Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

2013

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company Territorial Generating Company №1

We have audited the accompanying consolidated financial statements of Joint Stock Company Territorial Generating Company №1 and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of 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

11 March 2014

Moscow, Russian Federation

V.Y. Sokolov, Director (licence no. 01-000024), ZAO PricewaterhouseCoopers Audit

Audited entity: Joint Stock Company Territorial Generating Company № 1

Certificate of inclusion in the Unified State Register of Legal Entities № 1057810153400 issued on 25 March 2005

198188, Russian Federation, St-Petersburg, Bronevaya str., 6, litera B

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

(in thousands of Russian Roubles)

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	7	130 188 242	129 056 534
Investment property		91 753	105 596
Intangible assets		450 588	383 036
Investments in associatesand joint ventures	8	441 861	450 900
Deferred income tax assets	9	367 153	536 333
Other non-current assets	10	199 902	114 899
Total non-current assets		**131 739 499**	**130 647 298**
Current assets			
Cash and cash equivalents	11	243 005	719 975
Short-term investments	12	16 800	8 264
Trade and other receivables	14	15 866 038	13 854 113
Current income tax prepayments		69 721	94 439
Inventories	15	2 608 380	2 585 733
		18 803 944	**17 262 524**
Non-current assets held for sale	13	58 325	26 705
Total current assets		**18 862 269**	**17 289 229**
TOTAL ASSETS		**150 601 768**	**147 936 527**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	38 543 414	38 543 414
Share premium	16	22 913 678	22 913 678
Merger reserve	16	(6 086 949)	(6 086 949)
Other reserves		(1 209 011)	(1 209 011)
Effect of remeasurements of post-employment benefits obligations		37 001	11 989
Retained earnings		34 575 950	28 721 743
Equity attributable to the Company's owners		**88 774 083**	**82 894 864**
Non-controlling interest		8 340 797	7 899 038
TOTAL EQUITY		**97 114 880**	**90 793 902**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	9	10 982 905	10 101 554
Long-term borrowings	17	21 070 249	26 159 467
Other non-current liabilities	18	139 958	74 769
Post-employment benefits obligations	19	854 296	883 945
Total non-current liabilities		**33 047 408**	**37 219 735**
Current liabilities			
Short-term borrowings	20	11 678 565	10 586 306
Trade and other payables	21	7 556 813	8 427 495
Current income tax payable		24 807	1 319
Other taxes payable	22	1 179 295	907 770
Total current liabilities		**20 439 480**	**19 922 890**
TOTAL LIABILITIES		**53 486 888**	**57 142 625**
TOTAL EQUITY AND LIABILITIES		**150 601 768**	**147 936 527**

Approved for issue and signed on 11 March 2014.

General Director A.N. Filippov

Chief Accountant R.V. Stanishevskaya

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Revenue			
Sales of electricity		42 819 556	37 346 956
Sales of heat		25 951 590	23 696 340
Other sales	23	1 081 880	1 124 479
Total revenue		**69 853 026**	**62 167 775**
Government grants	24	437 464	316 027
Operating expenses	25	(60 120 586)	(54 668 177)
Impairment loss (recognized)/reversed during the year	7	(740 427)	549 368
Other operating income	26	461 519	1 516 905
Total operating expenses		**(59 962 030)**	**(52 285 877)**
Operating profit		**9 890 996**	**9 881 898**
Finance income	27	90 845	78 701
Finance costs	27	(2 084 441)	(1 826 785)
Finance costs, net		**(1 993 596)**	**(1 748 084)**
Profit before income tax		**7 897 400**	**8 133 814**
Income tax expense	9	(1 129 861)	(1 878 317)
Profit for the year		**6 767 539**	**6 255 497**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefits obligations		29 734	16 330
Income tax on other comprehensive income		(6 817)	(3 266)
Other comprehensive income for the year		**22 917**	**13 064**
Total comprehensive income for the year		**6 790 456**	**6 268 561**
Profit is attributable to:			
Owners of the TGC-1		6 323 685	5 985 168
Non-controlling interests		443 854	270 329
Profit for the year		**6 767 539**	**6 255 497**
Total comprehensive income is attributable to:			
Owners of the TGC-1		6 348 697	5 997 157
Non-controlling interests		441 759	271 404
Total comprehensive income for the year		**6 790 456**	**6 268 561**
Earnings per ordinary share for profit attributable to owners of the TGC-1, basic and diluted (in Russian Roubles)	28	0.0016	0.0016

(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Effect of remeasurements of post-employment benefits obligations	Share premium	Merger reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**22 924 440**	**77 085 572**	**7 618 854**	**84 704 426**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	5 985 168	**5 985 168**	270 329	**6 255 497**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	14 986	-	-	-	-	14 986	1 344	16 330
Income tax on other comprehensive income	-	(2 997)	-	-	-	-	(2 997)	(269)	(3 266)
Total other comprehensive income	-	11 989	-	-	-	-	**11 989**	1 075	**13 064**
Total comprehensive income for the year	**-**	**11 989**	**-**	**-**	**-**	**5 985 168**	**5 997 157**	**271 404**	**6 268 561**
Transactions with owners									
Sale of subsidiary	-	-	-	-	-	-	-	8 780	8 780
Dividends	-	-	-	-	-	(187 865)	**(187 865)**	-	**(187 865)**
Total transactions with owners	-	-	-	-	-	**(187 865)**	**(187 865)**	**8 780**	**(179 085)**
Balance at 31 December 2012	**38 543 414**	**11 989**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**28 721 743**	**82 894 864**	**7 899 038**	**90 793 902**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	**6 323 685**	**6 323 685**	**443 854**	**6 767 539**
Other comprehensive income									
Remeasurements of post-employment benefits obligations	-	32 353	-	-	-	-	**32 353**	(2 619)	29 734
Income tax on other comprehensive income	-	(7 341)	-	-	-	-	(7 341)	524	(6 817)
Total other comprehensive income	**-**	25 012	**-**	**-**	**-**	**-**	**25 012**	(2 095)	**22 917**
Total comprehensive income for the year	**-**	**25 012**	**-**	**-**	**-**	**6 323 685**	**6 348 697**	**441 759**	**6 790 456**
Transactions with owners									
Dividends	-	-	-	-	-	(469 478)	**(469 478)**	-	**(469 478)**
Total transactions with owners	-	-	-	-	-	**(469 478)**	**(469 478)**	-	**(469 478)**
Balance at 31 December 2013	**38 543 414**	**37 001**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**34 575 950**	**88 774 083**	**8 340 797**	**97 114 880**

(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities			
Profit before income tax		7 897 400	8 133 814
Adjustments for:			
Depreciation of property, plant and equipment	7	6 224 731	5 409 322
Amortisation of intangible assets	25	177 669	168 901
Amortisation of investment property		5 091	8 325
Impairment loss (recognized)/ reversed during the year	7	740 427	(549 368)
Finance expense, net	27	1 993 596	1 748 084
Change in provision for impairment of accounts receivable	25	1 136 566	(194 674)
Gain on disposals of property, plant and equipment	25	(204 746)	(166 349)
Gain on sale of other assets	26	-	(560 753)
Gain from sale of subsidiary	26	-	(96 057)
Change in provision for impairment of inventories	25	(3 537)	-
Decrease/(increase) of post-employment benefits obligations	19	(29 649)	10 357
Other non-cash items		65 476	(51 319)
Operating cash flows before working capital changes		**18 003 024**	**13 860 283**
Increase in trade and other receivables	10, 14	(3 177 520)	(3 711 628)
Increase/(decrease) in inventories	15	(83 788)	328 432
(Decrease)/Increase in trade and other payables	20	(781 599)	1 876 152
Increase in other taxes payable	21	271 525	164 755
Cash generated from operations		**14 231 642**	**12 517 994**
Income taxes paid/(refund)		(73 260)	114 392
Interest paid		(2 928 242)	(2 691 064)
Net cash from operating activities		**11 230 140**	**9 941 322**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(7 053 823)	(12 587 112)
Proceeds from sale of property, plant and equipment		94 671	339 303
Proceeds from sale of other assets		-	580 000
Proceeds from sale of subsidiary, net of disposed cash		-	6 557
Dividends received from associate		1 299	-
Purchases of shares		-	(400 000)
Purchase of intangible assets		(168 271)	(92 759)
Interest received		42 146	26 505
Net cash used in investing activities		**(7 083 978)**	**(12 127 506)**
Cash flows from financing activities			
Proceeds from borrowings		87 840 925	34 998 968
Repayments of borrowings		(91 989 921)	(32 270 802)
Dividends paid to the Company's shareholders		(469 478)	(187 865)
Net cash from financing activities		**(4 618 474)**	**2 540 301**
Effect of exchange rate changes on cash and cash equivalents		(4 658)	(9 687)
Cash and cash equivalents at the beginning of the year		**719 975**	**375 545**
Cash and cash equivalents at the end of the year		**243 005**	**719 975**

(in thousands of Russian Roubles)

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2013 for Open Joint-Stock Company (OJSC) Territorial Generating Company № 1(here in after “TGC-1”, or the “Company”) and its subsidiaries (the “Group”).

The Company was incorporated and is domiciled in the Russian Federation. It is an open joint stock company and was established in accordance with Russian law.

“TGC-1” was established on 25 March 2005 as part of the restructuring of Russia’s electricity sector in accordance with Board of Directors Resolution No. 181 of RAO UES of Russia (here in after “RAO UES”) on 26 November 2004. The structure and founding principles of TGC-1 were adopted by the RAO UES Board of Directors on 23 April 2004 (Resolution No. 168).

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

	% of ownership as at 31 December		
Subsidiary	**2013**	**2012**	**Immediate parent**
JSC Murmanskaya TPP	90.34	90.34	JSC TGC-1
OJSC St Petersburg Heating Grid	75.00	75.00	JSC TGC-1

As the operator of 55 power plants, the Group is principally engaged in electricity, capacity and heat generation. The Group’s generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia region.

The Company’s registered office is located at 6 Bronevaya Str., litera B, St. Petersburg, Russia 198188.

Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is subject to varying interpretations, which contributes to the challenges faced by companies operating in the Russia (Note 30).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management has determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. These standards also require recognition of impairment losses for property, plant and equipment that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Russia’s future economic development depends on external factors as well as domestic measures undertaken by the government aimed at promoting growth and to changing the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current business and economic environment.

Government relations and current regulation

As at 31 December 2013 and 2012 the Group was controlled by the Gazprom Group (51.75% stake) via its subsidiary Gazprom Energoholding LLC. The Group’s other significant shareholder as at 31 December 2013 and 31 December 2012 was Fortum Power and Heat Oy (25.66% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group’s ultimate controlling party as at 31 December 2013 and 2012.

The Group’s customer base also includes a large number of state-controlled entities. Furthermore, the government also controls a number of the Group’s suppliers of fuel and other materials.

The Russian government directly affects the Group’s operations through the Federal Tariff Service (“FTS”), which regulates its wholesale energy purchases, and by the St Petersburg Tariff and Leningrad Regional Tariff Service, which regulate its retail electricity, capacity and heat sales. The operations of all generating facilities are coordinated by OJSC System Operator of Unified Energy System, a state-controlled company.

Tariffs which the Group may charge for electricity, capacity and heat sales are governed by regulations specific to the electricity, capacity and heat industry and that apply to natural monopolies. Historically, such tariffs have been based on a “cost-plus” system, meaning the cost of service plus a margin.

As described in Note 30, the government’s economic, social and other policies could have a material effect on Group operations.

Financial condition

As at 31 December 2013, the Group's current liabilities exceeded its current assets by RUB 1 577 211 thousand (as at 31 December 2012 the Group's current liabilities exceeded its current assets by RUB 2 633 661 thousand). Management plans to obtain the necessary financial resources to increase its current assets. The Group has already repaid part of its current borrowings in the first quarter of 2014 in total amount of RUB 8 538 732 thousand and received long-term loans of RUB 980 234 thousand and short-term loans of RUB 7 306 370 thousand. Also the Group plans to repay the bonds of series 01 for the total amount of RUB 400 651 thousand in March of 2014 (Note 34).

Note 2. Operating environment of the Group (continued)

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Management believes that the Group will have a sufficient liquidity to continue its operations in the foreseeable future. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Polices

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. 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.

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 on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. 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, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting 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, bargain purchase") 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.

Note 3. Summary of Significant Accounting Polices (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies 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.

Presentation currency

These consolidated financial statements are presented in Russian Roubles (RUB), unless otherwise stated.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles (RUB).

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Revenue is translated into each entity's functional currency using the official exchange rate of the CBRF at the respective date of transaction.

At 31 December 2013, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 32.7292 (31 December 2012: USD 1 = RUB 30.3727), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 44.9699 (31 December 2012: EUR 1 = RUB 40.2286).

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), 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 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 share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (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 share of result of associates.

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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Note 3. Summary of Significant Accounting Polices (continued)

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.

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. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two 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 three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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.

Note 3. Summary of Significant Accounting Polices (continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The Group does not have the following categories of financial assets: financial assets at fair value through profit or loss, financial assets held to maturity and available-for-sale financial assets.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

The Group does not have financial liabilities relate to category held for trading which also includes financial derivatives.

Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method (“EIR”), less impairment losses. The EIR amortization is included in Finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs.

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's establishment in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by its predecessor entity RAO UES.

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 selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognized for an asset in prior periods is reversed if there has been a positive change in the estimates used to determine the asset's recoverable amount.

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from disposal of property, plant and equipment are included in profit or losses.

Social assets are not included in property, plant and equipment as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or for internally constructed assets, from the time the asset is completed and ready for use.

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

Type of facility	Useful lives, years
Production buildings	40-50
Hydrotechnical buildings	50-60
Generating equipment	20-30
Heating networks	25-35
Other	10-25

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated disposal costs, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Note 3. Summary of Significant Accounting Polices (continued)

Investment property (continued)

Investment property is initially recognised at cost. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

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.

Intangible assets

The Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (Note 24).

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licences	2-15
Capitalised internal software development costs	2-15
Other licences	4-10

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.

Income taxes

Income taxes have been provided for in the consolidated 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 tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

The Group's uncertain tax positions are reassessed by management at every reporting date. 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 reporting date 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 reporting date.

Note 3. Summary of Significant Accounting Polices (continued)

Income taxes (continued)

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 balances are measured at tax rates enacted or substantively enacted at the reporting date 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 for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductionscan be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiaries, as the Group controls the subsidiaries' dividend policy and requires profits to be reinvested. Only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on a weighted average basis. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. The Group established a provision for potential losses from obsolescent and slow moving inventories based on their expected use and estimated selling prices. The provision is recognised in profit or loss.

Trade and other receivables

Accounts receivable are recorded inclusive of VAT. 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 liquidity 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:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty is experiencing a significant financial difficulty as evidenced by its financial data that the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, has significantly decreased as a result of deteriorating market conditions.

Note 3. Summary of Significant Accounting Polices (continued)

Prepayments

Prepayments are carried at cost less any 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 more than 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. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents

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

Non-current assets classified as held for sale

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 twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) 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 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 twelve 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. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to 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.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as a share premium.

Note 3. Summary of Significant Accounting Polices (continued)

Merger reserve

Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve. Merger reserve is not distributable to shareholders and not taxable for income tax purposes.

Other reserves

Difference between the carrying value of the net assets merged into the Group in 2011 as a result of contribution in OJSC St Petersburg Heating Grid's share capital, and the nominal value of the shares issued is recorded in equity, as other reserves.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed in subsequent events note when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Value added tax

Output value added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

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 compensation of income in relation to companies providing heating services per tariffs that don't cover expenses for the costs are deferred and recognised as deferred income in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Trade and other payables

Trade payables and accounts payable for capital construction are accrued when the counterparty performs its contractual obligations under the contract and are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale (a qualifying asset) are capitalised as part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs 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 acquiring a qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Note 3. Summary of Significant Accounting Polices (continued)

The commencement date for capitalisation is when the Group (i) 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 ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Revenue recognition

Revenue is recognised on the delivery of electricity, capacity and heat. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods. Correspondingly, when in accordance with the utilities market regulation in the Russian Federation, utilities companies are required to conclude transactions for the sale and repurchase of electricity (for bilateral contracts concluded or for electricity consumed in the production process) or when these transactions are performed for the purpose of the price risk hedging, these transactions are recorded on a net basis. Capacity sales are recognized when the capacity obligations have been fulfilled.

Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue amounts are presented net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

Mutual cancellations

A portion of sales and purchases are settled by mutual cancellations or non-cash settlements. These transactions are generally in the form of cancellation of mutual balances.

Sales and purchases that are expected to be settled by mutual settlements or non-cash settlements are recognised based on management's estimate of the fair value to be received or given up in non-cash settlements.

Non-cash transactions have been excluded from the Consolidated Statement of Cash Flow. Investing and financing activities and the total of operating activities represent actual cash flows.

Pension and post-employment benefits

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme defined by the Russian Federation on behalf of its employees. Mandatory contributions (social insurance contributions) to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. For some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Defined benefit plans determine 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 liability recognised in the consolidated 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 reporting date. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method.

Note 3. Summary of Significant Accounting Polices (continued)

Pension and post-employment benefits (continued)

The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Remeasurement of defined benefit liability is the actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and recognized in other comprehensive income at a time.

The cost of services of past periods is a change in the present value of defined benefit obligation as a result of adjustments of plan that recognises in the period of changes in plan's conditions.

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 and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Environmental liabilities

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

Earnings per share

Earnings per share are determined by dividing the profit attributable to the Company's ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The primary activity of the Group is production of electric and heat power and capacity.

The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments (Note 32).

(in thousands of Russian Roubles)

Note 3. Summary of Significant Accounting Polices (continued)

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Group revised Consolidated Statement of Profit or Loss and Other Comprehensive Income to indicate effect of reclassification of government grants.

The impact of these reclassifications presented in the table below:

	As originally presented	Reclassification	As reclassified for 2012
Sales of heat	24 012 367	(316 027)	23 696 340
Total revenue	**62 483 802**	**(316 027)**	**62 167 775**
Government grants	-	316 027	316 027
Total operating expenses	**(52 625 176)**	**(316 027)**	**(52 309 149)**

Reclassification presented in the table doesn't include changes, impacted by a retrospective restatement of IAS 19 (Revised) (Note 5).

The changes in presentation adopted in 2013 did not have significant impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows.

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and 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:

Provision for impairment of property, plant and equipment

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7.

Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Useful lives of property, plant and equipment

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

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2013 would be an increase of RUB 498 061 thousand or a decrease it by RUB 430 431 thousand (for the year ended 31 December 2012: increase by RUB 579 063 thousand or decrease by RUB 489 711 thousand).

Recoverability of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (Note 31).

Pension obligation

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2013 are listed in Note 19.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are future heat tariffs and heat output.

Based on the management analysis and expectations deferred tax asset was recognised in these financial statements in amount of RUB 367 153 thousand at 31 December 2013 (as at 31 December 2012 - RUB 536 333 thousand). If the actual results differ from the management expectations the recognized deferred tax asset will be written-off in full.

Note 5. Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group 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 Ventures". 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 (Note 33).

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 Standard did not have any material impact on the Group's consolidated financial statements.

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 material impact on the Group's consolidated financial statements.

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.

(in thousands of Russian Roubles)

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

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 consolidatedfinancial 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) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group reports accumulated amount of these remeasurements in retained earnings in equity.

Retrospective application of the standard had the following impact on the consolidated financial statements:

The effect was as follows on amounts in consolidated statement of financial position at 31 December 2012:

	As originally presented	Effect of adopting revised IAS 19	As adjusted at 31 December 2012
ASSETS			
Deferred income tax assets	535 692	641	536 333
Total non-current assets	**130 646 657**	**641**	**130 647 298**
TOTAL ASSETS	**147 935 886**	**641**	**147 936 527**
Equity			
Effect of remeasurements			
of post-employment benefits obligations	-	11 989	11 989
Retained earnings	28 699 167	22 576	28 721 743
Equity attributable to the Company's owners	82 860 299	34 565	82 894 864
Non-controlling interest	7 909 081	(10 043)	7 899 038
TOTAL EQUITY	**90 769 380**	**24 522**	**90 793 902**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	10 094 780	6 774	10 101 554
Post-employment benefits obligations	914 600	(30 655)	883 945
Total non-current liabilities	**37 243 616**	**(23 881)**	**37 219 735**
TOTAL LIABILITIES	**57 166 506**	**(23 881)**	**57 142 625**
TOTAL EQUITY AND LIABILITIES	**147 935 886**	**641**	**147 936 527**

(in thousands of Russian Roubles)

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

The effect was as follows on amounts in consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012:

	As originally presented	Effect of adopting revised IAS 19	As adjusted for the year 2012
Operating expenses	**(54 691 449)**	**23 272**	**(54 668 177)**
Total operating expenses*	**(52 625 176)**	**339 299**	**(52 285 877)**
Operating profit	9 858 626	23 272	9 881 898
Finance costs	(1 819 449)	(7 336)	(1 826 785)
Finance costs, net	**(1 740 748)**	**(7 336)**	**(1 748 084)**
Profit before income tax	8 117 878	15 936	8 133 814
Income tax expense	(1 875 988)	(2 329)	(1 878 317)
Profit for the year	**6 241 890**	**13 607**	**6 255 497**
Other comprehensive income			
Revaluation of post-employment benefits obligations	-	16 330	16 330
Income tax on other comprehensive income	-	(3 266)	(3 266)
Total comprehensive income for the year	**6 241 890**	**26 671**	**6 268 561**
Profit is attributable to:			
Owners of the Company	5 960 980	24 188	5 985 168
Non-controlling interests	280 910	(10 581)	270 329
Profit for the year	**6 241 890**	**13 607**	**6 255 497**
Total comprehensive income is attributable to:			
Owners of the Company	5 960 980	36 177	5 997 157
Non-controlling interests	280 910	(9 506)	271 404
Total comprehensive income for the year	**6 241 890**	**26 671**	**6 268 561**

**The amount includes reclassification of government grants (Note 3).*

The changes in the consolidated financial statements adopted in 2013, impacted by a retrospective restatement of IAS 19 (Revised), did not have significant impact on the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows. In addition the changes resulted from the retrospective application of IAS 19 (Revised) did not have significant impact on the Consolidated Statement of Financial Position as at 1 January 2012 and the Group, therefore, did not present the Consolidated Statement of Financial Position and related information in the notes as of 1 January 2012.

"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 amended standard did not have any impact on the Group's consolidated financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

*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.

The revised IAS 16 clarifies that spare parts, backup and service equipment, are classified as property, plant and equipment but not as inventories, if they meet the definition of property, plant and equipment. The requirement of accounting spare parts and service equipment as property, plant and equipment if they are then used only in connection with property, plant and equipment, was excluded because of its restrictive in comparison 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 than application of the relief from disclosure of certain comparative information in the notes to the 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 an 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.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted. The next standards were adopted in Russia:

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.The amendments made by International Accounting Standards Board (IASB) in November 2013 have not been adopted in Russia yet.

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 is considering the implications of the amendment and its impact on the Group.

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 impact on its financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

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 CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group does not expect the amendment to have any impact 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.

Certain new standards and interpretationsissued by IASB have not been adopted in Russia yet:

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 amendment is not expected to have any material impact on the Group's 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 judgements 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 amendments on its financial statements.

Note 5. Adoption of New or Revised Standards and Interpretations (continued)

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 amendments on its financial statements.

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. IFRS 14 is not relevant to these consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s financial statements.

Note 6. Balances and Transactions with Related Parties

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

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State or Gazprom Group.

As at 31 December 2013 and 31 December 2012 the Russian Government was the ultimate controlling party of the Group (Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended at 31 December 2013 and 2012, and had significant outstanding balances as at 31 December 2013 and 31 December 2012 are detailed below.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

Gazprom group (under common control of the State)

Transactions with Gazprom group and its subsidiaries were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue		
Sales of electricity	914 228	725 633
Sales of heat	83 498	39 392
Other	55 981	27 398
Total sales	**1 053 707**	**792 423**
Purchases		
Purchases of fuel	(26 633 162)	(23 758 143)
Interest expense	(348 802)	(32 450)
Including interest expense of Gazprom Energoholding LLC	*(170 000)*	*(2 322)*
Purchases of electricity	(66 923)	(58 271)
Other	(340 566)	(1 184 681)
Total purchases	**(27 389 453)**	**(25 033 545)**

Sales and purchases are generally entered into on an arm's length basis. LLC Gazprom Mezhregiongaz is a major supplier of fuel (gas) for the Group.

Balances with Gazprom group subsidiaries at the end of the period were as follows:

	31 December 2013	31 December 2012
Borrowings (loans and bonds)	12 516 361	2 378 966
Including loan of Gazprom Energoholding LLC	*2 014 438*	*2 002 322*
Trade and other payables	670 704	1 285 340
Trade and other receivables	479 588	72 371
Cash and cash equivalents	1 488	929

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat are based on tariffs set by FTS, prices for electricity and capacity based on tariffs set by FTS and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax law.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

State-controlled entities (continued)

The Group had the following significant transactions with State-controlled entities:

	Year ended 31 December 2013	Year ended 31 December 2012
Sales		
Sales of heating	12 846 112	11 626 550
Sales of electricity	8 486 287	6 421 223
Other sales	121 948	166 835
Total sales	**21 454 347**	**18 214 608**
Expenses		
Water usage expenses	(2 317 063)	(2 098 373)
Interest expenses	(1 367 873)	(1 641 398)
Heat distribution	(645 621)	(558 400)
Security services	(344 106)	(287 375)
Operating lease	(153 851)	(107 963)
Transportation expenses	(8 525)	(11 110)
Electricity purchases	(6 301)	(4 377)
Interest income	28 042	14 823
Other operating expenses	(790 750)	(888 161)
Total expenses	**(5 606 048)**	**(5 582 334)**

Other operating expenses are mainly presented by expenses under the agreement with the System Operator of United Energy System for the year ended 31 December 2013 in amount of RUB 755 114 thousand (for the year ended 31 December 2012 – RUB 660 012 thousand).

The Group had the following significant balances with State-controlled entities:

	31 December 2013	31 December 2012
Trade and other receivables	8 478 162	7 728 734
Borrowings	6 365 462	20 553 408
Trade and other payables	769 455	752 593
Cash and cash equivalents	24 307	23 506

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

Movements in impairment provision for receivables in respect to State-controlled entities are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Provision for impairment as at 1 January	**1 165 939**	**1 611 358**
Impairment loss recognised during the period	369 820	86 422
Impairment loss reversed during the period	(339 186)	(531 569)
Consumed during the period	(81 180)	(272)
Provision for impairment as at 31 December	**1 115 393**	**1 165 939**

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with CJSC Centre of Financial Settlements (CFS). CFS's current financial settlement system of CFS does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries may also act as counterparties.

The Group had the following significant transactions with CFS:

	Year ended 31 December 2013	Year ended 31 December 2012
Sales of electricity	25 069 143	23 043 003
Electricity purchases	(5 961 023)	(5 688 716)

The Group had the following significant balances with CFS:

	31 December 2013	31 December 2012
Trade and other receivables	1 015 170	1 309 405
Trade and other payables	230 499	269 179

Transactions with other related parties

Other related parties are mainly represented by the Company's shareholder with a significant influence (Fortum Power and Heat OY) and associates (LLC TGC Service and JSC Hibinskaya Heating Company).

The Group had the following significant transactions and balances with other related parties:

	Year ended 31 December 2013	Year ended 31 December 2012
Sales of electricity (Fortum Power and Heat OY)	133 291	49 944
Repairs and maintenance (LLC TGC Service)	(1 027 553)	(1 282 814)
Heat distribution(JSC Hibinskaya Heating Company)	80 194	-

	31 December 2013	31 December 2012
Trade and other receivables (LLC TGC Service)	18 776	66 618
Trade and other receivables (Fortum Power and Heat OY)	(69 840)	-
Accounts payable (LLC TGC Service)	(304 774)	(665 575)

Transactions and balances with the non-state pension fund of the electrical energy industry and the non-state pension fund Gazfond are disclosed in Note 19.

As at 31 December 2013, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 189 571 thousand (31 December 2012: 328 062 RUB thousand). Sales commitments are disclosed in Note 29.

(in thousands of Russian Roubles)

Note 6. Balances and Transactions with Related Parties (continued)

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

	Year ended 31 December 2013	Year ended 31 December 2012
Gazprom group	107 149	88 964
State-controlled entities	15 983	1 572
Other related parties	66 439	237 526
Total	**189 571**	**328 062**

Transactions with the key management personnel

Key management personnel includes members of the Board of Directors, General Director, members of Management Board.

Key management compensation in types is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries	71 738	60 815
Short-term bonuses	63 089	54 278
Benefits to the Board of Directors	26 586	24 338
Termination benefits	7 498	5 110
Jubilee benefits	-	148
Total	**168 911**	**144 689**

Main compensation for key management personnel 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.

The Group had the following balances with key management personnel:

	31 December 2013	31 December 2012
Payables to key management	2 046	2 145
Total	**2 046**	**2 145**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2012	**22 963 755**	**16 871 063**	**54 462 504**	**41 586 103**	**14 115 102**	**34 844 560**	**184 843 087**
Additions	12 618	-	7 553	683 420	8 236 367	150 106	9 090 064
Transfers	211 484	3 530	1 833 218	2 905 334	(7 626 253)	2 672 687	-
Disposals	(11 724)	(156 306)	(164 266)	(1 003 417)	(253 597)	(124 398)	(1 713 708)
Reclassification to non-current assets held for sale	(1 570)	-	-	-	(20 100)	(49 047)	(70 717)
Balance as at 31 December 2013	**23 174 563**	**16 718 287**	**56 139 009**	**44 171 440**	**14 451 519**	**37 493 908**	**192 148 726**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2012	**(6 500 760)**	**(7 553 883)**	**(14 329 655)**	**(17 062 483)**	**(20 664)**	**(10 319 108)**	**(55 786 553)**
Charge for the year	(599 295)	(279 503)	(1 991 006)	(1 331 359)	-	(2 023 568)	(6 224 731)
Disposals	7 630	98 109	111 712	469 306	-	75 769	762 526
Reclassification to non-current assets held for sale	344	-	-	-	-	28 357	28 701
Impairment loss recognised during the year	(222 626)	(154 095)	(56 848)	(31 128)	(162 399)	(113 331)	(740 427)
Balance as at 31 December 2013	**(7 314 707)**	**(7 889 372)**	**(16 265 797)**	**(17 955 664)**	**(183 063)**	**(12 351 881)**	**(61 960 484)**
Net book value as at 31 December 2012	**16 462 995**	**9 317 180**	**40 132 849**	**24 523 620**	**14 094 438**	**24 525 452**	**129 056 534**
Net book value as at 31 December 2013	**15 859 856**	**8 828 915**	**39 873 212**	**26 215 776**	**14 268 456**	**25 142 027**	**130 188 242**

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2011	**20 550 508**	**16 662 713**	**44 967 657**	**39 247 988**	**24 378 957**	**26 075 149**	**171 882 972**
Effect of reclassifications	186 357	166 174	655 151	15 905	-	(1 023 587)	-
Balance as at 31 December 2011	**20 736 865**	**16 828 887**	**45 622 808**	**39 263 893**	**24 378 957**	**25 051 562**	**171 882 972**
Additions	24 206	-	8 737	32 388	13 299 827	278 021	13 643 179
Transfers	2 248 849	45 158	8 869 556	2 553 656	(23 513 042)	9 795 823	-
Disposals	(46 165)	(2 982)	(38 597)	(263 834)	(50 640)	(260 234)	(662 452)
Reclassification to non-current assets held for sale	-	-	-	-	-	(20 612)	(20 612)
Balance as at 31 December 2012	**22 963 755**	**16 871 063**	**54 462 504**	**41 586 103**	**14 115 102**	**34 844 560**	**184 843 087**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2011	**(5 957 904)**	**(7 236 078)**	**(11 842 365)**	**(16 305 040)**	**(59 316)**	**(9 936 128)**	**(51 336 831)**
Effect of reclassifications	(102 997)	(37 696)	(804 569)	(2 521)	-	947 783	-
Balance as at 31 December 2011	**(6 060 901)**	**(7 273 774)**	**(12 646 934)**	**(16 307 561)**	**(59 316)**	**(8 988 345)**	**(51 336 831)**
Charge for the year	(633 986)	(281 870)	(1 753 640)	(1 216 643)	-	(1 523 183)	(5 409 322)
Disposals	35 323	1 761	44 122	211 186	-	116 008	408 400
Reclassification to non-current assets held for sale	-	-	-	-	-	1 832	1 832
Impairment losses reversed during the year	158 804	-	26 797	250 535	38 652	74 580	549 368
Balance as at 31 December 2012	**(6 500 760)**	**(7 553 883)**	**(14 329 655)**	**(17 062 483)**	**(20 664)**	**(10 319 108)**	**(55 786 553)**
Net book value as at 31 December 2011	**14 675 964**	**9 555 113**	**32 975 874**	**22 956 332**	**24 319 641**	**16 063 217**	**120 546 141**
Net book value as at 31 December 2012	**16 462 995**	**9 317 180**	**40 132 849**	**24 523 620**	**14 094 438**	**24 525 452**	**129 056 534**

Note 7. Property, Plant and Equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

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

As at 31 December 2013 the advances given to contractors, which amounted to RUB 742 249 thousand, net of VAT (as at 31 December 2012: RUB 1 824 972 thousand), are recognised within the construction in progress balance. The respective input VAT is recognized within accounts receivable and prepayments (Note 14).

As at 31 December 2013 and 2012 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using a 8% capitalization rate for the year ended 31 December 2013 is RUB 1 127 354 thousand (8% capitalization rate for the year ended 31 December 2011: RUB 981 301 thousand).

Non-cash additions to property, plant and equipment equal to RUB 893 289 thousand (in 2012 – RUB 800 997 thousand). Non-cash additions to property, plant and equipment in 2013 mostly relate to mutual settlements and property, plant and equipment, received in the network of compensation agreements (in 2012 mostly relate to mutual settlements).

Other property, plant and equipment include assets held under finance leases with a carrying value of RUB 77 930 thousand (as at 31 December 2012: RUB 96 130 thousand).

Residual value of disposed property, plant and equipment was RUB 951 182 thousand.

This amount includes the residual value of property, plant and equipment of OJSC «St Petersburg Heating Grid», destroyed during repairing and construction works in the amount of RUB 233 620 thousand. At the same time OJSC «St Petersburg Heating Grid» received and recorded addition of property, plant and equipmentin the amount of RUB 621 892 thousand, received in the network of compensation agreements in respect of recovering damage to OJSC «St Petersburg Heating Grid» during repairing and construction works. Profit from this transaction was RUB 388 272 thousand.

Residual value of other disposed property, plant and equipment (sold and written off) was RUB 717 562 thousand. Revenue from sale of property, plant and equipment was RUB 460 354 thousand, income from materials received from written off property, plant and equipment was RUB 45 716 thousand. Loss from disposal of property, plant and equipment was RUB 183 526 thousand.

Total profit from disposal of property, plant and equipment in 2013 is recorded in operating expenses in the amount of RUB 204 746 thousand (Note 25).

Impairment

Management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2013.

The determination of indication of impairment was performed for six cash-generating units: the Thermal Power Plants (TPP) of the Nevsky branch, the Hydro-electric Power Stations (HPS) of the Nevsky branch, St Petersburg Heating Grid, Kolsky and Karelsky branches and the Murmanskaya TPP.

The key indicator of impairment was suspension of electricity and heat tariff growth.

As a result of the impairment test impairment loss was recognised for Karelsky branch (reportable segment - Karelsky branch) in the amount of RUB 578 028 thousand.

The indexes used by management in forecasting cash flows were based on the Parameters of Forecasting Social and Economic Development of the Russian Federation before 2030, published on website the Ministry of Economic Development of the Russian Federation on 8 November 2013.

The following key parameters were used in forecasting the further cash flows: forecasts of electricity and capacity prices and heat tariffs, cost of fuel and planned production volumes for forecasting period.

(in thousands of Russian Roubles)

Note 7. Property, Plant and Equipment (continued)

Impairment (continued)

In 2012 the Group's management revisited the estimate of the heat tariff used in the calculation of cash flows for cash-generating unit Murmanskaya TPP. The revised estimate is 1 918 RUB / Gkcal. The change in the accounting estimate was accounted for prospectively and resulted in reversal of an impairment loss in the property, plant and equipment and construction in progress of the Murmanskaya TPP in the amount of RUB 549 368 thousand.

Management considers that a forecast period greater than five years is appropriate as electricity, capacity and heat market is expected to change significantly over the forecast period and cash flow projections will be not stabilized within five years. However a forecast period of cash flows was defined as the average remaining useful life of the assets of the cash generating units tested.

Growth rate and terminal values were not used in property, plant and equipment impairment models.

Management made the following significant assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2013:

The average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group, as follows:

Name of cash generating unit	Pre-tax discount rate, % p.a.	Average remaining useful lives, years
Kolsky branch	15.40	23
Karelsky branch	15.05	21
Nevsky branch HPS	15.31	24
Nevsky branch TPP	14.44	22
St Petersburg Heating Grid	14.64	18
Murmanskaya TPP	17.18	10

The cash generating units are the same as the reportable segment to which the assets belong (Note 32).

However, the calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate and change of forecasted tariffs. If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be total impairment loss of RUB 2 404 758 thousand recognised as at 31 December 2013. If the electricity and heat tariffs were 5 percent lower in the forecasted period, there would be total impairment loss of RUB 2 908 758 thousand recognised as at 31 December 2013.

In addition, as at 31 December 2013 an impairment loss was recognized in respect of construction in progress of Nevsky branch (mazut complex of TPP-17) in the amount of the difference between the estimated selling price (less the selling expenses) and the carrying value in the amount of RUB 161 232 thousand (Note 13). In respect of construction in progress of Murmanskaya TPP, staying without movement for a long time, impairment loss was recognised in the amount of RUB 1 167 thousand.

(in thousands of Russian Roubles)

Note 8. Investments in Associates

LLC «TGC Service» and «JSC Hibinskaya Heating Company» are the associates for the Group. LLC «TGC Service» specializes in repairing of the capital and service equipment of the power enterprises and also provides maintenance, support, diagnostics and technical reequipment of power industry objects. JSC Hibinskaya Heating Company» specializes in production, transportation and sales of heat energy.

Information about Group's investments in associates is presented below:

	31 December 2013	31 December 2012
Investments in LLC TGC Service	9 841	2 600
Investments in JSC HHC	432 020	448 300
Total investments	**441 861**	**450 900**

As at 31 December 2013 and 31 December 2012 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

In February-May 2012 additional cash contributions to share capital of JSC HHC in the amount of RUB 400 000 thousand was made by the Group which did not result in change of its interest held, as the other participant invested equal cash contribution.

At 31 December 2013, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/loss	% interest held	Country of incorporation
LLC TGC Service	945 424	880 577	1 466 287	5 018	26%	Russia
JSC HHC	3 166 637	2 302 391	106 259	(35 462)	50%	Russia
Total	**4 112 061**	**3 182 968**	**1 572 546**	**(30 444)**		

At 31 December 2012, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/loss	% interest held	Country of incorporation
LLC TGC Service	1 016 440	951 122	1 694 839	13 743	26%	Russia
JSC HHC	2 037 641	1 137 934	4 844	2 620	50%	Russia
Total	**3 054 081**	**2 089 056**	**1 699 683**	**16 363**		

(in thousands of Russian Roubles)

Note 8. Investments in Associates (continued)

Management could not reliably estimate the fair value of the Group's investment in shares of associates. TGC Service is a Limited Liability Company, so it doesn't issue shares. Shares of JSC Hibinskaya Heating Company are not quoted and recent trade prices are not publicly accessible. The investment is carried at acquisition cost including Group's equity in profit or loss and other comprehensive income of associates in the amount of RUB 9 841 thousand - LLC TGC Service and at cost of RUB 432 020 thousand - JSC HHC (2012: RUB 2 600 thousand and RUB 448 300 thousand respectively).

Note 9. Income Taxes

Income tax expense comprises the following:

	Year ended 31 December 2013	Year ended 31 December 2012
Current income tax charge	(86 147)	(236 033)
Deferred income tax charge	(1 724 786)	(1 642 284)
Effect of change in income tax rate	681 072	-
Movement during the year, recorded in other comprehensive income	(6 817)	(3 266)
Income tax charge	**(1 136 678)**	**(1 881 583)**

The most companies of the Group were subject to tax rates of 20% on taxable profits in the Russian Federation for 2013 and 2012. Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax	**7 897 400**	**8 133 814**
Theoretical tax charge at the statutory tax rate of 20%	(1 579 480)	(1 626 763)
Tax effects of items which are non-deductible for income tax purposes	(238 270)	(254 820)
Effect of change in income tax rate	681 072	-
Income tax charge	**(1 136 678)**	**(1 881 583)**

Deferred income tax assets and liabilities

Differences between IFRS and Russian statutory taxation regulations cause temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities were measured at a rate of 20% as at 31 December 2013 and 2012, which is expected to be applied to the period when the assets are realised and liabilities are settled. Since 2013 OJSC «St Petersburg Heating Grid» applies income tax exemption in accordance to law of Saint-Petersburg from 14.07.1995 № 81-11. So, deferred income tax assets and liabilities at 31 December 2013 in respect of OJSC «St Petersburg Heating Grid» were revaluated applying effective income tax rate 15.55%.

Effect of the revaluation is presented in the tables below.

In the context of the Group's current structure, the tax losses and current tax assets of different consolidated entities may not be offset against the current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue 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 thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

Deferred income tax liabilities

	31 December 2013	Recognised in profit or losses	Effect of change in income tax rate, recorded in profit and losses	Movement during the year, recorded in other comprehensive income	31 December 2012
Property, plant and equipment	(10 947 290)	(1 661 427)	694 699	-	(9 980 562)
Investments	303	(1 863)	-	-	2 166
Trade and other receivables	(773 288)	(185 098)	(276)	-	(587 914)
Trade and other payables	203 569	(24 919)	(1 272)	(2 226)	231 986
Tax loss carried forward	521 143	313 785	-	-	207 358
Other	12 658	(675)	(12 079)	-	25 412
Total deferred income tax liability	**(10 982 905)**	**(1 560 197)**	**681 072**	**(2 226)**	**(10 101 554)**

Deferred income tax liabilities

	31 December 2012	Recognised in profit or losses	Recognised in Equity	31 December 2011
Property, plant and equipment	(9 980 562)	(1 623 339)	-	(8 357 223)
Investments	2 166	105	-	2 061
Trade and other receivables	(587 914)	(84 232)	-	(503 682)
Trade and other payables	231 986	18 633	(6 049)	219 402
Tax loss carried forward	207 358	207 358		-
Long-term loans	-	1 016	-	(1 016)
Other	25 412	3 934	-	21 478
Total deferred income tax liability	**(10 101 554)**	**(1 476 525)**	**(6 049)**	**(8 618 980)**

Deferred income tax assets

	31 December 2013	Recognised in profit or losses	Recognised in other comprehensive income	31 December 2012
Property, plant and equipment	(3 044)	(102)	-	(2 942)
Tax loss carried forward	161 442	(243 305)	-	404 747
Trade and other receivables	188 459	79 732	-	108 727
Trade and other payables	20 268	(834)	(4 591)	25 693
Other	28	(80)	-	108
Total deferred income tax assets	**367 153**	**(164 589)**	**(4 591)**	**536 333**

(in thousands of Russian Roubles)

Note 9. Income Taxes (continued)

Deferred income tax assets and liabilities (continued)

Deferred income tax assets

	31 December 2012	Recognised in profit or losses	Recognised in other comprehensive income	Disposal of subsidiary	31 December 2011
Property, plant and equipment	(2 942)	(120 410)	-	(4 165)	121 633
Tax loss carried forward	404 747	10 978	-	(24 378)	418 147
Trade and other receivables	108 727	(54 807)	-	-	163 534
Trade and other payables	25 693	(1 386)	2 783	-	24 296
Other	108	(134)	-	-	242
Total deferred income tax assets	**536 333**	**(165 759)**	**2 783**	**(28 543)**	**727 852**

Note 10. Other Non-Current Assets

	31 December 2013	31 December 2012
Long-term receivables, net of provision for impairment of RUB 104 789 thousand (31 December 2012: RUB 0 thousand)	188 145	92 889
Loan issued	11 757	15 041
Promissory notes	-	6 969
Total other non-current assets	**199 902**	**114 899**

Note 11. Cash and Cash Equivalents

	31 December 2013	31 December 2012
Cash in bank and in hand in RUB	167 016	668 874
Foreign currency accounts in EUR	75 989	51 101
Total cash and cash equivalents	**243 005**	**719 975**

Note 12. Short-term Investments

	31 December 2013	31 December 2012
Loan issued	16 800	8 164
Promissory notes	-	100
Total short-term investments	**16 800**	**8 264**

Note 13. Non-current Assets Held for Sale

As at 31 December 2013 the property, plant and equipment with a total net book value amounting to RUB 58 325 thousand were classified as assets held for sale (31 December 2012: RUB 26 705 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 December 2013	Sale	Classification as assets held for sale	31 December 2012
58 325	10 397	42 017	26 705

31 December 2012	Sale	Classification as assets held for sale	31 December 2011
26 705	46 439	22 632	50 512

(in thousands of Russian Roubles)

Note 14. Trade and other receivables

	31 December 2013	31 December 2012
Trade receivables, net of provision for impairment of RUB 2 655 749 (31 December 2012: RUB 1 774 328 thousand)	14 228 323	12 782 984
Other receivables, net of provision for impairment of RUB 14 220 (31 December 2012: RUB 0 thousand)	518 423	219 834
Total financial receivables	**14 746 746**	**13 002 818**
Value-added tax receivables	489 853	750 693
Advances to suppliers	390 490	96 939
Other taxes receivable	238 949	3 663
Total trade and other receivables	**15 866 038**	**13 854 113**

Total financial receivables by customer type are presented in the table below:

	31 December 2013	31 December 2012
Ultimate domestic customers	10 130 707	8 847 858
Wholesale customers	3 595 059	2 844 569
Free market	1 015 170	1 309 405
Export customers	5 810	986
Total	**14 746 746**	**13 002 818**

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

	Fully performing	Past due but not impaired	Impaired
Total financial receivables as at 31 December 2013	8 279 271	6 667 377	2 774 758
Total financial receivables as at 31 December 2012	7 710 949	5 406 768	1 774 328

Fully performing trade receivables involve a number of independent customers who have no recent history of default. Individually insignificant end-user customers make up the majority of performing trade receivables; therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

	31 December 2013	31 December 2012
Up to 45 days	3 303 058	1 157 624
From 45 to 90 days	514 112	597 548
More than 90 days	2 850 207	3 651 596
Total	**6 667 377**	**5 406 768**

Impaired financial receivables represent overdue accounts receivables from customers which are not expected to be settled. Reversal relates to previously impaired financial receivables which have been collected in current year or expected to be collected in 2014.

(in thousands of Russian Roubles)

Note 14. Trade and other receivables (continued)

Movements in impairment provision for financial receivables are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Provision for impairment as at 1 January	**1 774 328**	**2 008 002**
Impairment loss recognised during the period	1 473 589	333 684
Impairment loss reversed during the period	(356 510)	(531 569)
Consumed	(116 649)	(35 789)
Provision for impairment as at 31 December	**2 774 758**	**1 774 328**
Account receivable directly written-off to profit and loss	19 487	3 211

Note 15. Inventories

	31 December 2013	31 December 2012
Fuel	1 918 934	1 808 324
Spare parts	195 428	295 469
Raw materials and other supplies	494 018	481 940
Total inventories	**2 608 380**	**2 585 733**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 1 893 thousand (31 December 2012: RUB 5 430 thousand). Movements in the impairment provision are due to implication into production and sale of inventories.

Note 16. Share capital

Share capital

The Group's share capital as at 31 December 2013 and as at 31 December 2012 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

Share premium represents the excess of contributions received over the nominal value of shares issued.

Merger reserve

As at 31 December 2013 and as at 31 December 2012 the merger reserve amounted to RUB 6 086 949 thousand.

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution. For 2013, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 3 218 147 thousand (2012: RUB 3 353 415 thousand) and the closing balance of the accumulated profit including the current year statutory net profit totaled RUB 7 046 864 thousand (31 December 2012: RUB 4 417 195 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

At the General Shareholders' Meeting held on 22 April 2013, the decision was made to pay a total of RUB 469 478 thousand in annual dividends for 2012 (2012: RUB 187 865 thousand for 2011).

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings

	31 December 2013	31 December 2012
Bank borrowings and bonds issued	21 070 249	26 159 467
Total long-term borrowings	**21 070 249**	**26 159 467**

	Currency	Contractual interest rate	Maturity	31 December 2013	31 December 2012
Long-term bonds (01)	RUB	7.6%	2014	409 998	409 918
Long-term bonds (02)	RUB	7.25%	2014	125 780	2 894 187
Long-term bonds (03)	RUB	8.1%	2021	2 003 100	2 002 500
Long-term bonds (04)	RUB	8.1%	2022	2 056 380	2 052 500
Gazprom	RUB	8%	2016	10 000 000	-
Sberbank RF	RUB	7.4-9%	2015-2016	4 203 545	8 506 940
AKB ROSBANK	RUB	7.4-9.1%	2015	3 806 931	1 505 451
Gazprom Energoholding	RUB	8.5%	2015	2 014 438	2 002 322
VTB	RUB	8.65-9.5%	2015-2016	1 605 877	4 010 287
NORDIC Investment Bank	EUR	EURIBOR + 3%	2014-2019	1 359 741	283 446
Alfabank	RUB	7.4%	2014	700 852	1 001 524
Bank Saint-Petersburg	RUB	9.3%	2014	700 000	100 000
VBRR	RUB	8.15%	2015	186 374	-
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	2015	33 962	50 658
Alfabank	EUR	EURIBOR+ 3.5%	2014	12 274	10 980
TransCreditBank	RUB	9.2%	2013	-	7 054 546
Unicreditbank	RUB	8.65-8.8%	2013	-	2 494 983
Unicreditbank	EUR	EURIBOR+ 2.8%	2013	-	885 310
MTS Bank	RUB	6.7%	2013	-	600 659
				29 219 252	**35 866 211**
Less: current portion					
Long-term bonds (01)	RUB	7.6%	2014	(409 998)	(9 267)
Long-term bonds (02)	RUB	7.25%	2014	(125 780)	(2 894 187)
Long-term bonds (03)	RUB	8.1%	2014	(3 100)	(2 500)
Long-term bonds (04)	RUB	8.1%	2014	(56 380)	(52 500)
Sberbank RF	RUB	7.4-9%	2014	(2 680 802)	(5 006 940)
AKB ROSBANK	RUB	7.4-9.1%	2014	(2 388 942)	(855 651)
VTB	RUB	8.65-9.5%	2014	(710 462)	(10 287)
Alfabank	RUB	7.4%	2014	(700 852)	(1 524)
Bank Saint-Petersburg	RUB	7.65%	2014	(700 000)	-
NORDIC Investment Bank	EUR	EURIBOR + 3%	2014	(321 974)	(190 610)
Nordic Environment Finance Corporation	EUR	EURIBOR + 2%	2014	(22 720)	(20 487)
Gazprom Energoholding	RUB	8.5%	2014	(14 438)	(2 322)
Unicreditbank	RUB	8.65-8.8%	2013	-	(4 983)
Unicreditbank	EUR	EURIBOR+ 2.8%	2013	-	(281)
Alfabank	EUR	EURIBOR+ 3.5%	2014	(12 274)	
TransCreditBank	RUB	9.2%	2013	-	(54 546)
MTS Bank	RUB	6.7%	2013	-	(600 659)
VBRR	RUB	8.15%	2014	(1 281)	-
Total long-term bank borrowings and bonds issued				**21 070 249**	**26 159 467**

Compliance with covenants

Under long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants.

(in thousands of Russian Roubles)

Note 17. Long-term Borrowings (continued)

Compliance with covenants (continued)

The most significant and most important of these being:

- to maintain particular ratios, i.e. the EBITDA to Finance Charges, the total debt to equity and the Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment. There were no breaches of covenants in 2013 and 2012 except for breach of one covenant under agreement with VTB in 2012 but the Group has received waiver from the bank before 31 December 2012.

Note 18. Other Non-Current Liabilities

	31 December 2013	31 December 2012
Long-term accounts payable	139 958	74 769
Total other non-current liabilities	**139 958**	**74 769**

Note 19. Post-Employment Benefits Obligations

The Group operates defined benefit and defined contribution pension plans. The Group has a contract with the “Non-state pension fund of the electrical energy industry” (“NPFE”) for some of these pension plans and contracts with NPF “Gazfond” (“Gazfond”).The Group runs the other plans independently of external pension funds. Defined contribution pension plans are considered immaterial for disclosure.

Through the NPFE, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. The Group makes annual contributions to the solidarity account in the non-state pension fund. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. No part of this contribution is recognised as plan asset as far as the Group can recall this money. Pension benefits are paid from the solidarity account on a “pay-as-you-go” basis.

Through the Gazfond, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. Upon retirement the pension liability of the Group is completely settled by contributions to individual account of each individual participant. Contribution size is defined by the Group’s budget and is considered to be at least enough to finance running pension benefits. There are no accumulations on the individual accounts of active employees of the plan and therefore there are no plan assets.

In addition to the NPFE and Gazfond pension plan, the Group provides defined-benefit financial support to old-age pensioners, who have completed certain service periods with the Group, and other post-employment benefits such as lump-sum payments on retirement, lump-sum financial aid, etc.

As at 31 December 2013 the Group engaged an independent actuarial company to evaluate its pension liabilities.

The tables below provide information about the benefit obligations, plan assets and actuarial estimates used for the year ended 31 December 2013 and 31 December 2012 including remeasurements of input balances according with revised IAS 19 «Post-Employment Benefits Obligations» (Note 3).

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

The principal actuarial assumptions are as follows:

Principal actuarial assumptions (%):	**31 December 2013**	**31 December 2012**
Discount rate for benefits at accumulation phase	7.9%	7%
Indexation of fixed benefits	4.8%	4.8%
Life expectancy at age of 55 (women), years	25.4	25.1
Life expectancy at age 60 (men), years	15.6	15.4

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

	Year ended 31 December 2013	**Year ended 31 December 2012**
Benefit obligations as at the beginning of the period	**883 945**	**894 303**
Current service cost	37 054	35 542
Interest cost	60 699	74 227
Past service cost	(3 200)	(7 913)
(Gain)/loss from remeasurements of post-employment benefit obligations	(53 523)	(35 435)
Actuarial (gain)/losses – changes in financial assumptions	(53 776)	(15 437)
Actuarial (gain)/losses – changes in demographic assumptions	(13 531)	-
Actuarial (gain)/losses – adjustments	13 784	(19 998)
Program benefits	(70 679)	(76 779)
Benefit obligations as at the end of the period	**854 296**	**883 945**

Amounts recognised in profit or loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2013	**Year ended 31 December 2012**
Cost of service:	33 854	27 629
Current service cost	37 054	35 542
Past service cost	(3 200)	(7 913)
Interest expenses, net	60 699	74 227
(Gain)/loss from remeasurements of post-employment benefit obligations	(23 789)	(19 103)
Actuarial (gain)/losses – changes in financial assumptions	(13 335)	(15 915)
Actuarial (gain)/losses – changes in demographic assumptions	2 843	-
Actuarial (gain)/losses – adjustments	(13 297)	(3 188)
Total pension expenses, net	**70 764**	**82 753**

(in thousands of Russian Roubles)

Note 19. Post-Employment Benefits Obligations (continued)

Amounts recognised in other comprehensive income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, that will not be reclassified to profit or loss:

	Year ended 31 December 2013	Year ended 31 December 2012
(Gain)/loss from remeasurements of post-employment benefit obligations	(29 734)	(16 330)
Actuarial (gain)/losses – changes in financial assumptions	(40 441)	477
Actuarial (gain)/losses – changes in demographic assumptions	(16 373)	-
Actuarial (gain)/losses – adjustments	27 080	(16 807)
Total comprehensive income	**(29 734)**	**(16 330)**

Best estimate of contributions expected to be paid to the plan during the annual period beginning after 31 December 2013 equals to RUB 70 285 thousands.

Information about estimated maturity thresholds of the defined benefit obligations is presented below:

	Not later than one year	Later than one year and not later than two years	Later than one year and not later than five years	Later than five years	Total
NPO	24 315	26 246	44 895	98 439	193 895
Lump sum benefits	13 276	13 986	25 801	63 565	116 628
Monthly benefits	8 148	7 258	24 423	174 258	214 088
Other benefits	24 546	28 046	56 890	220 204	329 685
Total	**70 285**	**75 536**	**152 009**	**556 466**	**854 296**

Sensitivity analysis results of the defined benefit obligations as at 31 December 2013 is presented below. Sensitivity analysis was calculated for three parameters: discount rate, indexed fixed benefits and life expectancy.

	Decrease	Calculated rate	Increase
Discount rate	**6.9%**	**7.9%**	**8.9%**
absolute value	921 150	854 296	775 394
change in obligations (%)	9.2%	-	-7.8%
Indexation of fixed benefits	**3.8%**	**4.8%**	**5.8%**
absolute value	781 417	854 296	916 638
change in obligations (%)	-7.3%	-	8.5%

Life expectancy	**Increase of life expectancy for 10% in each age**	**Calculated rate**	**Decrease of life expectancy for 10% in each age**
55 women	24.5	25.4	26.3
60 men	14.8	15.6	16.6
absolute value	835 353	854 296	875 168
change in obligations (%)	-2.2%	-	2.4%

(in thousands of Russian Roubles)

Note 20. Short-Term Borrowings

	31 December 2013	31 December 2012
Finance lease liabilities (current portion)	-	25 330
Bank borrowings and bonds issued	11 678 565	10 560 976
Total short-term borrowings	**11 678 565**	**10 586 306**

Name of lender	Currency	Contractual interest rate	31 December 2013	31 December 2012
MDM Bank	RUB	7.25%	1 210 964	-
Bank Rossiya	RUB	7.5%	1 000 000	-
Gazprombank	RUB	11.6-12%	500 973	236 666
VTB	RUB	12.55%	339 687	617 566
Vozrozhdenie	RUB	11.9%	100 000	-
Alfabank	RUB	6%	377 938	-
Current portion of long-term borrowings:				
Long-term bonds (01)	RUB	7.6%	409 998	9 267
Long-term bonds (02)	RUB	7.25%	125 780	2 894 187
Long-term bonds (03)	RUB	8.1%	3 100	2 500
Long-term bonds (04)	RUB	8.1%	56 380	52 500
Sberbank RF	RUB	7.4-9%	2 680 802	5 006 940
AKB ROSBANK	RUB	7.4-9.1%	2 388 942	855 651
VTB	RUB	8.65-9.5%	710 462	10 287
Alfabank	RUB	7.4%	700 852	1 524
Bank Saint-Petersburg	RUB	7.65%	700 000	-
NORDIC Investment Bank	EUR	EURIBOR+3%	321 974	190 610
Nordic Environment Finance Corporation	EUR	EURIBOR +2%	22 720	20 487
Gazprom Energoholding	RUB	8.5%	14 438	2 322
Unicreditbank	RUB	8.65-8.8%	-	4 983
Unicreditbank	EUR	EURIBOR+ 2.8%	-	281
Alfabank	EUR	EURIBOR+ 3.5%	12 274	-
TransCreditBank	RUB	9.2%	-	54 546
MTS Bank	RUB	6.7%	-	600 659
VBRR	RUB	8.15%	1 281	-
Total bank borrowings and bonds issued			**11 678 565**	**10 560 976**

Note 21. Trade and other payables

	31 December 2013	31 December 2012
Trade accounts payable	2 926 698	3 920 819
Accounts payable for capital construction	2 543 069	2 524 663
Accrued liabilities and other payables	434 660	232 475
Total financial payables	**5 904 427**	**6 677 957**
Advances from customers	1 115 278	1 122 818
Current employee benefits	537 108	626 720
Total trade and other payables	**7 556 813**	**8 427 495**

(in thousands of Russian Roubles)

Note 22. Other Taxes Payable

	31 December 2013	31 December 2012
VAT payable	900 900	561 617
Employee taxes	112 214	94 001
Property tax	98 543	175 937
Personal Income Tax	50 486	55 403
Water usage tax	9 717	14 635
Other taxes	7 435	6 177
Total taxes payable	**1 179 295**	**907 770**

As at 31 December 2013 and as at 31 December 2012 the Group had no past due tax liabilities.

Note 23. Other Sales

	31 December 2013	31 December 2012
Connection of customers to heating network	745 236	670 714
Revenue from transit of rail cars	66 301	56 622
Maintenance of electrical facilities	42 475	63 632
Handling of heating oil	35 379	22 748
Installation of heating meters	19 732	139 671
Other	172 757	171 092
Total other sales	**1 081 880**	**1 124 479**

Note 24. Government Grants

In accordance to Murmansk region law № 919-01-3MO «About budget process in Murmansk region» Group received a grant in 2013 for the compensation of income in relation to providing heating services (sales to consummers of heat) per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 437 464 thousand (in 2012 – RUB 316 027 thousand).

Note 25. Operating Expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Fuel	29 537 371	27 213 524
Employee benefits	6 793 806	6 543 675
Depreciation of property, plant and equipment	6 224 731	5 409 322
Electricity, capacity and heat purchases	5 417 997	4 901 280
Repairs and maintenance	2 605 544	2 768 670
Water usage expenses	2 235 706	2 098 396
Provision/(release) for impairment of accounts receivable	1 136 566	(194 674)
Taxes other than income tax	953 938	755 467
Fees of electricity market operators	817 995	714 339
Other materials	747 862	692 864
Heat distribution	645 621	558 400
Security expenses	435 906	396 297
Gain on disposal of property, plant and equipment	(204 746)	(166 349)
IT services	332 518	331 358
Operating lease expenses	328 711	270 443
Insurance cost	252 816	251 800
Telecommunication expenses	244 733	235 676
Acceptance of payments	214 137	194 097
Amortisation of intangible assets	177 669	168 901
Consulting, legal and audit expenses	62 508	134 731
Amortisation of investment property	5 091	8 325
Reversal of provision for inventory obsolescence	(3 537)	-
Other operating expenses	1 157 643	1 381 635
Total operating expenses	**60 120 586**	**54 668 177**

Employee benefits are generally presented by wages and salaries. Social insurance contributions are included in «Employee benefits» in the amount of RUB 1 387 229 thousand (in 2012 – in the amount of RUB 1 197 118 thousand).

In 2013 amount of RUB 486 750 thousand of purchases and sales was settled by mutual cancellation (in 2012 – RUB 1 215 497 thousand).

(in thousands of Russian Roubles)

Note 26. Other Operating Income

	Year ended 31 December 2013	Year ended 31 December 2012
Fines and penalties	200 158	332 319
Operating lease income	146 058	150 820
Insurance	58 135	211 172
Gain/(loss) on sale of other assets	-	560 753
Gain on sale of inventory	9 503	14 866
Gain from sale of subsidiary	-	96 057
Other operating income	47 665	150 918
Total other operating income	**461 519**	**1 516 905**

Note 27. Finance Income and Finance Costs

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	42 146	26 505
Exchange differences (net)	-	14 022
Effect of discounting of financial instruments	48 699	38 174
Finance income	**90 845**	**78 701**
Interest expense	(1 730 940)	(1 776 519)
Exchange differences (net)	(237 815)	-
Effect of discounting of financial instruments	(115 686)	(50 266)
Finance costs	**(2 084 441)**	**(1 826 785)**

Note 28. Earnings per Share

	Year ended 31 December 2013	Year ended 31 December 2012
Profit attributable to owners of the Company	6 323 685	5 985 168
Weighted average number of ordinary shares issued (thousands)	3 854 341 417	3 854 341 417
Earnings per ordinary share attributable to the owners of the Company after tax – basic and diluted – in Russian Roubles	**0.0016**	**0.0016**

(in thousands of Russian Roubles)

Note 29. Commitments

Sales commitments

The Group entities sell electricity, capacity and heat in thewholesale market's regulated and free trading sectors. Regulated sector contracts are primarily signed with trading companies. Tariffs for electricity, capacity and heat sold under regulated delivery contracts are set by the FTS. Electricity can be bought in the free trading sector under contracts with CJSC FSC in order to fulfil obligations under regulated contracts.

Long-term contracts with CJSC FSC and short-term bilateral contracts with market entities were concluded for electricity, capacity and heat sales (not covered by regulated contracts) in the free trading market.

The Group also concluded export contracts with Fortum Power and Heat OY and RAO Nordic Oy. The Group's sales commitments under these contracts, as at 31 December 2013, were: 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy (as at 31 December 2012 - 500 GW/h for Fortum Power and Heat OY and 775 million KW/h for RAO Nordic Oy).

Fuel commitments

The Group has also concluded a number of fuel supply contracts. The main gas supplier is CJSC Gazprom Mezhregiongaz St Petersburg (a state controlled subsidiary of Gazprom Group) and the main coal supplier is OJSC Plant Polymer. The prices for natural gas and coal set in these contracts are mainly determined on the basis of tariffs established by the FTS, published inflation rates and current market prices.

Contractual capital commitments

As at 31 December 2013, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 10 194 239 thousand (31 December 2012: RUB 14 122 870 thousand).

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and are as follows:

	31 December 2013	31 December 2012
Not later than one year	97 507	100 995
Later than one year and not later than five years	390 028	380 463
Later than five years	2 167 716	2 071 193
Total operating lease	**2 655 251**	**2 552 651**

Note 30. Contingencies

Political environment

The Group's operations and earnings continue, intermittently and to varying degrees, to be affected by ongoing political, legislative, fiscal and regulatory developments (including those related to environmental protection) in Russia.

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance protection common in developed markets are not yet generally available.

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

Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain operating assets could have a material adverse effect on the Group's operations and financial position.

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. It is management's view that there are no current legal proceedings or other claims outstanding and not provided for which, on their conclusion, will have an adverse material effect on theGroup's financial standing.

Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 reviews 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 Cooperation 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.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Note 30. Contingencies (continued)

Tax legislation **(continued)**

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As at 31 December 2013 and 2012 the Group estimates that it has no potential liabilities from exposure to probable or possible tax risks.

In addition, tax and other legislation do not specifically address all the aspects of the Group's reorganisation related to the electricity and utilities sector reforms. Therefore, the various interpretations, transactions and resolutions that were part of the reorganisation and reform process may give rise to tax/legal challenges.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

The Group owns the ash dumps on the territory of Russian Federation. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Group has a liability for a land reclamation in respect of the lands used as the ash dumps. The Group's management considers that the liability cannot be reliably estimated because there are no plans on transferring the station on other types of fuel resulting in impossibility of definition the terms of ash dumps liquidation and land reclamation works. The Group's management also considers that estimated liability for the land reclamation does not influence significantly the Group's Statements of Financial Position, Profit or Loss and Other Comprehensive Income and Cash Flows.

Management believes that there are no other legal or contractual obligations related to decommissioning or other disposal of assets.

Potential liabilities might arise as a result of changes in legislation and regulation, or as a result of 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 relating to environmental damage.

Note 31. Financial Risk Management

Within the Group, the risk management function is carried out with regard to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. 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.

Financial assets, which potentially subject the Group to credit risk exposure, consist principally of trade receivables. Although the 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.

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to be at minimal risk of default.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Credit risk (continued)

The table below shows the rating of and balances with major banks at the reporting dates:

	Rating agency	National scale ratings	Long-term RDE* in foreign currency	31 December 2013	31 December 2012
Cash at bank and cash equivalents					
Sberbank RF	Fitch	AAA (rus)	BBB	830	1 186
Alfabank	Fitch	AA+ (rus)	BBB-	2 237	38 525
VTB	Standard & Poor's	AAA (rus)	BBB	23 474	22 154
Bank Rossiya	Standard & Poor's	AA- (rus)	BB-	212 070	650 107
UnicreditBank	Fitch	AAA (rus)	BBB	28	4 295
Sobinbank	Moody's	Baa3	B3	58	70
TransCreditBank	Standard & Poor's	AAA (rus)	BBB	-	166
Gazprombank	Standard & Poor's	AAA (rus)	BBB-	1 488	929
Other	-	-	-	2 820	2 543
Total cash at bank and cash equivalents				**243 005**	**719 975**

** Rating of default of the bank*

At the reporting date there were no significant credit risk concentrations. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

	31 December 2013	31 December 2012
Cash and cash equivalents (Note 11)	243 005	719 975
Short - term investments (Note 12)	16 800	8 264
Total short-term financial receivables (Note 14)	14 746 746	13 002 818
Total long-term financial receivables (Note 10)	199 902	114 899
Total	**15 206 453**	**13 845 956**

The Group structures the levels of credit risk it takes on by limiting on the amount of risk accepted in relation to individual counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Market risk

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

Sensitivities to the market risks detailed below are based on a change in one factor while all other factors remain constant. In practice this is unlikely to occur and there may be correlations between changes in some factors– such as, for example, changes in interest rate and foreign currency rates.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. As at 31 December 2013, the Group had the following currency positions:

	RUB	USD	EUR	Total
Monetary financial assets				
Cash and cash equivalents	167 016	-	75 989	243 005
Short - term investments	16 800	-	-	16 800
Total short-term financial receivables	14 722 726	18 210	5 810	14 746 746
Total long-term financial receivables	199 902	-	-	199 902
Total financial assets	**15 106 444**	**18 210**	**81 799**	**15 206 453**
Monetary financial liabilities				
Long-term borrowings	(20 021 240)	-	(1 049 009)	(21 070 249)
Short-term borrowings	(11 321 597)	-	(356 968)	(11 678 565)
Total other financial liabilities	(6 044 386)	-	-	(6 044 386)
Total financial liabilities	**(37 387 223)**	**-**	**(1 405 977)**	**(38 793 200)**
Net balance sheet position	**(22 280 779)**	**18 210**	**(1 324 178)**	**(23 586 747)**

As at 31 December 2012, the Group had the following currency positions:

	RUB	EUR	Total
Monetary financial assets			
Cash and cash equivalents	668 874	51 101	719 975
Short - term investments	8 264	-	8 264
Total short-term financial receivables	12 963 134	39 684	13 002 818
Total long-term financial receivables	114 899	-	114 899
Total financial assets	**13 755 171**	**90 785**	**13 845 956**
Monetary financial liabilities			
Long-term borrowings	(25 140 451)	(1 019 016)	(26 159 467)
Short-term borrowings	(10 374 928)	(211 378)	(10 586 306)
Total other financial liabilities	(6 752 726)	-	(6 752 726)
Total financial liabilities	**(42 268 105)**	**(1 230 394)**	**(43 498 499)**
Net balance sheet position	**(28 512 934)**	**(1 139 609)**	**(29 652 543)**

As at 31 December 2013, if the Russian Rouble had weakened/strengthened 20% (2012: 20%) against the EURO with all other variables remaining constant, the year’s profit would have been RUB 264 834 thousand (2012: RUB 227 924 thousand) lower/higher.

As at 31 December 2013, if the Russian Rouble had weakened/strengthened 20% (2012: 0%) against the US Dollar with all other variables remaining constant, the year’s profit would have been RUB 3 642 thousand (2012: RUB 0 thousand) lower/higher.

Since the Group does not hold any financial instruments re-valued through equity, the effect of changes to the exchange rate on equity would be the same as those on post-tax profit.

(in thousands of Russian Roubles)

Note 31. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities, dividing them into relevant maturity groupings based on the remaining period to the contractual maturity datein the consolidated statement of financial position and the contractual undiscounted amounts.

		Contractual cash flows				
As at 31 December 2013	**Carrying amount**	**Total**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**
Long-term and short-term bonds	16 987 634	21 298 075	14 438	1 117 998	1 087 500	19 078 139
Long-term and short-term loans	15 761 180	16 533 287	3 601 932	1 503 103	6 122 305	5 305 947
Total other financial liabilities	6 044 386	6 082 215	3 700 346	643 026	1 561 055	177 788
Total financial liabilities	**38 793 200**	**43 913 577**	**7 316 716**	**3 264 127**	**8 770 860**	**24 561 874**

		Contractual cash flows				
As at 31 December 2012	**Carrying amount**	**Total**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**
Long-term and short-term bonds	9 361 427	11 588 383	2 354	132 897	3 347 105	8 106 027
Long-term and short-term loans	27 384 346	30 435 208	243 032	819 464	8 651 009	20 721 703
Total other financial liabilities	6 752 726	6 787 249	4 503 952	742 050	1 431 954	109 293
Total financial liabilities	**43 498 499**	**48 810 840**	**4 749 338**	**1 694 411**	**13 430 068**	**28 937 023**

Interest rate risk

The Group's operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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

	Carrying amount	
	31 December 2013	**31 December 2012**
Fixed rate instruments		
Long-term loans and borrowings	16 021 240	22 025 480
Short-term loans and borrowings	11 262 117	10 320 209
Variable rate instruments		
Long-term loans and borrowings	5 049 009	4 133 987
Short-term loans and borrowings	416 448	266 097
Total financial instruments	**32 748 814**	**36 745 773**

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing.

Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

Note 31. Financial Risk Management (continued)

Interest rate risk (continued)

A general increase/decrease of one percent in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2013 by approximately RUB 40 429 thousand (for the year ended 31 December 2012: RUB 17 375 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

Fair value sensitivity analysis for fixed rate instruments

In 2013 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

Fair values

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends and determines the appropriate level of the financial assets and liabilities using a three–tiered hierarchy on the basis of the lowest level input that is significant in fair value measurements.

Capital management

The Group's companies complies with the capital requirements for the joint-stock companies set by the legislation of the Russian Federation:

- share capital cannot be less than 1000 sizes of the minimum wage on the date of registration of the company;
- in case exceeding the amount of the share capital over the net assets, calculated based on the local legislation, the share capital should be decreased to the value of net assets;
- if a minimum level of share capital exceeds the amount of net assets, calculated based on the local legislation, the company should be liquidated.

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The amount of capital defined as equity attributable to shareholders that the Group managed as of 31 December 2013 was RUB 88 774 083 thousand (2012: RUB 82 894 864 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (Notes 17 and 20).

Note 32. Segment Information

The Group generates its revenues from electricity and heat power generation in one geographical segment: the Russian Federation (Note 3). The Group’s major customers are regional electricity wholesalers. The Group has no single customer that accounts for 10% or more of its total revenue.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by Company’s Management Board.

The Group’s primary activity is producing electricity and heatpower and capacity. The technology of electricity and heatpower production does not allow the segregation of electricity and heatpower segments.

The Group’s segments are strategic business units that focus on different customers. They are managed separately due to significant decentralisation and the distances that separate Company branches. The Group uses six primary reportable segments: TPP of Nevsky branch, HPS of Nevsky branch, St. Petersburg Heating Grid, Kolsky branch, Karelsky branch, Murmanskaya TPP. All reportable segments are located within the Russian Federation. In evaluating segment results and allocating the Group’s economic resources the Management Board uses the financial information provided below prepared in accordance with Russian Accounting Standards (RAS). Differences between the above-mentioned financial indicators analysed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main differences relate to the respective carrying values of property, plant and equipment.

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

Year ended 31 December 2013	TPP of Nevsky branch	HPS of Nevsky branch	St. Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murman-skaya TPP	Kolskaya Heating Company	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	41 263 602	4 159 824	6 756 105	10 204 444	5 547 683	5 064 982	-	6 296 463	**79 293 103**	(7 497 445)	(1 942 632)	**69 853 026**
including export	-	157 284	-	772 730	-	-	-	-	**930 014**	-	-	**930 014**
Depreciation of property, plant, equipment	6 236 832	326 278	2 106 522	478 765	348 607	42 381	-	16 461	**9 555 846**	-	(3 331 114)	**6 224 732**
Reportable segment profit / (loss)	787 199	2 657 582	458 008	4 056 156	1 249 150	78 161	-	(4 555 665)	**4 730 591**	(98 880)	3 265 689	**7 897 400**
Other material non-cash items:												
Impairment loss recognized	(161 232)	-	-	-	(578 028)	(1 167)	-	-	**(740 427)**	-	-	**(740 427)**

Year ended 31 December 2012	TPP of Nevsky branch	HPS of Nevsky branch	St Petersburg Heating Grid	Kolsky branch	Karelsky branch	Murman-skaya TPP	Kolskaya Heating Company	Unallocated segments	Total segments	Eliminations	Adjustments	Total operating segments
Revenue:	35 297 462	3 689 536	6 074 615	9 524 159	5 787 145	4 373 073	46 182	5 846 751	**70 638 923**	(6 708 642)	(1 762 506)	**62 167 775**
including export	-	49 944	-	747 378	-	-	-	-	**797 322**	-	-	**797 322**
Depreciation of property, plant, equipment	4 636 222	279 810	2 040 301	422 848	357 959	39 844	440	22 600	**7 800 024**	-	(2 390 698)	**5 409 326**
Reportable Segment profit / (loss)	(66 335)	2 348 762	410 341	3 975 610	1 295 054	82 925	(55 799)	(3 147 494)	**4 843 064**	-	3 290 750	**8 133 814**
Other material non-cash items:												
Impairment loss reversed	-	-	-	-	-	549 368	-	-	**549 368**	-	-	**549 368**

(in thousands of Russian Roubles)

Note 32. Segment Information (continued)

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Elimination of bilateral contract's revenue	(1 333 883)	(1 392 258)
Reclassification of government grant of Murmanskaya TPP from revenue to other income	(437 464)	(316 027)
Other adjustments	(171 287)	(54 221)
	(1 942 634)	**(1 762 506)**
Depreciation adjustment	3 331 114	2 390 698
Elimination of electricity purchase on bilateral contracts	1 333 883	1 392 258
Reclassification of government grant of Murmanskaya TPP from revenue to other income	437 464	316 027
Interest capitalized	463 579	-
(Charge)/reversal of property, plant and equipment impairment, net	(740 426)	549 368
Provision for impairment of trade and other accounts receivable	(133 736)	-
Actuarial losses	(85)	(5 973)
Effect of discounting	(66 987)	(12 093)
Sale of subsidiary	-	106 435
Other adjustments	583 517	316 536
	5 208 323	**5 053 256**
Total adjustments to profit before income tax	**3 265 689**	**3 290 750**

Segment's assets are disclosed below:

	31 December 2013	31 December 2012
TPP of Nevsky branch	65 054 459	67 313 575
HPS of Nevsky branch	9 026 368	8 854 449
St. Petersburg Heating Grid	37 682 054	37 046 113
Kolsky branch	11 476 378	11 144 521
Karelsky branch	4 996 173	5 068 172
Murmanskaya TPP	3 155 354	3 107 776
Unallocated segments	30 818 867	29 292 670
Total segments	**162 209 653**	**161 827 276**
Eliminations	(17 740 346)	(17 234 421)
Adjustments	6 132 461	3 343 672
Total assets	**150 601 768**	**147 936 527**

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Property, plant and equipment adjustment	6 866 058	3 614 834
Provision for impairment of trade and other accounts receivable	(133 736)	-
Deferred tax assets	(415 313)	(66 912)
Discounting of accounts receivables and investments	(70 294)	(41 535)
Other adjustments	(114 257)	(162 715)
Total assets adjustments	**6 132 458**	**3 343 672**

Unallocated assets are the assets which cannot be directly related to a particular operating segment, and also those which from the decision-making perspective fall outsidethe operating segment's control. These assets include short-and long-term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

The Group's management does not review the information relating to the operating segment's liabilities in order to make decisions about resource allocation since a significant proportion of the payment transactions are centralised.

(in thousands of Russian Roubles)

Note 33. Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2013					
OJSC St Petersburg Heating Grid	Saint-Petersburg	25%	452 230	8 388 035	-
JSC Murmanskaya TPP	Murmansk	9.66%	(8 376)	(47 238)	-
Year ended 31 December 2012					
OJSC St Petersburg Heating Grid	Saint-Petersburg	25%	223 478	7 939 675	-
JSC Murmanskaya TPP	Murmansk	9.66%	50 872	(40 637)	-
Total					

The summarised financial information of OJSC St Petersburg Heating Grid and JSC Murmanskaya TPP was as follows at 31 December 2013:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total compre-hensive income	Cash flows
Year ended 31 December 2013								
OJSC St Petersburg Heating Grid	1 697 404	35 984 650	2 483 852	1 906 589	6 756 105	121 876	121 876	26 476
JSC Murmanskaya TPP	2 271 712	967 097	4 868 509	66 457	4 627 518	25 475	25 475	1 024
Year ended 31 December 2012								
OJSC St Petersburg Heating Grid	1 119 616	35 924 652	2 799 881	1 005 872	6 074 615	3 432	3 432	3 552
JSC Murmanskaya TPP	2 119 675	1 028 304	4 784 547	85 064	4 103 228	82 946	82 946	(19 187)
Total								

There are no significant restrictions for entity's ability to access or use the assets and settle the liabilities of the Group.

Note 34. Events after the Reporting Period

Borrowings

During the period between reporting date and signing date, the Group received long-term loans of RUB 980 234 thousand and short-term loans of RUB 7 306 370 thousand.

During the period between reporting date and signing date, the Group repaid borrowings of RUB 8 538 732 thousand.

In March 2014 the Group repaid RUB 381 783 thousand under REPO agreements (bonds of series 01).

Also in March 2014, the Group transferred funds for a total amount of RUB 400 651 thousand for the repayment of bonds of series 01.

Note 34. Events after the Reporting Period (continued)

During the period between reporting date and signing date, the Group repaid borrowings of RUB 8 538 732 thousand.*Government grants*

In February 2014 JSC Murmanskaya TPP received a grant for the compensation of income in relation to providing heating services per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 313 674 thousand.

V.Y. Sokolov, Director, ZAO PricewaterhouseCoopers Audit
11 March 2014

64 (sixty four) pages are numbered, bound and sealed.