,000**
Deferred income tax assets	(18,845)	(2,178)	29	(630)	281	(21,343)
Deferred income tax liabilities	58,327	(3,878)	(5,066)	2,960	-	52,343

	31 December 2011 (restated)	Income tax charge (restated)	Charged directly to other comprehensive income (restated)	Reclassification of discontinued operations (restated)	Other movement (restated)	31 December 2012 (restated)
Property, plant and equipment	47,675	(697)	(2,662)	191	16	44,523
Accounts receivable	(4,867)	30	-	(39)	41	(4,835)
Inventories	(36)	9	-	-	-	(27)
Loans and borrowings	462	(74)	-	-	-	388
Losses carried forward	(383)	(563)	-	202	-	(744)
Investment in OJSC DRSK	2,254	(381)	-	-	-	1,873
Other	(860)	(1,110)	514	-	(240)	(1,696)
Deferred income tax liabilities, net	**44,245**	**(2,786)**	**(2,148)**	**354**	**(183)**	**39,482**
Deferred income tax assets	(16,561)	(3,035)	514	176	61	(18,845)
Deferred income tax liabilities	60,806	249	(2,662)	178	(244)	58,327

Under existing Group' structure tax losses and current income tax assets of different Group's entities may not be offset against current income tax liabilities and taxable profits of other Group's entities and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity.

(in millions of Russian Rubles unless noted otherwise)

Note 17. Pension benefit obligations

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2013 and 31 December 2012.

Amounts recognised in the Group's Consolidated Statement of Financial Position among other non-current liabilities (Note 19):

	31 December 2013	**31 December 2012 (restated)**	**1 January 2012 (restated)**
Fair value of plan assets	(856)	(824)	(294)
Present value of defined benefit obligations	9,243	10,482	12,277
Net liability	**8,387**	**9,658**	**11,983**

The movements in the defined benefit liability for the years ended 31 December 2013 and 31 December 2012 are presented in the tables below:

	Present value of defined benefit obligations	**Fair value of plan assets**	**Total**
At 1 January 2013	**10,482**	**(824)**	**9,658**
Reclassification of plan assets	**-**	67	67
Current service cost	442	-	442
Interest expense / (income)	628	(57)	571
Past service cost	9	-	9
Curtailment in pension plan	(1,609)	-	(1,609)
Remeasurement effects (for other long-term benefits):			
Actuarial gain - changes in actuarial assumptions	(17)	-	(17)
Actuarial gain - experience adjustment	(23)	-	(23)
Recognised in profit or loss for the year ended 31 December 2013	**(570)**	**(57)**	**(627)**
Remeasurements (for post-employment benefits):			
Actuarial loss - change in demographic assumptions	249	-	249
Actuarial gain - change in financial assumptions	(1,131)	-	(1,131)
Actuarial loss / (gain) - experience adjustments	824	(68)	756
Recognised other comprehensive income for the year ended 31 December 2013 before income tax charge of RR 25 million	**(58)**	**(68)**	**(126)**
Contributions	-	(585)	(585)
Payments	(611)	611	-
At 31 December 2013	**9,243**	**(856)**	**8,387**

On 29 March 2013 OJSC DGK decided to cancel the defined benefit pension plan. The pension liability of the plan on cancellation date was RR 2,458 million. Following the defined benefit pension plan cancellation lump sum payment liabilities have increased for RR 315 million and periodical retirement payments liabilities have increased for RR 534 million. These payments were included in collective agreement and were alternatives for defined benefit pension plan. As a result the Group recognised RR 1,609 million curtailment gain for the year ended 31 December 2013.

(in millions of Russian Rubles unless noted otherwise)

	Present value of defined benefit obligations	Fair value of plan assets	Total
As at 1 January 2012 (restated)	**12,277**	**(294)**	**11,983**
Reclassification of plan assets	12	(488)	(476)
Current service cost	654	-	654
Interest expense / (income)	1,019	(18)	1,001
Past service cost	(145)	-	(145)
Remeasurement effects (for other long-term benefits):			
Actuarial loss - changes in actuarial assumptions	71	-	71
Actuarial gain - experience adjustment	(50)	-	(50)
Recognised in profit or loss for the year ended 31 December 2012	**1,549**	**(18)**	**1,531**
Remeasurements (for post-employment benefits):			-
Actuarial gain - change in demographic assumptions	(757)	-	(757)
Actuarial gain - change in financial assumptions	(441)	-	(441)
Actuarial (gains) / losses - experience adjustments	(1,378)	4	(1,374)
Recognised other comprehensive income for the year ended 31 December 2012 before income tax charge of RR 514 million	**(2,576)**	**4**	**(2,572)**
Contributions	-	(808)	(808)
Payments	(780)	780	-
At 31 December 2012 (restated)	**10,482**	**(824)**	**9,658**

Principal actuarial assumptions for the Group are as follows:

	31 December 2013	31 December 2012
Nominal discount rate	7.90%	7.00%
Inflation rate	5.10%	5.50%
Wage growth rate	6.60%	7.00%
Staff turnover	Staff turnover depending on age based on statistics for three years	
Mortality table	Russia-2011	Russia-1998

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2013 is presented below:

	Change in assumption	Effect on net liability	Effect on net liability, %
Nominal discount rate	+ 1%	(785)	-8%
	- 1%	934	10%
Inflation rate	+ 1%	608	7%
	- 1%	(512)	-6%
Wage growth rate	+ 1%	350	4%
	- 1%	(303)	-3%
Staff turnover	+ 3%	(929)	-10%
	- 3%	1,356	15%
Mortality Rates	+ 10%	(189)	-2%
	- 10%	206	2%

The Group expects to contribute RR 547 million to the defined benefit plans in 2014.

The weighted average duration of the defined benefit obligation of the Group is 10 years.

Retirement benefit plan parameters and related risks. The Group has liabilities under retirement benefit plans in Russia. The retirement benefit plan includes benefits of the following types: lump sum payment upon retirement, jubilee benefits paid at certain age or upon completion of a certain number of years of service, financial aid and compensation to cover funeral expenses in the event of an employee’s or pensioner's death, financial aid provided to pensioners, pension benefits paid to former employees through the non-state pension fund (hereinafter referred to as the “NPF”).

(in millions of Russian Rubles unless noted otherwise)

The amount of benefits depends on the period of the employees' service (years of service), salary level over the recent years preceding retirement, predetermined fixed amount or a combination of these factors.

As a rule, the above benefits are indexed according to the inflation rate and salary growth for benefits that depend on the salary level, excluding the retirement benefits paid through NPF, which are not indexed for the inflation rate at the time the payment is made (following the retirement of employees, all risks are borne by NPF).

In addition to the inflation risk, all retirement benefit plans of the Group are exposed to mortality and survival risks.

Plan assets held on NPF's accounts are governed in accordance with the local legislation and regulatory practices.

The Group and NPF are severally liable for plans management, including investments decisions and the contribution schedule.

NPF invests the Group's funds in a diversified portfolio. When investing pension savings and placing the pension reserves, NPF is guided by the Russian legislation that provides a strict regulation with respect to the possible list of financial instruments and restricts their utilisation, which also leads to diversification and reduces investment risks.

The Group transfers the obligation to pay lifelong non-state pension benefits to the Group's former employees to NPF and funds these obligations when awarding the pension. Therefore, the Group insures the risks related to payment of non-state pensions (investment risks and survival risks).

Note 18. Current and non-current debt

Non-current debt

	Effective interest rate	Due date	31 December 2013	31 December 2012
OJSC Sberbank of Russia	7.70–10.00%	2014–2020	46,295	55,139
Russian bonds (OJSC RusHydro) issued in Febrary 2013	8.50%	2018*	20,478	-
Eurobonds (RusHydro Finance Ltd)	7.875%	2015	20,254	20,239
Russian bonds (OJSC RusHydro)	8.00%	2016*	15,225	15,218
EBRD	MOSPRIME+1.50–3.65% / LIBOR6M + 3.45%	2014–2027	14,971	11,616
OJSC Bank of Moscow	MOSPRIME+2.20–9.31%	2014–2015	7,700	7,717
OJSC Bank VTB	8.39%	2015-2018	4,500	-
UniCredit Bank Austria AG	3.35%**	2017-2026	2,523	1,971
OJSC Gazprombank	8.60–10.50%	2014–2015	1,997	3,494
Municipal authority of Kamchatka region	8.57%	2034	1,572	1,359
OJSC ROSBANK	7.30–9.70%	2014–2015	1,558	6,132
EM Falcon Ltd	MOSPRIME+1.40%	2014	1,517	2,443
Russian bonds (OJSC Yakutskenergo)	-	-	-	3,000
CF Structured Products B. V.	-	-	-	1,894
OJSC Transcreditbank	-	-	-	901
Other long-term debt	-	-	1,282	1,888
Finance lease liabilities	8.70–21.00%	-	2,082	2,263
Total			**141,954**	**135,274**
Less current portion of non-current			(9,057)	(66,663)
Less current portion of finance lease liabilities			(1,007)	(1,328)
Total non-current debt			**131,890**	**67,283**
Reference:				
Non-current debt of subsidiary acquired with a view for resale			-	3,951

** The bonds mature in 10 years with a put option to redeem them in 2016.*

*** Fixed interest rate applied to 90 percent of the credit facility, to the rest 10 percent of the facility the quarterly variable export finance rate published by OeKB (Oesterreichische Kontrollbank AG) less 0.25 percent is applied.*

(in millions of Russian Rubles unless noted otherwise)

Russian bonds issued in February 2013. In February 2013 the Group placed non-convertible ten years interest bearing bonds of series 07 with a nominal amount of RR 10,000 million and series 08 with a nominal amount of RR 10,000 million. The term of the offer (period of redemption of bonds on request of their owners) – five years, coupon rate of 8.50 percent per annum was determined for the first five years only.

OJSC Sberbank of Russia. In December 2013 the Group obtained RR 10,613 million under the agreement of non-revolving credit line with OJSC Sberbank of Russia to refinance the existing liability of the subsidiaries of RAO Energy System of the East Group.

The Group restructured the current payables to OJSC Sberbank of Russia under the agreement of credit line amounting to RR 40,000 million conducted in 2011 for a period of 2 years. Out of the total amount received RR 20,000 million was repaid in 2013; the period for repaying the remaining part of debt was extended by 7 years up to 2020.

Current debt

	Effective interest rate	31 December 2013	31 December 2012
OJSC ROSBANK	7.68–9.00%	3,419	1,930
OJSC Sberbank of Russia	7.61–8.86%	2,350	2,622
OJSC Gazprombank	7.90–8.60%	2,323	215
OJSC Bank VTB	7.97%	950	-
OJSC Nomos-Regiobank	-	-	219
Current portion of non-current debt	-	9,057	66,663
Current portion of finance lease liabilities	8.70–21.00%	1,007	1,328
Other current debt	-	781	775
Total current debt and current portion of non-current debt		**19,887**	**73,752**
Reference:			
Current debt and current portion of non-current debt of subsidiary acquired with a view for resale		-	4,187

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt.

As at 31 December 2013 and 31 December 2012 some of the Group's credit contracts are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators. As at 31 December 2013 the Group met all required covenant clauses of the credit agreements. The Group did not fulfill some of the requirements as at 31 December 2012. Before the 31 December 2012 management received covenant waivers from banks confirming absence of intention to request early repayment of loans.

Effective interest rate. The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

Finance lease liabilities. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2013	**1,044**	**1,420**	**-**	**2,464**
Less future finance charges	(37)	(345)	-	(382)
Present value of minimum lease payments as at 31 December 2013	**1,007**	**1,075**	**-**	**2,082**
Minimum lease payments as at 31 December 2012	**1,392**	**1,127**	**-**	**2,519**
Less future finance charges	(64)	(194)	-	(258)
Present value of minimum lease payments as at 31 December 2012	**1,328**	**933**	**-**	**2,261**

(in millions of Russian Rubles unless noted otherwise)

Note 19. Other non-current liabilities

	31 December 2013	31 December 2012 (restated)
Pension benefit obligations (Note 17)	8,387	8,257
Other non-current liabilities	3,643	3,822
Total other non-current liabilities	**12,030**	**12,079**
Reference:		
Other non-current liabilities of subsidiary acquired with a view for resale	-	1,401

Note 20. Accounts payable and accruals

	31 December 2013	31 December 2012
Trade payables	30,968	29,739
Advances received	8,869	7,606
Settlements with personnel	6,933	6,317
Dividends payable	85	77
Other accounts payable	2,618	2,425
Total accounts payable and accruals	**49,473**	**46,164**
Reference:		
Total accounts payable and accruals of subsidiary acquired with a view for resale	-	3,785

All accounts payable and accruals are denominated in Russian Rubles.

Note 21. Other taxes payable

	31 December 2013	31 December 2012
VAT	5,982	4,362
Property tax	2,412	1,540
Insurance contributions	1,937	1,826
Other taxes	613	812
Total other taxes payable	**10,944**	**8,540**
Reference:		
Total other taxes payable of subsidiary acquired with a view for resale	-	159

Note 22. Revenue

	Year ended 31 December 2013	Year ended 31 December 2012
Sales of electricity	231,241	219,675
Sales of heat and hot water	33,147	31,493
Sales of capacity	25,300	23,996
Other revenue	23,944	23,641
Total revenue	**313,632**	**298,805**

Other revenue includes revenue earned from transportation of electricity and heat, connections to the grid, rendering of construction, repairs and other services.

Note 23. Government grants

In accordance with legislation of the Russian Federation, several companies of the Group are entitled to government subsidies for the cancellation of cross-subsidisation in electricity tariffs, to compensate for the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel. During the year ended 31 December 2013 the Group received government subsidies in the amount of RR 13,246 million (for the year ended 31 December 2012: RR 10,796 million) in the following subsidised territories: Kamchatsky territory, the Sakha Republic (Yakutia), Magadan Region and other Far East regions.

(in millions of Russian Rubles unless noted otherwise)

Note 24. Expenses

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Employee benefit expenses (including payroll taxes and pension benefit expenses)	56,907	53,522
Purchased electricity and capacity	54,622	57,878
Fuel expenses	44,472	45,231
Electricity distribution expenses	37,922	38,271
Depreciation of property, plant and equipment and intangible assets	18,218	18,232
Other materials	9,599	9,839
Taxes other than on income	9,295	7,357
Third parties services, including:		
Services of subcontracting companies	5,096	4,510
Repairs and maintenance	3,608	3,425
Services of SO UES, ATS, CFS	3,480	3,180
Security expenses	2,759	2,548
Purchase and transportation of heat power	2,699	2,572
Rent	1,802	2,419
Consulting, legal and information expenses	1,575	1,918
Transportation expenses	1,344	1,271
Insurance cost	1,086	1,038
Other third parties services	4,703	4,628
Accrual of impairment for accounts receivable, net	4,895	5,611
Water usage expenses	2,742	2,536
Social charges	2,082	2,302
Loss on disposal of property, plant and equipment, net	1,447	1,925
Purchase of oil products for sale	718	6
Other expenses	1,713	962
Total expenses	**272,784**	**271,181**

Note 25. Finance income, costs

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Finance income		
Interest income	7,917	4,804
Income on discounting	677	104
Foreign exchange gain	276	155
Gain on derivative financial instruments	-	16
Other income	138	-
Total finance income	**9,008**	**5,079**
Finance costs		
Interest expense	(7,259)	(4,226)
Expense on discounting	(690)	(326)
Foreign exchange loss	(426)	(180)
Finance lease expense	(323)	(352)
Loss on derivative financial instruments	-	(213)
Other costs	(524)	(1,483)
Total finance costs	**(9,222)**	**(6,780)**

(in millions of Russian Rubles unless noted otherwise)

Note 26. Earnings per share

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Weighted average number of ordinary shares issued (thousands of shares)	309,873,684	290,262,445
Profit / (loss) for the period attributable to the shareholders of OJSC RusHydro	19,767	(22,631)
Earnings / (loss) per share attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share)	**0.0638**	**(0.0780)**

Note 27. Capital commitments

Capital commitments. In accordance with approved investment programme of the Company dated 24 September 2013 and approved separate investment programmes of subsidiaries of RAO Energy System of East Group, the Group has to invest RR 324,878 million for the period 2014-2016 for reconstruction of the existing and construction of new power plants (RR 283,687 million for the period 2013-2015).

Capital commitments of the Group as at 31 December 2013 are as follows: 2014 year – RR 121,588 million, 2015 year – RR 115,934 million, 2016 year – RR 87,355 million.

Future capital expenditures are mainly related to reconstruction of equipment of power plants: Saratovskaya HPP in the amount of RR 20,541 million, Zhigulevskaya HPP in the amount of RR 16,921 million, Volzhskaya HPP in the amount of RR 13,487 million; and to construction of power plants: Nizhne-Bureiskaya HPP in the amount of RR 23,782 million, Yakutskaya GRES-2 in the amount of RR 16,676 million, HPP in Sovetskaya Gavan in the amount of RR 15,046 million, Sakhalin GRES-2 in the amount of RR 14,414 million.

The Government controls investment programmes execution on a regular basis. Management of the Group plans to finance capital expenditures within investment programmes both from own and borrowed funds.

Starting from 2013, the Group discloses capital commitments based on the data from Investment programmes as this provides more reliable and relevant information in respect of Group commitments for the acquisition of property, plant and equipment.

Note 28. Contingencies

Social commitments. The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Political environment. The operations and earnings of the Group's subsidiaries continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to the environmental protection, in the Russian Federation.

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

Legal proceedings. The Group's subsidiaries are parties to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

In connection with the accident at Sayano-Shushenskaya HPP in August 2009, there is a possibility of a large number of claims related to the accident, which subject may include: compensation of damage caused to life and health, compensation of losses from termination of contracts, other proceedings. Moreover, the prosecutor's office and other oversight bodies are examining operations of the Company and this also may result in additional claims against the Company and its employees.

Tax contingencies. The Russian tax legislation is subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise.

(in millions of Russian Rubles unless noted otherwise)

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Co-operation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

During the year ended 31 December 2013 the Group’s subsidiaries had controlled transactions and transactions which highly probably will be considered by tax authorities to be controlled based on the results of the year 2012. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group’s transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

Management believes that as at 31 December 2013 its interpretation of the relevant legislation was appropriate and the Group’s tax position would be sustained.

Environmental matters. The Group’s subsidiaries and their predecessor entities have operated in the utilities 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’s subsidiaries periodically evaluate their obligations under environmental regulations. Group accrued assets retirement obligation for ash damps used by the Group which is included in other non-current liabilities (Note 19) and comprised RR 693 million as at 31 December 2013 (31 December 2012: RR 618 million).

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.

Guarantees. The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for OJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the loan facility:

Counterparty	**31 December 2013**	**31 December 2012**
for OJSC Boguchanskaya HPP:		
State Corporation Vnesheconombank	25,605	19,946
for CJSC Boguchansky Aluminium Plant:		
Solios Environnement S. A.	-	534
ALSTOM Grid SAS	82	395
Total guarantees issued	**25,687**	**20,875**

Note 29. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, which include market risks, credit risks and operational risks. Market risks comprise currency risk, interest rate risk, price risk and liquidity risk. The primary objectives of the financial risk management function are to provide reasonable assurance for achievement of the Group’s objectives by establishing Group’s overall framework, identifying, analyzing and evaluating risks, establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks.

In order to optimise the Group’s exposure to risks, the Company constantly works on their identification, assessment and monitoring, as well as the development and implementation of activities which impact on the risks, business continuity management and insurance, seeks to comply with international and national standards of advanced risk management (COSO ERM 2004, ISO 31000 and others), increases the culture of risk management and continuously improves risk management.

(in millions of Russian Rubles unless noted otherwise)

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the Contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Note 32.

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.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

To reduce the credit risk in the wholesale electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the unregulated market, based on the frequency of default, and to establish limits based on the rating of the customers' portfolio.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Group approved the list of banks for deposits, as well as rules for their placement. Moreover, the Group constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 10, 11 and 14 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for off-balance sheet financial instruments is as follows:

	31 December 2013	**31 December 2012**
Financial guarantees (Note 28)	25,687	20,875
Total off-balance sheet exposure	**25,687**	**20,875**

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, and (iii) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated.

Currency risk. Electricity and capacity produced by the Group is sold on the domestic market of the Russian Federation at the prices fixed in Russian Rubles. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Group, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities are to be denominated in the national currency.

(in millions of Russian Rubles unless noted otherwise)

The table below summarises the Group's exposure to foreign currency exchange rate risk:

	31 December 2013			31 December 2012		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
USD	782	(2,232)	(1,450)	17	(3,276)	(3,259)
EUR	682	(2,988)	(2,306)	665	(2,095)	(1,430)
Other	15	-	15	10	-	10
Total	**1,479**	**(5,220)**	**(3,741)**	**692**	**(5,371)**	**(4,679)**

The above analysis includes only monetary assets and liabilities. Equity investments and non-monetary assets are not considered to give rise to any material currency risk.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.

Interest rate risk. The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Borrowings issued at variable rates (Note 18) expose the Group to cash flow interest rate risk.

The Group obtains debt financing with floating rates, which are established on the basis of the MOSPRIME, Euribor, Libor rates.

As at 31 December 2013, had interest rates at that date been 0.5 percent higher (31 December 2012: 0.5 percent higher), with all other variables held constant, profit would have been RR 182 million (31 December 2012: RR 79 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates at the end of the reporting period are disclosed in Note 18.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions,
- diversification of credit portfolio by raising of borrowings with fixed rates and floating rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

The table below shows liabilities as at 31 December 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

(in millions of Russian Rubles unless noted otherwise)

The maturity analysis of financial liabilities as at 31 December 2013 is as follows:

	2014 year	2015 year	2016 year	2017 year	2018 year	Starting from year 2019
Liabilities						
Current and non-current debt (Note 18)	31,678	51,943	26,024	9,466	47,280	38,020
Trade payables (Note 20)	30,968	-	-	-	-	-
Financial guarantees (Note 28)	-	727	579	702	919	22,760
Dividends payable (Note 20)	85	-	-	-	-	-
Finance lease liabilities (Note 18)	1,044	778	334	244	64	-
Net settled derivatives	(14)	10	13	8	7	8
Total future payments, including principal and interest payments	**63,761**	**53,458**	**26,950**	**10,420**	**48,270**	**60,788**

The maturity analysis of financial liabilities as at 31 December 2012 is as follows:

	2013 year	2014 year	2015 year	2016 year	2017 year	Starting from year 2018
Liabilities						
Current and non-current debt (Note 18)	82,609	14,477	35,329	19,119	2,703	9,910
Trade payables (Note 20)	29,739	-	-	-	-	-
Financial guarantees (Note 28)	-	929	503	452	675	18,316
Dividends payable (Note 20)	77	-	-	-	-	-
Finance lease liabilities (Note 18)	1,392	592	316	154	65	-
Net settled derivatives	(23)	(9)	(4)	(5)	1	6
Total future payments, including principal and interest payments	**113,794**	**15,989**	**36,144**	**19,720**	**3,444**	**28,232**
Liabilities of discontinued operation	**16,053**					

Note 30. Management of capital

Compliance with Russian legislation requirements and capital cost reduction are key objectives of the Group's capital risk management.

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

- share capital cannot be lower than 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than the 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 more than the statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2013 and 31 December 2012 the Company was in compliance with the above share capital requirements.

The Group's objectives in respect of capital management 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. The amount of capital that the Group managed as at 31 December 2013 was RR 596,707 million (31 December 2012: RR 540,405 million).

Consistent with others in the energy industry, the Group monitors the gearing ratio, that is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. The gearing ratio was 0.25 as at 31 December 2013 (31 December 2012: 0.26).

(in millions of Russian Rubles unless noted otherwise)

Note 31. Fair value of assets and liabilities

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.
The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Available-for-sale financial assets	5,766	-	28	**5,794**
Non-financial assets				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	437,737	**437,737**
Total assets recurring fair value measurements	**5,766**	**-**	**437,765**	**443,531**
31 December 2012				
Financial assets				
Available-for-sale financial assets	14,009	-	317	**14,326**
Non-financial assets				
Property, plant and equipment (except for construction in progress, office buildings and land)	-	-	418,162	**418,162**
Total assets recurring fair value measurements	**14,009**	**-**	**418,479**	**432,488**

The Group had no liabilities measured at fair value as at 31 December 2013 and 31 December 2012.

The valuation technique, inputs used in the fair value measurement for significant Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2013:

	Fair value	**Valuation technique**	**Significant unobservable inputs**	**Reasonable change**	**Sensitivity of fair value measurement**
Non-financial assets					
Property, plant and equipment (except for construction in progress, office buildings and land)	437,737	Replaceme nt cost and discounted cash flows	Electricity and capacity prices	-10%	(29,975)
			Discount rate	+1%	(30,663)
			Capital expenditures	+10%	(10,495)
Total recurring fair value measurements at Level 3	**437,737**				**(71,133)**

The above tables discloses sensitivity to valuation inputs for property, plant and equipment as changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

There were no changes in valuation technique for Level 3 recurring fair value measurements during the years ended 31 December 2013 and 31 December 2012.

(in millions of Russian Rubles unless noted otherwise)

(b) Non-recurring fair value measurements

Independent appraisal of the fair value of identifiable assets and liabilities of OJSC IENC (Note 8) was performed based on cost approach that was adjusted for economic depreciation of the specialised property using income approach based on discounted cash flow method. The valuation technique and inputs used in relation to the main OJSC IENC asset are presented below:

	Fair value	Valuation technique	Significant unobservable inputs	Range of inputs (weighted average)
Non-financial assets				
Property, plant and equipment	18,377	Replace-ment cost and discounted cash flows	Discount rate	12.6%
			Consumer price index 2013-2024	3.7 – 7.1% (4.8%)
			Producer price index 2013-2024	3.6 – 8.3% (5.1%)
			Forecast period	12 years

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Financial assets carried at amortised cost. The Group considers that the fair value of cash, short term deposits and accounts receivable approximates their carrying value (Level 3 of the fair value hierarchy). The fair value of long term accounts receivable is estimated based on future cash flows expected to be received including expected losses (Level 3 of the fair value hierarchy), the fair value of these assets approximates their carrying value.

Liabilities carried at amortised cost. The fair value of floating rate liabilities approximates their carrying value. The fair value of Eurobonds and Russian bonds is based on quoted market prices (Level 1 of the fair value hierarchy). Fair value of the fixed rate liabilities is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity (Level 3 of the fair value hierarchy). The fair value of liabilities carried at amortised cost approximates their carrying value.

Investments in associates. The fair value of the Group investment in OJSC Krasnoyarskaya HPP is based on market quotes (Level 1 of the fair value hierarchy) and comprised RR 4,203 million as at 31 December 2012 (31 December 2012: RR 8,621 million). The carrying value of OJSC Krasnoyarskaya HPP is disclosed in Note 8.

Note 32. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, *Financial Instruments: Recognition and Measurement* as at 31 December 2013:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**5,878**	**-**	**5,878**
Promissory notes	5,644	-	5,644
Deposits	38	-	38
Long-term loans receivable	196	-	196
Available-for-sale financial assets (Note 9)	**-**	**5,794**	**5,794**
Trade and other receivables (Note 12)	**32,511**	**-**	**32,511**
Trade receivables	30,342	-	30,342
Promissory notes receivable	1	-	1
Other financial receivables	2,168	-	2,168
Other current assets (Note 14)	**52,409**	**-**	**52,409**
Promissory notes and deposits	52,409	-	52,409
Cash and cash equivalents (Note 11)	**34,472**	**-**	**34,472**
Total financial assets	**125,270**	**5,794**	**131,064**
Non-financial assets			**720,982**
Total assets			**852,046**

All of the Group’s financial liabilities are carried at amortised cost. Financial liabilities are represented mainly by the current and non-current debt (Note 18), trade payables and other account payable (Note 20).

(in millions of Russian Rubles unless noted otherwise)

The following table provides a reconciliation of financial assets with the measurement categories as at 31 December 2012:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**6,680**	**-**	**6,680**
Promissory notes	6,515	-	6,515
Deposits	13	-	13
Long-term loans receivable	152	-	152
Available-for-sale financial assets (Note 9)	**-**	**14,326**	**14,326**
Trade and other receivables (Note 12)	**32,225**	**-**	**32,225**
Trade receivables	30,330	-	30,330
Promissory notes receivable	7	-	7
Other financial receivables	1,888	-	1,888
Other current assets (Note 14)	**53,535**	**-**	**53,535**
Promissory notes and deposits	53,535	-	53,535
Cash and cash equivalents (Note 11)	**39,819**	**-**	**39,819**
Total financial assets	**132,259**	**14,326**	**146,585**
Non-financial assets			**677,806**
Total assets of subsidiary acquired exclusively with a view for resale			**29,876**
Total assets			**854,267**

Note 33. Subsequent events

There were no significant subsequent events that can influence the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's consolidated financial statements for the year ended 31 December 2013 prepared in accordance to IFRS.