

JSC Inter RAO

Consolidated interim financial statements

For the six months ended 30 June 2014 (unaudited)

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Report on review of consolidated interim financial statements

To the Shareholders and Board of Directors of
JSC Inter RAO

Introduction

We have reviewed the accompanying consolidated interim financial statements of JSC Inter RAO and its subsidiaries (the "Group") as at 30 June 2014 and for the six-months period then ended which comprise the consolidated interim statement of financial position as at 30 June 2014 consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this consolidated interim financial information in accordance with International Financial Reporting Standard 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Совершенствуя бизнес,
улучшаем мир

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2014, its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

Ernst & Young LLC

27 August 2014

Consolidated interim statement of financial position*(in millions of RUR)*

	Note	30 June 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	6	285,632	285,789
Intangible assets	7	9,158	9,783
Investments in associates and joint ventures	8	25,915	28,625
Deferred tax assets	9	2,208	3,389
Available-for-sale financial assets	10	9,516	9,149
Other non-current assets	11	5,824	6,100
Total non-current assets		338,253	342,835
Current assets			
Inventories	12	13,250	13,221
Accounts receivable and prepayments	13	69,571	70,198
Income tax prepaid		2,029	1,095
Cash and cash equivalents	14	56,499	39,882
Other current assets	16	4,706	3,055
		146,055	127,451
Assets classified as held-for-sale	15	38,057	42,280
Total current assets		184,112	169,731
Total assets		522,365	512,566
Equity and liabilities			
Equity			
Share capital	17	293,340	293,340
Treasury shares	17	(41,362)	(41,363)
Share premium	17	69,312	69,312
Hedge reserve	17	(29)	(64)
Actuarial reserve	17	(178)	(280)
Fair value reserve	17	795	642
Foreign currency translation reserve		(270)	413
Retained earnings		14,680	9,522
Total equity attributable to shareholders of the Company		336,288	331,522
Non-controlling interest		4,597	3,067
Total equity		340,885	334,589
Non-current liabilities			
Loans and borrowings	19	25,081	40,198
Deferred tax liabilities	9	14,048	13,399
Other non-current liabilities	21	7,094	8,569
Total non-current liabilities		46,223	62,166
Current liabilities			
Loans and borrowings	19	32,821	12,553
Accounts payable and accrued liabilities	20	97,142	98,814
Other taxes payable	22	5,072	4,025
Income tax payable		222	419
Total current liabilities		135,257	115,811
Total liabilities		181,480	177,977
Total equity and liabilities		522,365	512,566

Chairman of the Management Board

Kovalchuk B.Yu.

Chief Accountant

Vaynilavichute A.P.

27 August 2014

Consolidated interim statement of comprehensive income*(in millions of RUR)*

	Note	For the six months ended 30 June	
		2014	2013
Revenue	23	352,896	317,743
Other operating income	24	3,152	3,548
Operating expenses, net	25	(343,489)	(331,084)
Operating income/(loss)		12,559	(9,793)
Finance income	26	2,357	2,600
Finance expenses	26	(4,434)	(9,955)
Share of profit of associates and joint ventures, net	8	34	1,964
Income/(loss) before income tax		10,516	(15,184)
Income tax (expense)/benefit	27	(3,660)	1,339
Income/(loss) for the period		6,856	(13,845)
Other comprehensive income/(expense)			
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Actuarial gain, net of tax	17	115	176
Other comprehensive income/(expense) that will be reclassified subsequently to profit or loss when specific conditions are met			
Gain on available-for-sale financial assets, net of tax	10, 17	153	1,527
Net gain/(loss) on hedge instruments, net of tax	17	29	(69)
Exchange (loss)/gain on translation to presentation currency		(684)	1,815
Other comprehensive (expense)/income, net of tax		(387)	3,449
Total comprehensive income/(loss) for the period		6,469	(10,396)
Income/(loss) attributable to:			
Shareholders of the Company		5,133	(13,549)
Non-controlling interest		1,723	(296)
		6,856	(13,845)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		4,740	(10,322)
Non-controlling interest		1,729	(74)
		6,469	(10,396)
		RUR	RUR
Basic earnings/(loss) per ordinary share for income/(loss) attributable to the shareholders of the Company	18	0.00057	(0.00151)
Diluted earnings/(loss) per ordinary share for income/(loss) attributable to the shareholders of the Company	18	RUR	RUR
		0.00057	(0.00161)

Chairman of the Management Board

Kovalchuk B. Yu.

Chief Accountant

Vaynilavichute A.P.

27 August 2014

Consolidated interim statement of cash flows*(in millions of RUR)*

	Note	For the six months ended 30 June	
		2014	2013
Operating activities			
Income / (loss) before income tax		10,516	(15,184)
<i>Adjustments to reconcile income/(loss) before tax to net cash flows from operating activities:</i>			
Depreciation and amortisation	25	10,675	12,423
Provision for impairment of accounts receivable	25	3,069	3,545
Other provisions charge	12, 20, 25	975	576
Impairment of available-for-sale financial assets and assets classified as held-for-sale	25	485	2,696
Impairment of property, plant and equipment, intangible assets and goodwill	6, 7, 25	321	10,346
Share of profit of associates and joint ventures	8	(34)	(1,964)
Loss / (income) from electricity derivatives, net	24, 25	41	(71)
Foreign exchange loss, net	26	470	29
Interest income	26	(1,262)	(1,362)
Other finance income	26	(136)	(94)
Interest expense	26	1,893	1,902
Other finance expenses	26	472	399
Dividend income	26	(959)	(1,144)
Income from sale of available-for-sale financial assets and assets classified as held-for-sale	24, 25	(147)	–
Shares option plan	32	–	45
Put and call option agreement	26	1,599	7,625
Loss on disposal of controlling interest	5, 24, 25	4	5
Other non-cash operations/items		47	192
Operating cash flows before working capital adjustments and income tax paid		28,029	19,964
Decrease/(increase) in inventories		39	(337)
(Increase)/decrease in accounts receivable and prepayments		(632)	2,602
(Increase)/decrease in value added tax recoverable		(1,188)	236
Increase in other current assets		(587)	(201)
Decrease in accounts payable and accrued liabilities		(4,460)	(11,433)
Increase/(decrease) in taxes other than income tax payable/ prepaid, net		2,905	(893)
Other working capital adjustments		(378)	18
		23,728	9,956
Income tax paid		(2,893)	(1,665)
Net cash flows from operating activities		20,835	8,291

The consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim financial statements set out in Notes 1-34.

Consolidated interim statement of cash flows (continued)*(in millions of RUR)*

	Note	For the six months ended 30 June	
		2014	2013
Investing activities			
Proceeds from disposal of property, plant and equipment		31	16
Purchase of property, plant and equipment and intangible assets		(11,676)	(15,781)
Establishment of subsidiaries	5	–	4
Proceeds from disposal of controlling interest, net of cash disposed		31	–
Proceeds from disposal of available-for-sale financial assets and assets classified as held-for-sale	10, 15	3,863	–
Proceeds from repayment of loans issued		950	822
Loans issued		(720)	(151)
Bank deposits placed		(4,123)	(2,807)
Bank deposits returned and proceeds from promissory notes repayment		3,948	7,363
Purchase of bonds		(109)	–
Purchase of other financial assets		–	(126)
Dividends received		871	53
Cash flows from/(used for) other investing activities		225	(215)
Net cash flows used for investing activities		(6,709)	(10,822)
Financing activities			
Proceeds from loans and borrowings		28,496	27,358
Repayment of loans and borrowings		(24,196)	(27,243)
Repayment of finance leases		(334)	(250)
Interest paid		(1,514)	(1,566)
Dividends paid		(53)	(173)
Purchase of non-controlling interest in subsidiaries	5	–	(118)
Disposal of non-controlling interest in subsidiaries	5	100	–
Proceeds from treasury shares sold		2	6
Net cash flows from/(used for) financing activities		2,501	(1,986)
Effect of exchange rate fluctuations on cash and cash equivalents		(10)	(157)
Net increase/(decrease) in cash and cash equivalents		16,617	(4,674)
Cash and cash equivalents at the beginning of the period		39,882	48,049
Cash and cash equivalents at the end of the period	14	56,499	43,375

Chairman of the Management Board

Kovalchuk B.Yu.

Chief Accountant

Vaynilavichute A.P.

27 August 2014

Consolidated interim statement of changes in equity

(in millions of RUR)

Note	Attributable to shareholders of the Company										
	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Fair value reserve	Hedge reserve	Actuarial reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	293,340	(41,363)	69,312	(1,369)	(3,354)	111	(424)	32,278	348,531	4,658	353,189
Total comprehensive loss for the six months ended 30 June 2013	-	-	-	1,619	1,527	(73)	154	(13,549)	(10,322)	(74)	(10,396)
Dividends to shareholders	-	-	-	-	-	-	-	-	-	(466)	(466)
Acquisition of non-controlling interest in subsidiaries	-	-	-	(13)	-	-	-	266	253	(371)	(118)
Recognition of non-controlling interest in established subsidiaries	-	-	-	-	-	-	-	-	-	4	4
Shares option plan	-	-	-	-	-	-	-	45	45	-	45
Sale of treasury shares	-	5	-	-	-	-	-	1	6	-	6
	-	5	-	(13)	-	-	-	312	304	(833)	(529)
Balance at 30 June 2013	293,340	(41,358)	69,312	237	(1,827)	38	(270)	19,041	338,513	3,751	342,264
Balance at 1 January 2014	293,340	(41,363)	69,312	413	642	(64)	(280)	9,522	331,522	3,067	334,589
Total comprehensive (loss)/income for the six months ended 30 June 2014	-	-	-	(683)	153	35	102	5,133	4,740	1,729	6,469
Dividends to shareholders	-	-	-	-	-	-	-	-	-	(274)	(274)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	25	25	75	100
Sale of treasury shares	-	1	-	-	-	-	-	-	1	-	1
	-	1	-	-	-	-	-	25	26	(199)	(173)
Balance at 30 June 2014	293,340	(41,362)	69,312	(270)	795	(29)	(178)	14,680	336,288	4,597	340,885

Chairman of the Management Board

Kovalchuk B.Yu.

Chief Accountant

Vaynilavichute A.P.

27 August 2014

(in millions of RUR)

1. The Group and its operations

Establishment of the Group

Open Joint Stock Company "Inter RAO UES" (the "Parent Company" or the "Company" or JSC "Inter RAO") is incorporated and domiciled in the Russian Federation and whose shares are publicly traded.

The Russian Federation is the ultimate controlling party of JSC Inter RAO and has a controlling interest in the Company of over 50%. The main state shareholders of the Parent Company as at 30 June 2014 are JSC ROSNEFTEGAZ (27.63%) and FGC UES Group (18.57% share).

The Company has controlling interests in a number of subsidiaries operating in different regions of the Russian Federation and abroad (the Company and its subsidiaries collectively are designated as the "Group"). During the year 2013 the Group incorporated and acquired controlling interest in a number of entities that are engaged in electricity production, supply and other activities as presented in Note 5. The Group's principal subsidiaries as at 30 June 2014 are presented in Note 33.

The Group is engaged in the following business activities:

- ▶ Electricity production, supply and distribution;
- ▶ Export and import of electricity;
- ▶ Sales of electricity purchased abroad and on the domestic market;
- ▶ Engineering services;
- ▶ Energy effectiveness research and development.

At 30 June 2014 the number of employees of the Group was 59,578 (31 December 2013: 59,670).

The Company's registered address is Bolshaya Pirogovskaya street, building 27-2, 119435, Moscow, the Russian Federation. From 29 July 2011 to 15 July 2013 the Company's registered address is Bolshaya Pirogovskaya street, building 27-3, 119435, Moscow, the Russian Federation.

The Group's business environment

The governments of the countries where the Group entities operate directly affect the Group's operations through regulation with respect to energy generation, purchases and sales. Governmental economic, social and other policies in these countries could have a material effect on the operations of the Group.

The Russian Federation, Georgia, Armenia, Moldavia (including Transnistria Republic), Kazakhstan, Turkey, Lithuania, Latvia and Estonia have been experiencing significant (albeit different) political and economic changes that have affected, and may continue to affect, the activities of the Group entities operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other mature markets. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The accompanying consolidated interim financial statements reflect management's assessment of the impact of the business environment on the operating results and the financial position of the Group in the countries where the Group entities operate. Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy in these countries and consequently, what effect, if any, they could have on the financial position of the Group. Therefore, future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (the IASB).

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the relevant statutory accounting requirements. These financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

The consolidated interim financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as discussed in Note 3.

(in millions of RUR)

2. Basis of preparation (continued)

(b) Functional and presentation currency

The national currencies of the countries where the Group entities operate are usually the individual company's functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

The Group applies judgment in determination of the functional currencies of certain Group entities. The functional currency determination influences foreign exchange gain/losses recognised in profit and loss and translation differences recognised in other comprehensive income.

The consolidated financial statements are presented in millions of the Russian roubles ("RUR"). The main part of the Group is represented by entities operating in the Russian Federation having RUR as their functional currency. All values are rounded to the nearest million, except when otherwise indicated.

(c) Seasonality

Demand for electricity is to some extent influenced by the season of the year. Revenue is usually higher in the period from October to March than in other months of the year. This seasonality does not impact revenue or cost recognition policies of the Group.

(d) Going concern

The accompanying consolidated interim 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. These financial statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

(e) Critical accounting estimates and judgments

The Group makes estimates and judgments that affect the reported amounts of assets and liabilities within the next reporting period. 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. The 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 reporting period include:

Provision for impairment of accounts receivable

The provision for impairment of accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

If the Group determines that no objective evidence exists that impairment has occurred for an individually assessed accounts receivable, whether significant or not, it includes the accounts receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management to the extent of which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently (see Note 13).

Useful lives of property, plant and equipment

The estimation of useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and physical environment in which the asset operates. Changes in any of these conditions or estimates may result in adjustments in depreciation rates. Land has an unlimited useful life and therefore is not depreciated.

(in millions of RUR)

2. Basis of preparation (continued)

(e) Critical accounting estimates and judgments (continued)

Estimation of fair value

The Group estimates the fair value of an asset or liability, using assumptions that market participants would use when pricing the asset or liability, assuming that market participants are acting in their own economic interests. In developing those assumptions the Group identifies the common characteristics that distinguish the market participants, having considered the factors specific to the following: (a) an asset or liability; (b) the principal (or most advantageous) market for the asset or liability; and (c) market participants with whom the entity would enter into a transaction in that market. The estimation of the fair value of the acquired businesses and financial instruments where there is not the principal (or most advantageous) market for assets or liabilities is a matter of management judgment based on the application of relevant valuation models. In determining the fair value the valuation models that are based on management best estimates of future cash flows, current market conditions and the choice of analogue the judgment areas (include considerations of inputs such as liquidity risk, credit risk and volatility) are frequently used. Changes in any of these conditions may result in significant adjustment to the fair value of financial instruments and acquired businesses.

Restoration provision

Changes in the measurement of an existing restoration provision that result from changes in the estimated timing or amount of the outflows of economic benefits, or from changes in the discount rate adjust the cost of the related asset and liability. Estimating the amounts and timing of those obligations settlement requires management judgment. This judgment is based on cost and engineering studies using currently available technology and on current environmental regulations. The restoration provision is also subject to change because of updates in laws and regulations, and their interpretation by management.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted as arm's length transaction, for similar assets or at observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the management forecast for the next twenty years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Tax contingencies

The Group entities operate in a number of tax jurisdictions across Europe and the CIS. Where management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is provided for in the consolidated financial statements. Tax contingencies are disclosed in Note 31.

Deferred income tax asset recognition

The Group does not recognize certain deferred income tax assets in respect of certain Group entities located in the Russian Federation, Netherlands, Armenia and Kazakhstan as management believes that it is not probable that the future taxable profit will be available in the respective Group entities against which the Group can utilize the benefits. Unrecognised deferred income tax assets are disclosed in Note 9 (b).

(in millions of RUR)

3. Summary of significant accounting policies

Significant accounting policies applied in the preparation of the consolidated statements are described below. These accounting policies have been consistently applied.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- ▶ Exposure, or rights, to variable returns from its involvement with the investee, and;
- ▶ The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements;
- ▶ The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to non-controlling interest, even if this results in non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- ▶ Derecognises the assets (including goodwill) and liabilities of the subsidiary
- ▶ Derecognises the carrying amount of any non-controlling interests
- ▶ Derecognises the cumulative translation differences recorded in equity
- ▶ Recognises the fair value of the consideration received
- ▶ Recognises the fair value of any investment retained
- ▶ Recognises any surplus or deficit in profit or loss
- ▶ Reclassifies the parent's share of components previously recognised in other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Principles of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Company. Control is presumed to exist when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities. Relevant activities are activities of the investee that significantly affect the investee's return. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest. Non-controlling interest represents the non-controlling shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. The non-controlling interest has been disclosed as a part of equity.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The Group applies a policy of treating transactions with non-controlling shareholders as transactions with equity owners of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of a subsidiary is recorded in equity. Differences between consideration received and carrying value of non-controlling interests sold are also recorded in equity.

The Group derecognises non-controlling interest if non-controlling shareholders have received a mandatory offer to purchase their shares. The difference between the amount of the liability recognised in the consolidated statement of financial position over the carrying value of the derecognised non-controlling interests is charged to retained earnings.

Associates entities and joint ventures. Associates are those entities over which the Group has significant influence, the power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown in the statement of profit or loss separately from operating profit and represents profit or loss after tax of the associate or joint venture (include those subsidiaries) to the extent of Group's share in the associate or joint venture for the reporting period. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Joint operations. Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

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

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

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date on fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date at fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

The acquisitions of entities under common control are accounted for using the predecessor accounting method. In accordance with this method, the consolidated financial statements of the Group are prepared to reflect the combination as if it had occurred from the beginning of the earliest period presented in the consolidated financial statements, or, if occurred later, from the date when the entities had been under common control. Under the predecessor accounting method the assets and liabilities of the combining entities are accounted for at the carrying values determined by the Group in its consolidated financial statements. Comparative information is presented as if the entities had always been consolidated, but not earlier than the common control over these entities was established.

All other acquisitions are accounted for by applying the acquisition method.

Foreign currency

Foreign currency transactions and translation. Transactions in foreign currencies are measured in the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Other non-monetary assets and liabilities measured in a foreign currency are remeasured to the functional currency at the exchange rate at the date of operation. Foreign currency differences arising on remeasurement are recognised in profit and loss.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Foreign currency (continued)

The effect of exchange rate changes on fair value of available-for-sale financial assets, when they are considered non-monetary, is included in the consolidated statement of other comprehensive income.

Assets and liabilities of the Company and its subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the end of the reporting period. Profit and loss items of the Company and its subsidiaries are translated at the average exchange rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates; in this case income and expenses are translated at the rate on the dates of the transactions). Components of equity and other comprehensive income are translated at the historical rate with the exception of equity opening balances at the date of transition to IFRS which were translated at the exchange rate at the date of transition. Exchange differences arising on the translation of the net assets of the Company and its subsidiaries are recognised as translation differences in other comprehensive income and included in the foreign currency translation reserve (FCTR) in equity.

Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. The cost of self-constructed assets includes cost of materials, direct labour and a proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment.

Renewals and improvements are capitalised. The costs of regular repair and maintenance are expensed as incurred. Gains and losses arising from the disposal of property, plant and equipment are included in profit and loss as incurred.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised to the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognised in profit and loss as incurred.

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

Prepayments for capital construction and acquisition of property, plant and equipment are included into construction in progress.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation commences from the time an asset is completed and ready for use. The useful lives are reviewed at each financial year-end and, if expectations differ from previous estimates, changes are recognised prospectively. The useful lives, in years, of assets by type of facility are as follows:

<i>Type of facility</i>	<i>Useful life, years</i>
Buildings	15-100
Hydro engineering structures	17-99
Transmission facilities and equipment	5-50
Thermal networks	10-29
Power equipment	5-66
Other equipment and fixtures	5-40
Other structures	2-30
Other fixed assets	3-20

Intangible assets

The Group classifies its intangible assets in the following categories:

- ▶ goodwill;
- ▶ software;
- ▶ other intangible assets (which include: capitalized cost to obtain status of "guarantee supplier", costs of projects in the development stage and others).

Goodwill. Goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of investment over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree. Goodwill in respect of subsidiaries is recognized as a separate asset within intangible assets in the consolidated statement of financial position. Goodwill in respect of associates and joint ventures is included in the carrying amount of the investees.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Intangible assets (continued)

The excess of the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree over the cost of investment is recognized in profit and loss. For associates and joint ventures such excess is recognized in profit and loss as a part of the share of profit/loss of an associates and joint ventures.

Goodwill is measured at cost less accumulated impairment losses and is the subject for impairment test at each reporting period or when an indication of impairment loss exists.

Concession arrangements. Concession arrangements are the contracts when the Group constructs and upgrades infrastructure used to provide services, which it operates and maintains for a specified period of time. These arrangements include operating of a power plant and infrastructure under service concession arrangement for their entire useful life.

The Group applies the financial asset model when the amount due from the grantor meets the definition of a receivable which is measured at fair value. It is subsequently measured at amortised cost. The amount initially recognised plus the cumulative interest on that amount is calculated using the effective interest method.

Any asset carried under concession arrangements is derecognised on disposal or when no future economic benefits are expected from its future use or disposal or when the contractual rights to the financial asset expire.

The Group manages concession arrangements which include the construction of power plant, infrastructure and other facilities followed by a period in which the Group maintains and services the infrastructure. This may also include, in a secondary period, asset replacement or refurbishment. These concession arrangements set out rights and obligations relative the infrastructure and the service to be provided.

For fulfilling those obligations, the Group is entitled to receive consideration from the grantor. The consideration received or receivable is allocated by reference to the relative fair values of the services provided; typically:

- ▶ A construction component;
- ▶ A service element for operating and maintenance services performed.

The right to consideration gives rise to a financial asset.

Revenue from the concession arrangements earned under the financial asset model consists of the (i) fair value of the amount due from the grantor; and (ii) interest income related to the capital investment in the project.

Software and other intangible assets. Other intangible assets that are acquired or internally created (as part of the cost of development projects) by the Group, which have finite useful lives, are measured at cost less accumulated amortization and impairment losses.

The estimated useful lives of intangible assets are in the range of 2-10 years for software and other intangibles assets.

Amortization. Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

Internally generated intangible assets

Costs of projects on development stage are recognized as intangible assets to the extent that such expenditure is expected to generate future economic benefits and demonstrated all of the following: (a) the technical feasibility of completing the intangible asset so that it can be available for use or sale; (b) the Group's intention to complete intangible asset and use or sell it; (c) the Group's ability to use or sell the intangible asset; (d) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; (e) the Group's ability to measure the expenditure attributable to the intangible asset during its development reliably.

Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Assets classified as held for sale (HFS)

Non-current assets and disposal groups are classified as HFS if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable within a year from the date of classification, the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale. The extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as HFS if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group). Non-current assets and disposal groups classified as HFS are measured at the lower of their carrying amount and fair value less costs to sell.

Inventories

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

In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

Cash and cash equivalents

Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term, highly liquid investments that are readily convertible into cash and have an original maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Prepayments

Prepayments made by the Group are carried at cost less provision for impairment. 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 are recognized in profit or loss 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 prepayment is written down as impairment loss in profit and loss.

Prepayments made by the Group are classified as non-current assets when the goods or services relating to the prepayment are to be delivered beyond one year period or when they relate to acquisition of property, plant and equipment. Where such prepayments relate to construction contracts, revenue is recognised when the outcome of the contract can be estimated reliably, by reference to the stage of completion of the contract activity.

Value added tax on purchases and sales

Value added tax (VAT) related to sales is payable to tax authorities either upon revenue recognition or at the time of collection of receivables from customers, depending on local statutory regulations in respective jurisdictions in which the Group entities operate. Tax authorities permit settlement of VAT on a net basis. VAT related to sales and purchases which has not been settled at the end of the reporting period (deferred VAT) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as current asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor's balance, including VAT. Related deferred VAT liability is maintained on the consolidated statement of financial position until the debt is recognised for tax purposes. Changes of VAT recoverable related to the purchases of property, plant and equipment and investment property is recognized in the consolidated statement of cash flows in operating activities.

Financial instruments

Financial instruments include cash and cash equivalents, available-for-sale financial assets, derivatives, hedges, accounts receivable, accounts payable and loans and borrowings. Particular recognition and measurement methods are disclosed in the individual policy statements associated with each item. Financial instruments are represented by derivatives and non-derivative financial instruments.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Sale and repurchase agreements

Equity instruments sold under sale and repurchase agreements ('repos') are retained in the consolidated statement of financial position. The difference between sale and repurchase price is treated as other operating income/(expenses) through profit and loss in the consolidated interim statement of comprehensive income.

Derivative financial instruments

Derivative financial instruments are means to transfer risk inherent in the basic instruments, between the parties of the contract, without transfer of the underlying instruments.

As a part of trading activities, the Group has the following derivative financial instruments:

- a) interest rate swap;
- b) currency swap;
- c) foreign currency forward and option contract: foreign currency forwards and options are initially recognised at fair value on the date a forward/option contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other comprehensive income to the extent of effective cash flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges;
- d) electricity futures and forward contracts: electricity derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other comprehensive income to the extent of effective cash flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges or speculative transactions;
- e) shares option (call or put): options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. Options purchased by the Group provide the Group with the opportunity to purchase (call options) the underlying asset at an agreed-upon value either on or before the expiration of the option.

Compound financial instruments

Compound (hybrid) financial instrument is divided in accordance with the terms of the contract in the following parts: financial liability/financial asset and equity component. When initial carrying amount of a compound financial instrument is allocated to its equity and asset/liability components, the equity component is assigned to the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the asset/liability component. The sum of the carrying amounts assigned to the asset/liability and equity components at initial recognition equals to the fair value that would be ascribed to the instrument as a whole. The Group presents the asset/liability and equity components separately in its consolidated statement of financial position. On initial recognition, the fair value of the asset/liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status which provide for substantially the same cash flows, on the same terms, but without the conversion option. Changes in the fair value of an equity instrument are not recognized in the consolidated financial statements. On conversion of a convertible instrument at maturity, the Group derecognizes the asset/liability component and recognizes it in equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity.

The method of recognising of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);
- (c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at the time of the hedges' inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments are disclosed in Note 16, 17, 20, 21. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Non derivative financial assets

The Group classifies its financial assets in the following categories:

- a) financial assets at fair value through profit or loss;
- b) available-for-sale financial assets;
- c) held-to-maturity financial assets.

Management determines the classification of its financial assets at initial recognition and re-assesses this designation thereafter.

(a) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term period or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months from the end of the reporting period. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included within the profit and loss in the consolidated statement of comprehensive income in the period in which they arise.

(b) Available-for-sale financial assets (AFS)

Investments intended to be held for an indefinite period of time are classified as AFS; they are classified as other non-current assets unless management has an intention to hold the investment for less than 12 months from the end of the reporting period. Management determines the appropriate categorisation, current or non-current distinction, at the time of purchase and re-assesses it based on maturity at the end of each reporting period.

AFS include non-marketable securities, which are not publicly traded. For these investments, fair value is estimated using a variety of methods including those based on their earnings and those based on the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at the end of each reporting period. Investments in equity securities that are not quoted on a stock exchange and which fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

"Regular way" purchases and sales of investments are initially measured at fair value plus transaction costs and recognised on the settlement date, which is the date when the investment is delivered to or by the Group. AFS are subsequently carried at fair value except for those investments which fair value cannot be reliably estimated. In this case the investments are carried at cost less impairment provision. Gains and losses arising from changes in the fair value are recognised in other comprehensive income and included in the fair value reserve in equity in the period in which they arise. Realised gains and losses from the disposal of AFS are included in profit and loss in the period in which they arise.

(c) Held-to-maturity financial assets

Financial assets with fixed terms and cash flows are classified as held-to-maturity financial assets, provided management intends to keep them for their full terms and is in a position to do so. Management determines the appropriate classification for its investments on their acquisition dates. Held-to-maturity financial assets are carried at amortised cost based on the effective interest method, net of provision for impairment losses. Interest earned on held-to-maturity financial assets is recognised as interest income. All purchases and sales made in accordance with standard market conditions for held-to-maturity financial assets are recognised at the date of settlement.

Loans and accounts receivable

Accounts receivable are recorded inclusive of value added taxes (VAT) and are initially recorded at the amount receivable from the debtor. Trade and other receivables are adjusted for provision made for impairment of these receivables. Such provision for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the market rate of interest adjusted for the credit risk of debtors at the date of origination of the receivables.

Debt is recognised initially at its fair value net of transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised in profit and loss as interest adjustment over the period of the debt obligation existence.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the reporting date.

Fair value of financial instruments

The Group measures financial instruments, such as derivatives, at fair value at each reporting date. Also, fair values of financial instruments, which are measured at amortised cost, are disclosed in Note 19 and Note 28(f).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The principal market (or the most advantageous market in the absence of principle market) must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

To achieve greater consistency and comparability of fair value measurements and related disclosures the fair value hierarchy is followed up to define fair value estimation methods and apply relevant observable inputs and minimise the use of unobservable inputs.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. The unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities in the principal market for the asset or liability, at the close of business on the reporting date, with no adjustment made for the transaction costs.

For assets and liabilities where there is no the principal (or most advantageous) market, respective fair value is determined using appropriate valuation techniques. Valuation techniques include discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances can be used to measure at fair value. It is possible to use mid-market pricing conventions that are used by market participants as an expedient for fair value measurement within a bid-ask spread. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that is tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate internal model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

For discounted cash flow techniques, estimated future cash flows and discount rates are based on management's best estimates of assumptions that market participants would use when pricing the asset or liability. Cash flows and discount rates used take into account only the factors attributable to the asset or liability being measured. The use of different pricing models and assumptions could produce materially different estimates of fair values.

Fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit plus interest accrued. Fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at prevailing market rates for similar instruments at the recognition date.

If fair value cannot be measured reliably, assets and liabilities are measured at cost. An analysis of fair values of financial instruments and further details as of how they are measured are provided in Note 28(f).

Where fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from the principal (or most advantageous) markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity risk, credit risk, and model inputs such as volatility and discount rates, prepayment rates and default rate assumptions for asset backed securities.

For discounted cash flows analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in these assumptions affect fair value of financial instruments.

Impairment

Held-to-maturity financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the current effective interest rate.

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

All impairment losses are recognised in profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit and loss.

AFS

Impairment losses are recognised in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of AFS. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss. The last is reclassified from fair value reserve to profit or loss. Impairment losses on equity investments classified as AFS are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

Non-financial assets

Carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Impairment (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from those of other assets and groups. Impairment losses are recognised in the consolidated interim statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or rights to cash flows from the assets otherwise expired or (b) the Group has transferred rights to cash flows from 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 does not retain a control. Control is retained if the counterparty does not have practical ability to sell the asset in its entirety to an unrelated third party without imposition of additional restrictions on sale.

Loans and borrowings

Loans and borrowings are recognised initially at their fair value which is determined using prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, loans and borrowings are recognised at amortised cost, using effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised in profit and loss as an interest adjustment over the period of the instrument.

Employee benefits

Pension and post-employment benefits. In the normal course of business the Group contributes to various governmental pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed in profit and loss when incurred. Costs associated with discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in profit and loss.

Short-term benefits. Short-term employee benefits are measured on an undiscounted basis and are expensed in profit and loss as related service is provided.

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

Defined benefit plans. The Company operates defined benefit plans that cover the majority of its employees. Benefit plans define the amount of pension benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated interim statement of financial position in respect of defined benefit plans is the present value of defined benefit obligation at the end of the reporting period less the fair value of plan assets. Defined benefit obligations are calculated using the projected unit credit method.

Present value of defined benefit obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that are denominated in the currency of benefits payment and associated with the operation of the plans, and that have maturity terms approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions of post-employment benefits are recognized in other comprehensive income at the date of occurrence. Other amounts, such as current service cost, any past service cost and gain or loss on settlement, and net interest on net defined benefit liability (asset) are recognized in profit or loss. Remeasurements of other long term benefits are also recognized in profit or loss.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Employee benefits (continued)

Share-based payment transactions. The share option programme allows the Group's employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the American type options is measured based on the binomial model while fair value of European type options is measured based on the Black-Scholes model taking into account terms and conditions in the options were granted.

Government grants

Grants from 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 costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit and loss on a straight-line basis over the expected lives of the related assets.

Provisions

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

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation (legal or construction), payment is probable and reliable estimates can be made.

Restoration provision

Restoration provision is recognized if it presents a 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 of the obligation can be made. The corresponding asset is depreciated through profit and loss in the consolidated interim statement of comprehensive income on a straight-line basis during the asset's useful life. Restoration provision is calculated based on expected costs and time required to restore land occupied by ash dumps and mines at the end of their useful life to avoid their damaging effect on the environment. Change in provision related to revision of costs, discount rate or other assumptions is accounted for prospectively starting from the date of revision of these estimates.

Shareholder's equity

Dividends

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

Earnings per share

Earnings per share is determined by dividing profit/(loss) attributable to holders of ordinary shares by weighted average number of ordinary shares outstanding during the reporting period, excluding the effect of average number of ordinary shares purchased by the Group (treasury shares).

Diluted earnings per share are calculated by adjusting weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.

Share premium

Share premium is determined as a difference between the issue cost of shares and their nominal value at the moment of issue of shares. Share premium is translated into reporting currency using the historical rate as at the date of the transaction and recognised in the consolidated interim statement of changes in equity.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Shareholder's equity (continued)

Treasury shares

The cost of acquisition of the Company's equity instruments by the Company or its subsidiaries, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of.

Treasury shares are recognised at their nominal value, and any differences between nominal value and consideration transferred, including any directly attributable incremental costs, net of income taxes, are recognised within retained earnings.

Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects is included in equity attributable to the Company's shareholders. Disposal of treasury shares is recognised at nominal value, and any difference between nominal value and consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is recognised in retained earnings. No gain or loss is recognised in the consolidated interim statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and revenue can be reliably measured, regardless of when the payment is made. Revenue from sale of electricity, capacity and heat is recognised in profit and loss on delivery of electricity, capacity and heat. Where applicable, revenue is based on rates and related restrictions established by law and regulating authorities. The regulatory mechanisms differ from country to country.

Revenue from rendering of construction contracts services is recognised in proportion to the stage of completion of the services. Costs incurred in connection with future activity for a contract are excluded from contract costs in determining the stage of completion. They are presented as a part of amounts due to or due from customers for contract work. Revenue amounts are presented exclusive of VAT.

The Group presents electricity purchases entered into to support delivery of non-regulated bilateral contracts net of revenue.

Social expenditure

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

Research expenditure

Research expenditure is recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

Finance income

Finance income comprises interest income on funds invested, accretion income, dividend income and foreign currency gains, net. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the dividends are declared and an inflow of economic benefits is probable.

Finance expenses

Finance expenses primarily include interest expense on borrowings, unwinding of discount on provisions and foreign currency losses, net. All borrowing costs are recognised in the consolidated interim statement of comprehensive income using the effective interest method unless directly attributable to acquisition of a qualifying asset. Commission fee for opening of credit lines is included into interest expense.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except it relates to items recognised in other comprehensive income or directly in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the Parent Company is able to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset for deductible temporary differences and tax losses carry forward is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised.

Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that related tax benefit will be realised.

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

New accounting pronouncements and revised standards

The accounting policies adopted in the preparation of the consolidated interim financial statements for the six months ended 30 June 2014 are consistent with those followed in the preparation of the Group's annual financial statements for 2013, except for the adoption of new amendments of the following standards became effective for the Group's consolidated interim financial statements at 30 June 2014, noted below:

a) The amendments of the following standards became effective for the Group's consolidated financial statements as of 1 January 2014:

- ▶ *Offsetting Financial Assets and Financial Liabilities* (amendments to IAS 32), issued in December 2011, added criterion that an entity 'currently has a legally enforceable right to offset the recognized amounts' and criterion that an entity 'intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously'. The Group applied these amendments beginning on 1 January 2014. This amendment did not have material effect on the consolidated interim financial statements.
- ▶ *Investment Entities* (amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012 and effective for annual periods beginning 1 January 2014, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant for the Group, since none of the entities in the Group qualify to be an investment entity.
- ▶ *Recoverable Amount Disclosures for Non-Financial Assets* (amendments to IAS 36), issued in May 2013, require the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment did not have any effect on the consolidated interim financial statements because the Group's policy is to use cost model for accounting for non financial assets.
- ▶ *IFRIC 21 Levies*. This interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group applied IFRIC 21 beginning on 1 January 2014. IFRIC 21 did not have any material effect on the consolidated interim financial statements.
- ▶ *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39), issued in June 2013, provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group applied these amendments beginning on 1 January 2014. This amendment did not have any effect on the consolidated interim financial statements.

(in millions of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

b) The following IFRSs and amendments to existing IFRSs that have been published are not yet effective

The following IFRS became effective for the Group's consolidated financial statements from 1 January 2015:

- ▶ IFRS 9 *Financial Instruments Part 1: Classification and Measurement*. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
 - ▶ 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 only payments of principal and interest (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 report 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.

The IASB has published an amendment to IFRS 9 that delays the effective date from annual periods beginning on or after 1 January 2013 to 1 January 2015. This amendment is a result of the Board extending its timeline for completing the remaining phases of its project to replace IAS 39 beyond June 2011. The Group is currently assessing the impact of the standard on the consolidated financial statements. Adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

The Group is considering the implication of the new standard and the impact on the Group.

There are other improvements, pronouncements and amendments that are not relevant to the current Group's operations.

The Group plans to adopt new standards and amendments when they become effective.

4. Segment information

Operating segments are components of an enterprise about which separate financial information is available and is evaluated regularly by the Chief Operating Decision Maker ('CODM') in deciding how to allocate resources and in assessing performance. The Management Board of the Parent Company have been determined as the CODM; the operating segment has been defined as a legal entity or a particular business activity of a legal entity. The Management Board analyses the effectiveness of the operating segments based on IFRS financial reporting.

The Management Board considers the Group activities from both geographical (by countries of the Group entities' jurisdiction) and business perspective (generation, trading, supply, distribution, engineering and other) meaning that each operating segment represents a certain type of business activities or legal entities in a certain country.

The following reporting segments have been identified based on the requirements of IFRS 8 *Operating Segments* (taking into consideration aggregation criteria as well as quantitative thresholds on revenue and EBITDA):

- ▶ **Supply in the Russian Federation** (represented by JSC Mosenergosbyt (Group of entities), JSC PSK, JSC Tambov Energy Retailing Company, JSC Saratovenergo, JSC Altayenergosbyt, LLC INTER RAO Orlovskii energosbit and their management company JSC United Energy Retailing Company (before 14 March 2013), JSC Industrial Energetics, LLC RN-Energo, JSC Tomskenergosbyt (since the end of September 2013), Omsk Energy Retailing Company LLC (since March 2014), LLC RT – Energy Trading (equity accounted investee).
- ▶ **Generation in the Russian Federation** represented by the following reporting sub-segments:
 - ▶ *INTER RAO – Electricity Generation Group* (represented by generating divisions of the Parent Company before December 2013 and JSC INTER RAO – Electric Power Plants).
 - ▶ *TGK-11* (represented by Group TGK-11).
 - ▶ *Bashkir Generation* (represented by Group Bashkir Generation Company)

*(in millions of RUR)***4. Segment information (continued)**

- ▶ **Trading in the Russian Federation and Europe** (represented by the trading activities of the Parent Company, RAO Nordic Oy, AB INTER RAO Lietuva, SIA INTER RAO Latvia, INTER RAO Eesti OU, Inter Green Renewables and Trading AB, JSC Eastern Energy Company and LLC Payments implementation center (since April 2014).
- ▶ **Georgia** (represented by JSC Telasi, LLC Mtkvari Energy, JSC Khramhesi I and Khramhesi II).
- ▶ **Armenia** (represented by JSC Elektricheskiye seti Armenii, JSC RazTec).
- ▶ **Moldavia** (represented by CJSC Moldavskaya GRES).
- ▶ **Kazakhstan** (represented by JSC Stantsiya Ekibastuzskaya GRES-2 (equity accounted investee) and LLP INTER RAO Central Asia).
- ▶ **Turkey** (represented by Group Trakya, TGR Elektrik Energy Toptan Ticaret A.S. (before 23 September 2013) and Inter Rao Turkey Energy Holding A.S.).
- ▶ **Engineering in the Russian Federation** (represented by LLC INTER RAO Engineering, LLC Quartz Novie Tekhnologii (equity accounted investee), LLC Quartz Group (equity accounted investee before 5 August 2013, subsidiary since 5 August 2013), LLC InterRAO-WorleyParsons (equity accounted investee till 1 April 2014), LLC Power Efficiency Centre INTER RAO UES (equity accounted investee), LLC CP Energy Union (till 31 December 2013), LLC INTER RAO – Export and Energy beyond borders Non-for-profit Fund).
- ▶ Other.

The CODM evaluates performance of the operating segments based on EBITDA, which is calculated as profit/(loss) for the period before finance income and finance expenses, income tax expense, depreciation and amortisation of property, plant and equipment and intangible assets, impairment of property, plant and equipment and investment property, impairment of goodwill and provisions for doubtful debts and for inventory obsolescence, share in profit/(loss) of associates and acquisition effects such as excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and some other. The Group's definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, interest income and interest expenses is disclosed in segment information as it is regularly reviewed by the CODM.

Revenue of each segment is mainly represented by sales of electricity and capacity and heat-power allocated to the reporting segments.

The CODM analyses leverage of the Group's subsidiaries, joint ventures (equity accounted investees) on a regular basis; loans and borrowings are allocated to the reporting segments excluding inter-segment balances.

Joint ventures (equity accounted investees) are reviewed by the CODM in terms of the Group's share in their profit/(loss) and loan and borrowings.

"Unallocated and Eliminations" includes elimination of transactions among the reporting segments ("Eliminations") and management expenses, interest income and interest expense of the Parent Company as well as loans and borrowings, obtained by the Parent Company or other subsidiaries, which cannot be allocated to a specific reporting segment on a reasonable basis ("Unallocated").

(in millions of RUR)

4. Segment information (continued)**Six months ended 30 June 2014**

	<u>Supply</u>	<u>Generation</u>			<u>Trading</u>					<u>Engineering</u>				<u>Total</u>
	<u>The Russian Federation</u>												<u>Unallocated and eliminations</u>	
	<u>The Russian Federation</u>	<u>INTER RAO – Electricity Generation Group</u>	<u>TGK-11</u>	<u>Bashkir Generation</u>	<u>The Russian Federation and Europe</u>	<u>Armenia</u>	<u>Georgia</u>	<u>Moldavia</u>	<u>Kazakhstan</u>	<u>Turkey</u>	<u>The Russian Federation</u>	<u>Other</u>		
Total revenue	221,661	70,923	14,020	23,640	20,493	6,211	3,024	3,094	56	5,619	2,456	806	(19,107)	352,896
Revenue from external customers	221,349	58,358	12,946	21,505	19,889	6,211	3,023	3,093	56	5,619	662	185	–	352,896
Inter-segment revenue	312	12,565	1,074	2,135	604	–	1	1	–	–	1,794	621	(19,107)	–
Operating expenses, including:														
Purchased electricity and capacity	(120,098)	(3,780)	(1,100)	(1,683)	(16,231)	(3,091)	(349)	–	(33)	–	–	(21)	16,665	(129,721)
Transmission fees	(88,021)	–	–	(34)	(1,734)	(245)	(244)	(21)	(20)	–	–	–	–	(90,319)
Fuel expenses	–	(38,825)	(6,653)	(14,281)	–	(861)	(846)	(1,873)	–	(4,953)	–	–	–	(68,292)
Share in profit/(loss) of joint ventures	18	478	–	–	–	–	–	–	(402)	–	(46)	(4)	–	44
EBITDA	6,213	14,993	2,189	3,457	1,452	666	811	668	(399)	(92)	(348)	332	(1,810)	28,132
Depreciation and amortization	(620)	(5,467)	(847)	(2,276)	(28)	(270)	(194)	(50)	(1)	(426)	(72)	(207)	(217)	(10,675)
Interest income	552	209	–	16	30	11	28	–	–	4	75	153	184	1,262
Interest expenses	(227)	(732)	(410)	(17)	(10)	(293)	(87)	(99)	–	(159)	(35)	(168)	344	(1,893)

(in millions of RUR)

4. Segment information (continued)**Six months ended 30 June 2013**

	<u>Supply</u>	<u>Generation</u>			<u>Trading</u>					<u>Engineering</u>			<u>Unallocated and eliminations</u>	<u>Total</u>
	<u>The Russian Federation</u>								<u>The Russian Federation</u>	<u>Other</u>				
	<u>The Russian Federation</u>	<u>INTER RAO – Electricity Generation Group</u>	<u>TGK-11</u>	<u>Bashkir Generation</u>	<u>The Russian Federation and Europe</u>	<u>Armenia</u>	<u>Georgia</u>	<u>Moldavia</u>				<u>Kazakhstan</u>		
Total revenue	191,577	65,048	13,006	21,223	25,784	4,217	2,646	1,957	38	6,821	155	562	(15,291)	317,743
Revenue from external customers	191,489	53,537	12,853	18,907	25,126	4,217	2,646	1,956	38	6,821	24	129	–	317,743
Inter-segment revenue	88	11,511	153	2,316	658	–	–	1	–	–	131	433	(15,291)	–
Operating expenses, including:														
Purchased electricity and capacity	(104,505)	(3,547)	(1,015)	(1,525)	(20,746)	(2,329)	(401)	–	(22)	–	–	(10)	14,725	(119,375)
Transmission fees	(77,800)	–	–	(45)	(2,595)	(68)	(174)	(27)	(14)	–	–	–	–	(80,723)
Fuel expenses	(15)	(36,109)	(6,340)	(13,487)	–	(541)	(491)	(1,378)	–	(5,943)	–	–	–	(64,304)
Share in profit/(loss) of jointly-controlled entities	41	870	–	–	–	–	–	–	985	–	(23)	(28)	–	1,845
EBITDA	2,102	12,814	1,712	2,445	2,051	202	761	22	989	489	(6)	376	(2,314)	21,643
Depreciation and amortization	(610)	(7,226)	(693)	(2,323)	(28)	(226)	(227)	(234)	(1)	(405)	(10)	(241)	(199)	(12,423)
Interest income	428	1,053	–	69	(299)	9	41	–	1	2	86	25	(53)	1,362
Interest expenses	(162)	(742)	(204)	(31)	(10)	(205)	(60)	(62)	–	(167)	–	(195)	64	(1,902)

(in millions of RUR)

4. Segment information (continued)**As at 30 June 2014**

	<u>Supply</u>	<u>Generation</u>			<u>Trading</u>	<u>Engineering</u>								
	<u>The Russian Federation</u>				<u>The Russian Federation and Europe</u>	<u>Armenia</u>	<u>Georgia</u>	<u>Moldavia</u>	<u>Kazakhstan</u>	<u>Turkey</u>	<u>The Russian Federation</u>	<u>Other</u>	<u>Unallocated and eliminations</u>	<u>Total</u>
	<u>The Russian Federation</u>	<u>INTER RAO – Electricity Generation Group</u>	<u>TGK-11</u>	<u>Bashkir Generation</u>										
Loans and borrowings, including:	(2,421)	(21,755)	(7,335)	(414)	(1,058)	(4,647)	(1,112)	–	(6,220)	(6,625)	(671)	(1,399)	(11,422)	(65,079)
Share in loans and borrowings of joint ventures	–	–	–	–	–	–	–	–	(6,220)	–	(665)	(367)	75	(7,177)

As at 31 December 2013

	<u>Supply</u>	<u>Generation</u>			<u>Trading</u>	<u>Engineering</u>								
	<u>The Russian Federation</u>				<u>The Russian Federation and Europe</u>	<u>Armenia</u>	<u>Georgia</u>	<u>Moldavia</u>	<u>Kazakhstan</u>	<u>Turkey</u>	<u>The Russian Federation</u>	<u>Other</u>	<u>Unallocated and eliminations</u>	<u>Total</u>
	<u>The Russian Federation</u>	<u>INTER RAO – Electricity Generation Group</u>	<u>TGK-11</u>	<u>Bashkir Generation</u>										
Loans and borrowings, including:	(2,131)	(15,715)	(8,217)	(1,598)	(123)	(4,673)	(1,138)	–	(6,185)	(6,799)	(525)	(1,420)	(11,066)	(59,590)
Share in loans and borrowings of joint ventures	–	–	–	–	–	–	–	–	(6,185)	–	(517)	(312)	175	(6,839)

*(in millions of RUR)***4. Segment information (continued)**

The reconciliation between EBITDA of the reporting segments and net loss for the reporting period in the consolidated interim statement of comprehensive income is represented below:

	<i>For the six months ended 30 June 2014</i>	<i>For the six months ended 30 June 2013</i>
EBITDA of the reportable segments	28,132	21,643
Depreciation and amortization (Note 25)	(10,675)	(12,423)
Interest income (Note 26)	1,262	1,362
Interest expenses (Note 26)	(1,893)	(1,902)
Put and Call option agreements (Note 26)	(1,599)	(7,625)
Foreign currency exchange (gain)/loss, net (Note 26)	(470)	(29)
Other finance income (Note 26)	623	839
Provisions charge, including: (Note 25)	(4,850)	(17,163)
<i>impairment of property, plant and equipment release/(charge)</i>	23	(10,346)
<i>impairment of available-for-sale financial assets</i>	(305)	(2,696)
<i>impairment of assets classified as held-for-sale</i>	(180)	–
<i>other provisions charge</i>	(975)	(576)
<i>impairment of account receivables</i>	(3,069)	(3,545)
<i>impairment of goodwill (Note 7)</i>	(344)	–
Loss from disposal of controlling interest	(4)	(5)
Share of (loss)/profit of associates (Note 8)	(10)	119
Income tax (expense)/benefit (Note 27)	(3,660)	1,339
Profit/(loss) for the reporting period in the consolidated interim statement of comprehensive income	6,856	(13,845)

The reconciliation between loans and borrowings of the reportable segments and loans and borrowings for the reporting period in the consolidated interim statement of financial position is represented below:

	<i>As at 30 June 2014</i>	<i>As at 31 December 2013</i>
Loans and borrowings of the reportable segments	(65,079)	(59,590)
Less:		
Share in loans and borrowings of joint ventures	7,177	6,839
Loans and borrowings in the consolidated interim statement of financial position	(57,902)	(52,751)

*(in millions of RUR)***4. Segment information (continued)****Information about geographical areas**

The Management Board also considers revenue of the Group entities generated in their countries of jurisdiction and abroad as well as non-current assets (property, plant and equipment, investment property, investments in associates and jointly controlled entities and intangible assets, including goodwill) based on location of assets.

	<i>For the six months ended 30 June 2014</i>			<i>For the six months ended 30 June 2013</i>		
	<i>Revenue in the Group entity's jurisdiction¹</i>	<i>Revenue in countries other than Group entity's jurisdiction</i>	<i>Total revenue based on location of customers</i>	<i>Revenue in the Group entity's jurisdiction</i>	<i>Revenue in countries other than Group entity's jurisdiction</i>	<i>Total revenue based on location of customers</i>
Russian Federation	319,973	69	320,042	283,620	58	283,678
Armenia	6,112	–	6,112	4,078	–	4,078
Turkey	5,619	–	5,619	6,821	–	6,821
Lithuania	3,698	–	3,698	3,071	–	3,071
Georgia	3,023	494	3,517	2,646	491	3,137
Moldavia (incl. Transdnistria Republic)	260	2,833	3,093	106	1,694	1,800
China	–	3,026	3,026	–	3,014	3,014
Finland	2,509	133	2,642	4,308	131	4,439
Belarus	–	2,055	2,055	–	4,259	4,259
Kazakhstan	56	1,500	1,556	38	1,351	1,389
Latvia	444	188	632	758	83	841
Mongolia	–	536	536	–	396	396
Estonia	148	–	148	–	343	343
Romania	–	–	–	–	162	162
Other	8	212	220	–	315	315
Total	341,850	11,046	352,896	305,446	12,297	317,743

	<i>Total non-current assets based on location of assets²</i>	
	<i>As at 30 June 2014</i>	<i>As at 31 December 2013</i>
Russian Federation	299,835	303,524
Armenia	8,851	8,723
Georgia	5,665	5,452
Turkey	4,106	4,395
Lithuania	1,086	1,113
Moldavia (incl. Transdnistria Republic)	1,134	959
Other	28	31
Total	320,705	324,197

¹ Revenues are attributable to countries on the basis of the customer's location.

² Total non-current assets based on location of assets excludes deferred tax assets, available-for-sale financial assets and other non-current assets.

*(in millions of RUR)***5. Acquisitions and disposals**

During the years 2013 and 2014 the Group made several acquisitions and disposals. Details are presented below:

Acquisition of LLC Kvarz Group

As at 31 December 2012 the Group's share in LLC Kvarz Group was 50.10% (Note 8).

On 5 August 2013 the Group additionally acquired a 49.90% share in LLC Kvarz Group from third parties for the total cash consideration equivalent to RUR 280 million, increasing the Group's ownership interest to 100%.

Fair value of the Group's 50.10% share in LLC Kvarz Group at 5 August 2013 amounted to RUR 81 million.

The fair values of assets and liabilities arising from the acquisition were as follows (RUR million):

	<i>Fair values</i>
Property, plant and equipment	1,013
Intangible assets	7
Deferred tax assets	80
Other non-current assets	4
Accounts receivable	1,564
Inventory	524
Cash and cash equivalents	268
Loans and borrowings	(652)
Accounts payable and accrued charges	(2,244)
Taxes payable	(247)
Fair value of acquired interest in net assets	317
Goodwill, arising from the acquisition	44
Total consideration	361

Goodwill arising on the acquisition of LLC Kvarz Group amounted to RUR 44 million. The key reason of the acquisition was the Group's further expansion of engineering activities on the territory of Russian Federation.

Acquisition of JSC Tomskenergosbyt

As at 31 December 2012 the Group's share in JSC Tomskenergosbyt was 31.27% (Note 10).

At the end of September 2013 the Group acquired an additional stake of 27.91% in JSC Tomskenergosbyt from third parties for the total cash consideration equivalent to RUR 200 million. As a result, the Group increased its membership in the investee's Board of Directors to the majority and obtained power to exercise its rights to variable returns from the investee's operations.

Fair value of the Group's 31.27% share in JSC Tomskenergosbyt at the date of acquisition amounted to RUR 89 million.

The fair values of assets and liabilities arising from the acquisition were as follows (RUR million):

	<i>Fair values</i>
Property, plant and equipment	224
Intangible assets	2
Deferred tax assets	416
Other non-current assets	35
Accounts receivable	934
Inventory	10
Cash and cash equivalents	22
Other current assets	15
Loans and borrowings	(850)
Accounts payable and accrued charges	(873)
Taxes payable	(11)
Fair value of net assets acquired	(76)
Non-controlling interest	34
Fair value of acquired interest in net assets	(42)
Goodwill, arising from the acquisition	331
Total consideration	289

(in millions of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Tomskenergosbyt (continued)

Goodwill which arose on the acquisition of JSC Tomskenergosbyt amounted to RUR 331 million. The main purpose of the acquisition was the Group's further expansion of supply activities on the territory of the Russian Federation.

Acquisition and disposal of controlling interest

In May 2013 the Group has acquired the remaining 10% interest in Trakya Elektrik Uretim ve Ticaret A.S. from third parties for a cash consideration of RUR 118 million (USD 3.75 million). As a result, the Group became the 100% shareholder of Trakya Elektrik Uretim ve Ticaret A.S.

During the six months ended 30 June 2013 the Group has established a number of individually insignificant subsidiaries with a respective recognition of non-controlling interest in the amount of RUR 4 million through equity.

During the six months ended 30 June 2013 the Group liquidated JSC United Energy Retailing Company.

During the six months ended 30 June 2014 the Group liquidated a number of individually insignificant subsidiaries. The loss from the liquidation of RUR 4 million was recognized in the consolidated interim statement of comprehensive income.

In June 2014 the Group has decreased its control in the share capital of one of its subsidiary as a result of the additional issue of shares in one of the subsidiaries of JSC Mosenergosbyt (Group of companies). An increase of non-controlling interest in the amount of RUR 100 million was recognized in the consolidated interim statement of changes in equity.

(in millions of RUR)

6. Property, plant and equipment

	<i>Land and buildings</i>	<i>Infra- structure assets</i>	<i>Plant and equipment</i>	<i>Other</i>	<i>Construc- tion in progress</i>	<i>Total</i>
Cost						
Balance at 31 December 2012	88,484	77,437	161,435	6,185	72,406	405,947
Reclassification	23	73	(124)	(159)	187	–
Additions	2	57	2	3	17,101	17,165
Disposals	(152)	(56)	(222)	(69)	(83)	(582)
Transfers	1,027	897	5,342	160	(7,426)	–
Transfer to/(from) other balance accounts	(91)	(569)	(140)	(20)	97	(723)
Disposal of controlling interest	(116)	(2)	(122)	(52)	–	(292)
Translation difference	514	1,293	1,269	114	74	3,264
Balance at 30 June 2013	89,691	79,130	167,440	6,162	82,356	424,779
<i>Including finance leases</i>	–	320	3,278	660	–	4,258
Balance at 31 December 2013	92,843	83,095	187,713	7,814	79,855	451,320
Reclassification	(57)	27	23	7	–	–
Additions	3	2	5	5	9,939	9,954
Disposals	(74)	(184)	(154)	(86)	(243)	(741)
Transfers	3,111	3,766	12,933	301	(20,111)	–
Transfer to/(from) other balance accounts	167	(48)	66	228	(314)	99
Disposal of controlling interest	–	–	(1)	(11)	–	(12)
Translation difference	165	433	465	35	14	1,112
Balance at 30 June 2014	96,158	87,091	201,050	8,293	69,140	461,732
<i>Including finance leases</i>	–	236	1,265	1,733	–	3,234
Depreciation and impairment losses						
Balance 31 December 2012	(18,038)	(26,506)	(69,744)	(2,066)	(6,832)	(123,186)
Reclassification	3	(160)	170	(14)	1	–
Depreciation charge	(1,529)	(2,300)	(7,463)	(400)	–	(11,692)
Impairment loss charge	(2,632)	(2,119)	(3,944)	(156)	(1,539)	(10,390)
Impairment loss reversal	–	44	–	–	–	44
Disposals	3	29	134	31	1	198
Transfers	(44)	(82)	(41)	(1)	168	–
Transfer to/(from) other balance accounts	81	398	54	44	(2)	575
Disposal of controlling interest	23	2	106	30	–	161
Translation difference	(154)	(832)	(766)	(48)	(3)	(1,803)
Balance at 30 June 2013	(22,287)	(31,526)	(81,494)	(2,580)	(8,206)	(146,093)
<i>Including finance leases</i>	–	(265)	(2,486)	(116)	–	(2,867)
Balance at 31 December 2013	(28,252)	(35,339)	(96,583)	(2,999)	(2,358)	(165,531)
Reclassification	64	(25)	(56)	17	–	–
Depreciation charge	(1,202)	(1,901)	(6,290)	(431)	–	(9,824)
Impairment loss charge	(1)	–	–	–	(3)	(4)
Impairment loss reversal	–	27	–	–	–	27
Disposals	12	18	71	43	1	145
Transfers	(16)	(245)	(478)	(1)	740	–
Transfer to/(from) other balance accounts	(184)	(9)	(75)	(227)	405	(90)
Disposal of controlling interest	–	–	1	11	–	12
Translation difference	(128)	(329)	(345)	(25)	(8)	(835)
Balance at 30 June 2014	(29,707)	(37,803)	(103,755)	(3,612)	(1,223)	(176,100)
<i>Including finance leases</i>	–	(236)	(1,265)	(221)	–	(1,722)
Net book value						
Balance at 30 June 2013	67,404	47,604	85,946	3,582	74,150	278,686
Balance at 31 December 2013	64,591	47,756	91,130	4,815	77,497	285,789
Balance at 30 June 2014	66,451	49,288	97,295	4,681	67,917	285,632

The category Land and buildings includes land in the amount of RUR 549 million (31 December 2013: RUR 520 million).

Construction in progress is represented by property, plant and equipment that has not yet been ready for operation and advances to suppliers of property, plant and equipment. Such advances amounted to RUR 11,634 million as at 30 June 2014 (31 December 2013: RUR 9,570 million).

Interest capitalized (capitalization rate is 7% during the six months ended 30 June 2014) amounted to RUR 19 million (the six months ended 30 June 2013: RUR 289 million).

*(in millions of RUR)***6. Property, plant and equipment (continued)****(a) Impairment**

As at 30 June 2014 the Group performed the impairment tests of property, plant and equipment by the cash generating units. No impairment was identified as at 30 June 2014.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next accounting period that are different from the assumptions used as at 30 June 2014 could require a material adjustment to the carrying amount of certain power plants (CGUs).

During the six months ended 30 June 2013 the Group recognized impairment loss, net of reversal, in the total amount of RUR 10,346 million in respect of following CGU's: Urengoiskaya GRES (RUR 983 million), Gusinoozerskaya GRES (RUR 2,586 million), Ivanovskie PGU (RUR 2,000 million), Severo-Zapadnaya TEC (RUR 3,387 million), JCS Telasi (RUR 1,272 million) and other minor impairment charges (RUR 118 million).

(b) Pledge

Properties as at 30 June 2014 with carrying amount of RUR 32 million (31 December 2013: RUR 31 million) are pledged by CJSC Elektricheskiye seti Armenii as collateral for several loans.

7. Intangible assets

	<i>Goodwill</i>	<i>Software</i>	<i>Other</i>	<i>Total</i>
Cost				
Balance at 31 December 2012	2,650	2,438	6,869	11,957
Reclassification	–	74	(74)	–
Additions	–	240	339	579
Disposals	–	(223)	(70)	(293)
Disposal of controlling interest	–	(2)	(1)	(3)
Translation difference	88	19	399	506
Balance at 30 June 2013	2,738	2,546	7,462	12,746
Balance at 31 December 2013	3,112	2,805	8,378	14,295
Reclassification	–	7	(1)	6
Additions	–	311	44	355
Disposals	–	(66)	(22)	(88)
Translation difference	106	6	153	265
Balance at 30 June 2014	3,218	3,063	8,552	14,833
Amortisation and impairment				
Balance at 31 December 2012	(1,108)	(1,295)	(690)	(3,093)
Reclassification	–	10	(10)	–
Amortisation charge	–	(236)	(495)	(731)
Disposals	–	164	24	188
Disposal of controlling interest	–	2	1	3
Translation difference	(16)	(10)	(29)	(55)
Balance at 30 June 2013	(1,124)	(1,365)	(1,199)	(3,688)
Balance at 31 December 2013	(1,179)	(1,574)	(1,759)	(4,512)
Reclassification	–	(6)	–	(6)
Amortisation charge	–	(273)	(578)	(851)
Impairment losses	(344)	–	–	(344)
Disposals	–	65	3	68
Translation difference	(19)	(2)	(9)	(30)
Balance at 30 June 2014	(1,542)	(1,790)	(2,343)	(5,675)
Net book value				
At 30 June 2013	1,614	1,181	6,263	9,058
At 31 December 2013	1,933	1,231	6,619	9,783
At 30 June 2014	1,676	1,273	6,209	9,158

Amortisation charge is included in operating expenses in the consolidated interim statement of comprehensive income.

(in millions of RUR)

7. Intangible assets (continued)**31 December 2013***UAB INTER RAO Lietuva*

As at 31 December 2013 the Group carried out an impairment test for goodwill related to acquisition of UAB INTER RAO Lietuva. For the purpose of impairment testing goodwill is allocated to UAB INTER RAO Lietuva as an individual cash-generating unit.

Based on the discounted cash flow model, management concluded that goodwill for UAB Inter RAO Lietuva is not impaired as of 31 December 2013. Since no significant changes have occurred during the 1st half 2014 in assumptions used for the purpose of impairment test as at 31 December 2013, management considers that as at 30 June 2014 there are no indicators of impairment.

UAB Vydmantai Wind Park

As a result of impairment tests performed as at 31 December 2013, goodwill which arose on the acquisition of UAB Vydmantai Wind Park originated in July 2011 was fully impaired in the consolidated statement of comprehensive income for the year ended 31 December 2013 in the amount of RUR 57 million.

30 June 2014

As at 1 April 2014 the Group completed the reorganization of one of JSC Saint-Petersburg Sale company (JSC PSK) subsidiaries in the form of merger with JSC PSK. As a result, goodwill which arose upon the acquisition of that subsidiary, was fully impaired in the consolidated interim statement of comprehensive income for the six months ended 30 June 2014 in the amount of RUR 344 million.

Other

Included in other intangible assets RUR 4,103 million (USD 122 million) represents carrying value of identifiable intangible assets of Trakya Elektrik Uretim ve Ticaret A.S acquired in a business combination in December 2012 (31 December 2013: RUR 4,392 million or USD 134 million). This intangible asset represents the Group's right to operate the electricity power plant facilities in accordance with the Buy-Operate-Transfer ("BOT") agreement. As at 30 June 2014 the remaining intangible assets' useful life was 5.5 years.

Included in other intangible assets RUR 810 million represents capitalised cost to obtain status of "guarantee supplier" acquired in December 2013 (31 December 2013: RUR 872 million). This intangible assets represent the right of LLC INTER RAO Orlovskii energosbit and JSC PSK to perform functions of guaranteed supplier on the territory of Orel and Omsk regions of the Russian Federation. As at 30 June 2014 the remaining intangible assets' useful life was 6.5 years.

Included in other intangible assets RUR 395 million (31 December 2013: RUR 432 million) represents capitalised cost to obtain status of "guarantee supplier" recognised on the acquisition of a subsidiary by one of the Group's entity. As at 30 June 2014 other intangible assets' remaining useful life was 5.5 years.

8. Investments in associates and joint ventures

Details of the associates and joint ventures, together with movements in the carrying values of these investments, are set at below:

	<i>Status</i>	<i>Country</i>	<i>Voting share</i>		
			<i>30 June 2014</i>	<i>31 December 2013</i>	<i>30 June 2013</i>
NVGRES Holding Limited	Joint venture	The Russian Federation	75.00%	75.00%	75.00%
CJSC Nizhnevartovskaya GRES	Joint venture	The Russian Federation	75.00%	75.00%	75.00%
JSC Stantsiya Ekibastuzskaya GRES-2	Joint venture	The Republic of Kazakhstan	50.00%	50.00%	50.00%
LLC Kvarz Noviye Technologii	Joint venture	The Russian Federation	50.10%	50.10%	50.10%
LLC Kvarz Group	Joint venture	The Russian Federation	–	–	50.10%
JSC Kambarata HPP-1	Joint venture	The Kyrgyz Republic	50.00%	50.00%	50.00%
LLC Power Efficiency Centre INTER RAO UES	Joint venture	The Russian Federation	50.00%	50.00%	50.01%
LLC InterRAO-WorleyParsons	Joint venture	The Russian Federation	–	51.00%	51.00%
SOOO ENERGOCONNECT	Joint venture	Belorussia	50.00%	50.00%	50.00%
CJSC INTER RAO LED-Systems	Joint venture	The Russian Federation	35.17%	35.17%	35.17%
LLC RT – Energy Trading	Joint venture	The Russian Federation	50.00%	50.00%	50.00%
Inter RAO GenCo B.V.	Joint venture	The Netherlands	50.00%	–	–
UAB Alproka	Associate	Lithuania	49.99%	49.99%	49.99%
JSC Rusia Petroleum	Associate	The Russian Federation	–	–	25.00%
RUS Gas Turbines Holding B.V.	Associate	The Netherlands	25.00%	25.00%	25.00%
JSC Kaskad	Associate	The Russian Federation	25.00%	25.00%	–
LLC IC Gas-Turbine Technologies	Associate	The Russian Federation	45.27%	45.27%	–

(in millions of RUR)

8. Investments in associates and joint ventures (continued)

	<i>Joint ventures (note 8 (a))</i>				<i>Associates (note 8 (b))</i>			<i>Total</i>
	<i>NVGRES Holding Limited</i>	<i>JSC Stantsiya Ekibas-tuzskaya GRES-2</i>	<i>CJSC INTER RAO LED-Systems</i>	<i>Other joint ventures</i>	<i>RUS Gas Turbines Holding B.V.</i>	<i>JSC Akkuyu NPP</i>	<i>Other associates</i>	
Carrying value at 31 December 2012	16,701	5,983	525	604	1,074	848	895	26,630
Disposals	–	–	–	(9)	–	(848)	–	(857)
Unrealized gain	–	–	–	(90)	–	–	–	(90)
Share of profit/(loss) after tax	870	985	(16)	17	3	–	116	1,975
Change in ownership structure	–	–	(11)	–	–	–	–	(11)
Recognized actuarial loss and past service cost	2	–	–	–	–	–	–	2
Dividends received	–	–	(3)	(40)	–	–	(9)	(52)
Translation difference	–	451	–	2	–	–	–	453
Carrying value at 30 June 2013	17,573	7,419	495	484	1,077	–	1,002	28,050
Carrying value at 31 December 2013	17,736	8,230	519	777	1,118	–	245	28,625
Disposals	–	–	–	(9)	–	–	–	(9)
Unrealized gain	–	–	–	(1)	–	–	–	(1)
Share of profit/(loss) after tax	478	(402)	(25)	(27)	(11)	–	1	14
Change in ownership structure	–	–	20	–	–	–	–	20
Recognized actuarial gain and past service cost	12	–	–	–	–	–	–	12
Dividends received	(1,295)	(275)	–	(47)	–	–	(6)	(1,623)
Translation difference	–	(1,122)	–	(1)	–	–	–	(1,123)
Carrying value at 30 June 2014	16,931	6,431	514	692	1,107	–	240	25,915

(in millions of RUR)

8. Investments in associates and joint ventures (continued)**(a) Joint ventures*****NVGRES Holding Limited and CJSC Nizhneartovskaya GRES***

The Group holds a 75% interest in NVGRES Holding Limited, including its wholly-owned subsidiary CJSC Nizhneartovskaya GRES accounted for using the equity method. In accordance with the terms of the Shareholders Agreement between the Group and OJSC Rosneft, control over NVGRES Holding Limited is jointly exercised. The following is the summarized financial information in respect of NVGRES Holding Limited and its subsidiary CJSC Nizhneartovskaya GRES:

	30 June 2014	31 December 2013
Non-current assets	21,971	22,031
Current assets (including cash and cash equivalents – 30 June 2014: RUR 3,245 million, 31 December 2013: RUR 2,005 million)	5,086	3,592
Non-current liabilities, including:	(1,529)	(1,033)
Non-current financial liabilities (excluding trade and other payables and provisions)	(73)	(87)
Current liabilities, including:	(2,954)	(942)
Current financial liabilities (excluding trade and other payables and provisions)	–	–
Equity	22,574	23,648
Proportion of the Group's ownership	75.00%	75.00%
Carrying value of the investment	16,931	17,736
	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue	6,483	6,022
Depreciation and amortisation	(425)	(196)
Interest income	73	104
Interest expense	–	(1)
Income tax expense	(539)	(284)
Profit from continuing operations	637	1,160
Other comprehensive income	16	2
Total comprehensive income for the period	653	1,162
Proportion of the Group's ownership	75.00%	75.00%
Group's share of total comprehensive income	490	872

JSC Stantsiya Ekibastuzskaya GRES-2

The Group holds a 50% interest in a joint venture – JSC Stantsiya Ekibastuzskaya GRES-2 accounted for using the equity method. The Group exercises joint control over JSC Stantsiya Ekibastuzskaya GRES-2 with AO "Samruk-Energo", which is ultimately controlled by the Government of the Republic of Kazakhstan.

The following is the summarized financial information in respect of JSC Stantsiya Ekibastuzskaya GRES-2:

	30 June 2014	31 December 2013
Non-current assets	25,058	28,230
Current assets (including cash and cash equivalents – 30 June 2014: RUR 385 million, 31 December 2013: RUR 302 million)	2,639	2,364
Non-current liabilities, including:	(13,161)	(2,008)
Non-current financial liabilities (excluding trade and other payables and provisions)	(12,162)	(800)
Current liabilities, including:	(1,674)	(12,126)
Current financial liabilities (excluding trade and other payables and provisions)	(827)	(11,571)
Equity	12,862	16,460
Proportion of the Group's ownership	50.00%	50.00%
Carrying value of the investment	6,431	8,230

*(in millions of RUR)***8. Investments in associates and joint ventures (continued)****(a) Joint ventures (continued)**

	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue	3,772	4,226
Depreciation and amortisation	(269)	(255)
Interest income	2	2
Interest expense	(46)	(38)
Income tax benefit/(expense)	44	(501)
(Loss)/profit from continuing operations	(804)	1,970
Total comprehensive (loss)/income for the period	(804)	1,970
Proportion of the Group's ownership	50.00%	50.00%
Group's share of total comprehensive (loss)/income	(402)	985

JSC INTER RAO LED-Systems

Effective Group's share as of 30 June 2014 is 27.10% (31 December 2013: 26.10%; 30 June 2013: 25.94%). The following is the summarized financial information in respect of JSC INTER RAO LED-Systems:

	30 June 2014	31 December 2013
Non-current assets	1,838	1,843
Current assets (including cash and cash equivalents – 30 June 2014: RUR 55 million, 31 December 2013: RUR 64 million)	1,759	2,037
Non-current liabilities, including:	(557)	(630)
Non-current financial liabilities (excluding trade and other payables and provisions)	(204)	(245)
Current liabilities, including:	(1,143)	(1,260)
Current financial liabilities (excluding trade and other payables and provisions)	(659)	(560)
Equity	1,897	1,990
Group's share	27.10%	26.10%
Carrying value of the investment	514	519

	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue	319	374
Depreciation and amortisation	(116)	(106)
Interest income	–	–
Interest expense	(34)	(18)
Income tax benefit	20	87
Loss from continuing operations	(92)	(61)
Total comprehensive loss for the period	(92)	(61)
Proportion of the Group's ownership	27.10%	25.94%
Group's share of total comprehensive loss	(25)	(16)

Other joint ventures

The Group holds a 51% interest in a joint venture – LLC InterRAO-WorleyParsons accounted for using the equity method. On 1 April 2014 the Group reclassified the investment to assets classified as held-for-sale to comply with the requirements of IFRS 5 (Note 15).

*(in millions of RUR)***8. Investments in associates and joint ventures (continued)****(b) Associates*****RUS Gas Turbines Holding B.V.***

The Group's share in the entity is 25%. The ownership in the entity's equity allows the Group to participate in construction of production facilities, production and sales of high-performance industrial gas turbines in the Russian Federation.

The following is the summarized financial information in respect of RUS Gas Turbines Holding B.V.

	30 June 2014	31 December 2013
Non-current assets	2,346	1,892
Current assets	3,309	2,946
Current liabilities	(1,228)	(368)
Equity	4,427	4,470
Proportion of the Group's ownership	25.00%	25.00%
Carrying value of the investment	1,107	1,118
	Six months ended 30 June 2014	Six months ended 30 June 2013
(Loss)/profit from continuing operations	(43)	10
Total comprehensive (loss)/income for the period	(43)	10
Proportion of the Group's ownership	25.00%	25.00%
Group's share of total comprehensive (loss)/income	(11)	3

Other associates***Additions***

On 9 August 2013, the Group acquired 46.27% of the shares of JSC Kaskad, an entity based in the Russian Federation, specializing in the production and distribution of electric meters. Total cash consideration paid by the Group for the stake acquired was RUR 100 million. In December 2013, the Group's share was diluted to 25% after JSC Kaskad's additional issue of shares was fully bought-out by other shareholders.

On 26 December 2013, the Group acquired 45.27% of the shares of LLC IC Gas-Turbine Technologies, an entity based in the Russian Federation, specializing in the development and production of high-performance industrial gas turbines.

*(in millions of RUR)***9. Deferred tax assets and liabilities****(a) Recognised deferred tax assets and liabilities**

Differences between IFRS base and relevant tax bases give rise to temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred tax assets and liabilities are measured at the rate expected to be applicable when the temporary differences will reverse, based on rates and legislation enacted or substantively enacted by end of the reporting period.

Deferred tax assets and liabilities are attributable to the following:

	<i>Deferred tax assets</i>		<i>Deferred tax liabilities</i>	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Property, plant and equipment	1,027	1,879	(14,338)	(13,158)
Investments in associates and joint ventures	21	15	(1,929)	(2,609)
Trade and other receivables	1,886	1,618	–	–
Tax loss carry-forwards	2,402	2,987	–	–
Investments in available-for-sale financial assets and assets classified as held-for-sale	–	–	(560)	(351)
Accounts payable and long-term loans and borrowings	732	1,320	(615)	(489)
Other items	655	653	(1,121)	(1,875)
Tax assets/(liabilities)	6,723	8,472	(18,563)	(18,482)
Set off of tax	(4,515)	(5,083)	4,515	5,083
	2,208	3,389	(14,048)	(13,399)

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of some of the Group entities located in Armenia, the Russian Federation, Netherlands and Kazakhstan and relate to the following deductible temporary differences:

	30 June 2014	31 December 2013
Available-for-sale financial assets	3,111	483
Assets classified as held-for-sale	15,967	22,660
Put and Call options	25,554	23,955
Other	2,426	2,189
	47,058	49,287

Deductible temporary differences as at 30 June 20104 mainly relate to Put and Call option agreement with SC Vnesheconombank signed in June 2010 (see Note 20), and available-for-sale financial assets and assets classified as held-for-sale (mainly relates to JSC Irkutskenergo). Deferred tax assets have not been recognised in respect of these items because in management's opinion it is not probable that future taxable profit will be available in the respective Group's entities against which the Group can utilize respective tax loss. Unrecognized temporary differences can be realized within the next 7-10 years.

(in millions of RUR)

9. Deferred tax assets and liabilities (continued)

Movement in tax effects of temporary differences, after offsetting, during the period:

Deferred tax assets:

	1 January 2013	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (reserves)	30 June 2013
Property, plant and equipment	1,793	(186)	143	–	1,750
Trade and other receivables	194	(122)	78	–	150
Accounts payable and long-term loans and borrowings	104	54	16	3	177
Other items	(873)	121	(23)	–	(775)
Tax loss carry-forwards	756	289	23	–	1,068
	1,974	156	237	3	2,370

	1 January 2014	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (reserves)	30 June 2014
Property, plant and equipment	1,670	(1,044)	154	–	780
Trade and other receivables	1,162	(132)	(55)	–	975
Accounts payable and long-term loans and borrowings	321	(216)	1	(9)	97
Other items	(668)	134	(43)	–	(577)
Tax loss carry-forwards	904	18	11	–	933
	3,389	(1,240)	68	(9)	2,208

Deferred tax liabilities:

	1 January 2013	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (reserves)	30 June 2013
Property, plant and equipment	(15,798)	2,633	(14)	–	(13,179)
Investments in associates and joint ventures	(2,038)	(236)	(90)	–	(2,364)
Investments in available-for-sale financial assets and assets classified as held-for-sale	(3,666)	309	–	(313)	(3,670)
Accounts payable and long-term loans and borrowings	(1)	456	(51)	(15)	389
Other items	4,084	(774)	(145)	27	3,192
	(17,419)	2,388	(300)	(301)	(15,632)

	1 January 2014	Recognised in profit and loss	Recognised in OCI (FCTR)	Recognised in OCI (reserves)	30 June 2014
Property, plant and equipment	(12,949)	(1,025)	(62)	–	(14,036)
Investments in associates and joint ventures	(2,609)	456	224	–	(1,929)
Investments in available-for-sale financial assets and assets classified as held-for-sale	(349)	(1)	–	(209)	(559)
Accounts payable and long-term loans and borrowings	510	(483)	–	(7)	20
Other items	1,998	399	59	–	2,456
	(13,399)	(654)	221	(216)	(14,048)

The Group recognised temporary differences on property, plant and equipment which relate to differences between the accounting and tax depreciation rates, carrying values and tax base of property, plant and equipment.

Deferred tax liability in the amount of RUR 209 million was recognised through other comprehensive income in relation to revaluation of available-for-sale financial assets for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RUR 313 million).

*(in millions of RUR)***9. Deferred tax assets and liabilities (continued)**

The Group has not recognised deferred tax liabilities in respect of temporary differences associated with investments in subsidiaries, associates and joint ventures in the amount of RUR 164,611 million (31 December 2013: RUR 151,481 million) because the Group is able to control timing of the reversal of temporary differences and does not intend to realise them in the foreseeable future.

10. Available-for-sale financial assets

As at 30 June 2014 available-for-sale financial assets in the total amount of RUR 9,516 million (31 December 2013: RUR 9,149 million) included investments in quoted shares in the total amount of RUR 8,061 million (31 December 2013: RUR 7,670 million) and investment in unquoted shares in the total amount of RUR 1,455 million (31 December 2013: RUR 1,479 million).

Investments in quoted shares

For the six months ended 30 June 2014 the amount of RUR 305 million was recognised as impairment loss on available-for-sale financial assets through profit and loss in the consolidated statement of comprehensive income (for the six months ended 30 June 2013: RUR 2,696 million) (Note 25).

For the six months ended 30 June 2014 the amount of RUR 654 million, net of tax RUR 209 million was recognised as a gain from revaluation of available-for-sale financial assets through other comprehensive income in the consolidated statement of comprehensive income (for the six months ended 30 June 2013: RUR 1,527 million, net of tax RUR 313 million) (Note 9, 17).

	30 June 2014		31 December 2013	
	% share capital	Carrying value	% share capital	Carrying value
JSC RusHydro	1.85%	3,596	1.85%	3,046
JSC Mosenergo	5.05%	1,564	5.05%	1,756
JSC OGK-2	5.70%	752	5.70%	859
JSC TGK-9	1.79%	422	2.48%	575
JSC TGK-1	1.97%	470	1.97%	503
JSC FGC UES	0.37%	272	0.37%	416
Plug Power	11.80%	702	11.80%	226
JSC Quadra	2.25%	133	2.25%	130
JSC Irkutskenergo	0.29%	92	0.29%	103
JSC TGK-2	1.38%	20	1.38%	20
JSC Yaroslavl Power Sale Company	0.85%	15	0.85%	14
JSC TGK-14	0.60%	14	0.60%	13
JSC IDGC of Centre	0.07%	7	0.07%	7
Other	–	2	–	2
Total		8,061		7,670

In 1st half of 2014 the Group sold 0.69% of ordinary shares of JSC TGK-9 to the third parties for a cash consideration of RUR 165 million.

Investments in unquoted shares

As at 1 January 2013 the investment in JSC Akkuyu NPP was re-classified from investment in associates to available-for-sale financial assets due to the limitation of opportunities for the Group to affect operating and strategic decisions of JSC Akkuyu NPP (Note 8). As at 30 June 2014 the Group's share in JSC Akkuyu NPP was deluted from 1.75% to 1.15% due to increase share capital of JSC Akkuyu NPP.

	30 June 2014		31 December 2013	
	% share capital	Carrying value	% share capital	Carrying value
JSC Akkuyu NPP	1.15%	848	1.75%	848
JSC BESC	1.46%	404	1.46%	404
JSC Sangtudinskaya GES-1	14.87%	161	14.87%	161
Other		42		66
Total		1,455		1,479

*(in millions of RUR)***10. Available-for-sale financial assets (continued)****Investments in unquoted shares (continued)**

The carrying value of investments in unquoted shares as at 30 June 2014 and 31 December 2013 reflected impairment of investment in JSC Sangtudinskaya GES-1 in the amount of RUR 530 million.

The Group did not identify any further impairment in respect of available-for-sale investments in unquoted shares for the six months ended 30 June 2014.

11. Other non-current assets

	30 June 2014	31 December 2013
Financial non-current assets	3,751	3,652
Non-current trade receivables	842	976
<i>Less impairment provision</i>	<i>(268)</i>	<i>(303)</i>
Non-current trade receivables – net	574	673
Other non-current receivables	2,226	2,278
<i>Less impairment provision</i>	<i>(322)</i>	<i>(335)</i>
Other non-current receivables – net	1,904	1,943
Non-current loans issued (including interest)	150	–
Long-term derivative financial instruments – assets	1,077	1,013
Long-term bank deposits	46	23
	1,273	1,036
Non-financial non-current assets	2,088	2,448
Non-current advances to suppliers and prepayments	1,212	1,626
<i>Less impairment provision</i>	<i>(19)</i>	<i>(84)</i>
Non-current advances to suppliers and prepayments – net	1,193	1,542
VAT recoverable	635	529
Other	245	377
	5,824	6,100

As at 30 June 2014 non-current advances to suppliers and prepayments in the amount of RUR 211 million relate to advances given to suppliers of equipment to Venezuela (31 December 2013: RUR 454 million) (see Note 21).

Included in Other non-current receivables RUR 1,038 million represents a financial asset recognized by the Group in relation to the concession arrangement by one of the Group's subsidiary, Trakya Elektrik Uretim ve Ticaret A.S. ("Operator"), republic of Turkey (31 December 2013: RUR 1,061 million). In accordance with the arrangement, the Operator constructs, commissions and operates a natural gas-fired combined cycle power station on a BOT basis under the terms of Implementation Contract between the Operator and the Ministry of Energy and Natural Resources of the Republic of Turkey ("MENR"). The concession arrangement period includes initial period of up to 2019 with an option of the MENR to extend the operating period up to 2046. At the end of the concession arrangement period, the power plant shall be transferred to an enterprise nominated by MENR. Certain state owned domiciled entities in Turkey are currently obliged to purchase on a "take-or-pay" basis minimum quantities of electricity made available by Trakya Elektrik Uretim ve Ticaret A.S. for initial period. The electricity selling price is calculated as the sum of fixed capacity price, variable capacity price and also depends on natural gas price.

As at 30 June 2014 long-term derivative financial instruments included fair value of electricity derivatives in the amount of RUR 1,068 million (31 December 2013: RUR 1,004 million) at RAO Nordic Oy which are held for the purposes of hedging future sales (Note 16, 20, 21).

(in millions of RUR)

11. Other non-current assets (continued)

Movements in the provision for impairment of other non-current assets are as follows:

	<i>Non-current trade receivables</i>	<i>Non-current advances to suppliers and prepayments</i>	<i>Other non-current receivables</i>	<i>Total provision</i>
At 31 December 2013	(303)	(84)	(335)	(722)
Release of provision for receivables impairment	1	–	28	29
Receivables written off as uncollectible	–	65	–	65
Accrual of discount effect	(16)	–	(38)	(54)
Unwinding of discount	50	–	43	93
Reclassification of short-term portion	2	–	(20)	(18)
Translation difference	(2)	–	–	(2)
At 30 June 2014	(268)	(19)	(322)	(609)

	<i>Non-current trade receivables</i>	<i>Non-current advances to suppliers and prepayments</i>	<i>Non-current loans issued incl. interest</i>	<i>Other non-current receivables</i>	<i>Total provision</i>
At 31 December 2012	(321)	–	(7)	(333)	(661)
(Accrual)/release of provision for receivables impairment	(4)	52	(1)	(4)	43
Receivables written off as uncollectible	3	–	8	(16)	(5)
Accrual of discount effect	(1)	(9)	–	(50)	(60)
Unwinding of discount	30	–	–	4	34
Reclassification of short-term portion	(2)	(129)	–	60	(71)
Translation difference	(2)	–	–	1	(1)
At 30 June 2013	(297)	(86)	–	(338)	(721)

12. Inventories

	30 June 2014	31 December 2013
Fuel	5,986	7,434
Spare parts	3,378	2,493
Materials and consumables	3,471	3,063
Other	415	231
	13,250	13,221

Provision for inventory obsolescence amounted to RUR 557 million as at 30 June 2014 (31 December 2013: RUR 569 million). The release of provision for the six months ended 30 June 2014 in the amount of RUR 12 million (for the six months ended 30 June 2013: charge of provision in the amount of RUR 9 million) was recognised in Other provisions within Operating expenses, net in consolidated statement of comprehensive income.

As at 30 June 2014 the Group has a technological inventory in the amount RUR 3,861 million, mostly represented by fuel and spare parts (31 December 2013: RUR 4,015 million).

(in millions of RUR)

13. Accounts receivable and prepayments

	30 June 2014	31 December 2013
Financial assets	54,769	54,686
Trade receivables	68,478	68,874
<i>Less impairment provision</i>	<i>(21,963)</i>	<i>(19,654)</i>
Trade receivables – net	46,515	49,220
Other receivables	9,073	7,523
<i>Less impairment provision</i>	<i>(2,744)</i>	<i>(2,517)</i>
Other receivables – net	6,329	5,006
Short-term loans issued (including interest)	271	621
<i>Less impairment provision</i>	<i>(271)</i>	<i>(271)</i>
Short-term loans issued (including interest) – net	–	350
Short-term outstanding interest on bank deposits	95	45
<i>Less impairment provision</i>	<i>(10)</i>	<i>(10)</i>
Short-term outstanding interest on bank deposits – net	85	35
Short-term receivables on construction contracts	120	67
Dividends receivable	1,720	8
Non-financial assets	14,802	15,512
Advances to suppliers and prepayments	8,039	7,968
<i>Less impairment provision</i>	<i>(647)</i>	<i>(652)</i>
Advances to suppliers and prepayments – net	7,392	7,316
Short-term VAT recoverable	4,267	3,260
Taxes prepaid	3,143	4,936
	69,571	70,198

As at 30 June 2014 short-term VAT recoverable included RUR 1,200 million of VAT for construction of Permskaya GRES and Cherepetskaya GRES (31 December 2013: RUR 1,114 million), and RUR 514 million of VAT recoverable on export operations (31 December 2013: RUR 479 million).

Movements in the provision for impairment of receivables are as follows:

	<i>Trade receivables</i>	<i>Advances to suppliers and prepayments</i>	<i>Short-term loans issued (incl. interest)</i>	<i>Short-term outstanding interest on bank deposits</i>	<i>Other receivables</i>	<i>Total provision</i>
At 31 December 2013	(19,654)	(652)	(271)	(10)	(2,517)	(23,104)
(Accrual)/release of provision	(3,117)	2	–	–	(64)	(3,179)
Accrual of discount effect	(2)	–	–	–	–	(2)
Unwinding of discount	44	–	–	–	–	44
Receivables written off as uncollectible (provided for at the beginning of the year)	479	8	–	–	115	602
Reclassification, other	321	(5)	–	–	(316)	–
Reclassification of long-term portion	(2)	–	–	–	20	18
Disposal of controlling interest	–	–	–	–	21	21
Translation difference	(32)	–	–	–	(3)	(35)
At 30 June 2014	(21,963)	(647)	(271)	(10)	(2,744)	(25,635)
	<i>Trade receivables</i>	<i>Advances to suppliers and prepayments</i>	<i>Short-term loans issued (incl. interest)</i>	<i>Short-term outstanding interest on bank deposits</i>	<i>Other receivables</i>	<i>Total provision</i>
At 31 December 2012	(16,604)	(738)	(252)	(1,830)	(1,830)	(19,424)
(Accrual)/release of provision	(3,068)	50	–	–	(544)	(3,562)
Accrual of discount effect	–	(1)	–	–	1	–
Receivables written off as uncollectible (provided as at the beginning of the year)	627	42	2	–	(87)	584
Reclassification, other	75	(17)	–	–	(58)	–
Reclassification of long-term portion	2	129	–	–	(60)	71
Translation difference	(155)	(4)	–	–	(16)	(175)
At 30 June 2013	(19,123)	(539)	(250)	(2,594)	(2,594)	(22,506)

(in millions of RUR)

13. Accounts receivable and prepayments (continued)

Nominal value of financial assets included in accounts receivable are presented as follows:

<i>At 30 June 2014</i>	<i>Trade receivables</i>	<i>Short-term loans issued (including interest)</i>	<i>Other receivables</i>	<i>Dividends receivable</i>	<i>Short-term outstanding interest on bank deposits</i>	<i>Short-term receivables on construction contracts</i>	<i>Total</i>
Not past due not impaired	26,901	–	4,638	1,711	85	120	33,455
Past due but not impaired	13,373	–	322	9	–	–	13,704
Past due and impaired	28,204	271	4,113	–	10	–	32,598
Total	68,478	271	9,073	1,720	95	120	79,757

<i>At 31 December 2013</i>	<i>Trade receivables</i>	<i>Short-term loans issued (including interest)</i>	<i>Other receivables</i>	<i>Dividends receivable</i>	<i>Short-term outstanding interest on bank deposits</i>	<i>Short-term receivables on construction contracts</i>	<i>Total</i>
Not past due not impaired	31,310	250	2,744	8	45	67	34,424
Past due but not impaired	9,821	350	842	–	–	–	11,013
Past due and impaired	27,743	21	3,937	–	–	–	31,701
Total	68,874	621	7,523	8	45	67	77,138

As at 30 June 2014 accounts receivable in the amount of RUR 13,704 million (31 December 2013: RUR 11,013 million) were past due but not impaired. These relate to a number of independent counterparties without past instances of default as well as none expected. The ageing analysis of these receivables is as follows:

<i>Past due but not impaired</i>	<i>30 June 2014</i>	<i>31 December 2013</i>
Up to 3 month	9,314	7,390
3 to 6 month	2,925	1,534
6 to 12 month	976	1,585
Over 12 months	489	504
Total	13,704	11,013

The past due and impaired accounts receivable mainly comprise amounts due from wholesalers, population and households. The ageing of these receivables is as follows:

<i>Past due and impaired</i>	<i>30 June 2014</i>	<i>31 December 2013</i>
Up to 3 month	6,230	6,440
3 to 6 month	4,182	2,700
6 to 12 month	3,840	6,455
Over 12 months	18,346	16,106
Total	32,598	31,701

The Group does not hold any collateral as a security.

14. Cash and cash equivalents

	<i>30 June 2014</i>	<i>31 December 2013</i>
Cash at bank and in hand, national currency	21,107	16,974
Cash at bank and in hand, foreign currency	2,956	7,156
Bank deposits with maturity of three months or less	32,436	15,752
Total	56,499	39,882

As at 30 June 2014 bank deposits with maturity of three months or less in the amount of RUR 23,069 million are nominated in RUR (31 December 2013: RUR 14,027 million), in US dollars – RUR 9,331 million (31 December 2013: RUR 1,496 million), in Georgian lari – RUR 9 million (31 December 2013: RUR 202 million) and in euro – RUR 27 million (31 December 2013: RUR 27 million).

(in millions of RUR)

15. Assets classified as held-for-sale

	31 December 2013	Revaluation	Impairment	Disposal of fair value reserve	Disposal	Reclassifi- cation	30 June 2014
JSC Irkutskenergo	38,048	–	–	–	–	–	38,048
JSC Volga TGC	4,232	100	(180)	(601)	(3,551)	–	–
LLC InterRAO- WorleyParsons	–	–	–	–	–	9	9
Total	42,280	100	(180)	(601)	(3,551)	9	38,057

	31 December 2012	Impairment	Disposal	Reclassifi- cation	30 June 2013
JSC Irkutskenergo	38,048	–	–	–	38,048
JSC Volga TGC	–	–	–	17,287	17,287
JSC TGC-6	–	–	–	2,138	2,138
Total	38,048	–	–	19,425	57,473

In the 1st half 2011, JSC Inter RAO acquired 40.00% of ordinary shares of JSC Irkutskenergo. On the date of acquisition the Group classified the investment as asset held-for-sale in the amount of RUR 38,048 million being the cost of consideration given. Up to 30 June 2014 the Group has been still negotiating sale of the stake.

On 23 August 2013 the Group sold 33.87% of Volga TGC shares and 27.71% of TGC-6 shares to third parties.

On 13 May 2014 the Group sold 7.50% of JSC Volga TGC for a cash consideration of RUR 3,698 million to third parties.

As at 1 April 2014 the Group reclassified the investment in joint venture LLC InterRAO-WorleyParsons with ownership interest 51% to assets classified as held-for-sale to comply with the requirements of IFRS 5 (Note 8).

16. Other current assets

	30 June 2014	31 December 2013
Restricted cash	631	456
Bank deposits with maturity of 3-12 months	2,522	1,545
Short-term derivative financial instruments	529	484
Other	1,024	570
Total	4,706	3,055

As at 30 June 2014 restricted cash balances include cash deposited in Otkritie FC Bank (held as collateral of the payments to the third parties for the shares in JSC Tomskenergosbyt) in the amount of RUR 200 million (as at 31 December 2013: nil), in OKO Bank (held as collateral in favour of Fingrid), Nordea (held as collateral in favour of NASDAQ OMX AB), Saxo bank and Deutsche bank in the aggregate amount of RUR 98 million (as at 31 December 2013: RUR 118 million), cash deposited in VTB Bank Armenia (security interest in favour of EBRD according to the loan agreement) in the amount of RUR 75 million (as at 31 December 2013: RUR 121 million) and cash deposited in the total amount of RUR 258 million held by Group Trakya, JSC Telasi, Inter RAO Lietuva, Inter RAO Latvia, JSC Tomskenergosbyt and other companies (as at 31 December 2013: RUR 217 million).

As at 30 June 2014 short-term derivative financial instruments included fair value of electricity derivatives in the amount of RUR 519 million (31 December 2013: RUR 416 million) at RAO Nordic Oy which are held for the purposes of hedging future sales (Note 11).

As at 30 June 2014 short-term derivative financial instruments included foreign currency forward contracts in the amount of RUR 10 million (31 December 2013: RUR 68 million) (Note 17).

As at 30 June 2014 other current assets included bonds issued by financial institutions held by LLC INTER RAO Invest and CJSC Inter RAO UES Capital with total carrying value of RUR 336 million (as at 31 December 2013: RUR 219 million).

As at 31 December 2013 other current assets included three short-term promissory notes held by LLC Bashkir Generation Company issued by Gazprombank JSC with total carrying value of RUR 118 million, that had been paid in 2014.

17. Equity**Share capital**

	30 June 2014	31 December 2013
Number of ordinary shares issued and fully paid (in units)	10,440,000,997,683	10,440,000,997,683
Par value (in RUR)	0.02809767	0.02809767
Share capital (in million RUR)	293,340	293,340

(in millions of RUR)

17. Equity (continued)**Movements in outstanding and treasury shares**

	<i>Issued shares</i>		<i>Treasury shares</i>		<i>Total</i>	
	<i>thousand units</i>	<i>million RUR</i>	<i>thousand units</i>	<i>million RUR</i>	<i>thousand units</i>	<i>million RUR</i>
31 December 2012	10,440,000,998	293,340	(1,472,103,383)	(41,363)	8,967,897,615	251,977
Sale of treasury shares	–	–	166,549	5	166,549	5
30 June 2013	10,440,000,998	293,340	(1,471,936,834)	(41,358)	8,968,064,164	251,982

	<i>Issued shares</i>		<i>Treasury shares</i>		<i>Total</i>	
	<i>thousand units</i>	<i>million RUR</i>	<i>thousand units</i>	<i>million RUR</i>	<i>thousand units</i>	<i>million RUR</i>
31 December 2013	10,440,000,998	293,340	(1,472,103,383)	(41,363)	8,967,897,615	251,977
Sale of treasury shares, net	–	–	44,425	1	44,425	1
30 June 2014	10,440,000,998	293,340	(1,472,058,958)	(41,362)	8,967,942,040	251,978

Dividends

30 June 2014 the Board of Directors approved the dividend policy of the Parent Company. In accordance with the policy the Parent Company aims at gradual growth of dividend payments to shareholders. The Board of Directors shall recommend dividend payments up to 25% of the net profit determined on the basis of the consolidated financial statements prepared in accordance with IFRS. The amount of recommended dividend payments should be in compliance with the requirements of the Russian legislation.

Dividends to non-controlling shareholders were declared by the Group's subsidiaries in the amount of RUR 274 million for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RUR 466 million).

Cash flow hedge reserve

The Parent Company had an interest rate swap agreement in respect of future payments of USD 109 million for the period from 13 May 2009 till 12 November 2013 to hedge future interest payments to State Corporation Vnesheconombank. The payment period according to the agreement was six months; the first repayment date was 12 November 2009. The swap agreement expired in November 2013.

During the years 2013 and 2014 the Parent Company entered into a number of foreign currency forward and option contracts in order to hedge cash flows related to foreign currency sales denominated in euro.

During the years 2013 and 2014 RAO Nordic Oy entered into a number of electricity forward contracts in order to hedge cash flows associated with electricity sales.

For the six months ended 30 June 2014 net gain on hedge transactions was recognized in other comprehensive income in the amount of RUR 35 million related to shareholders of the Company and net loss related to non-controlling interest in the amount of RUR 6 million.

For the six months ended 30 June 2013 net loss on hedge transactions was recognized in other comprehensive income in the amount of RUR 73 million related to shareholders of the Company and net gain related to non-controlling interest in the amount of RUR 4 million.

The overall effect of above agreements are provided in the table below:

	<i>Interest rate swap</i>	<i>Foreign currency forward and option contacts</i>	<i>Electricity forward contracts</i>	<i>Total</i>
31 December 2012	(47)	94	64	111
Gain/(loss) arising on change in fair value of hedge instruments, net	32	(100)	(24)	(92)
Deferred income tax related to gains/(losses) recognised in other comprehensive income	(7)	20	6	19
30 June 2013	(22)	14	46	38
31 December 2013	–	(113)	49	(64)
Gain arising on change in fair value of hedge instruments, net	–	40	3	43
Deferred income tax related to gains recognised in other comprehensive income	–	(8)	–	(8)
30 June 2014	–	(81)	52	(29)

*(in millions of RUR)***17. Equity (continued)****Fair value reserve**

	<u><i>Fair value reserve</i></u>
31 December 2012	(3,354)
Gain arising on change in fair value of available-for-sale financial assets	1,840
Deferred income tax related to losses recognised in other comprehensive income	(313)
	<u>(1,827)</u>
30 June 2013	
31 December 2013	642
Gain arising on change in fair value of available-for-sale financial assets (10, 15)	362
Deferred income tax related to gains recognised in other comprehensive income	(209)
	<u>795</u>
30 June 2014	

Actuarial reserve

	<i>Related to shareholders of the Company</i>	<i>Related to non-controlling shareholders</i>	<i>Total</i>
31 December 2012	(424)	(16)	(440)
Gain arising on change in pension liabilities	163	22	185
Deferred income tax related to losses recognised in other comprehensive income	(9)	–	(9)
	<u>(270)</u>	<u>6</u>	<u>(264)</u>
30 June 2013			
31 December 2013	(280)	1	(279)
Gain arising on change in pension liabilities	110	13	123
Deferred income tax related to gains recognised in other comprehensive income	(8)	–	(8)
	<u>(178)</u>	<u>14</u>	<u>(164)</u>
30 June 2014			

18. Earnings per share

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

As at 30 June 2013 and 30 June 2014 the anti-dilutive effects of the recognition of call option signed with JSC Mejregionenergostroy (see Note 19 (iv)) and share-based option programme (see Note 32 (b)) are not included in calculation of diluted earnings/(loss) per share.

	<i>The six months ended 30 June 2014</i>
Weighted average number of shares – basic and diluted	<u>8,967,915,596,866</u>
Income attributable to the shareholders of the Company	5,133
Income per ordinary share (RUR) – basic and diluted	0.00057
	<i>The six months ended 30 June 2013</i>
Weighted average number of shares – basic	<u>8,967,929,294,781</u>
Effect of dilution:	
Put option with SC Vnesheconombank	(529,303,482,587)
Weighted average number of shares – diluted	<u>8,438,625,812,194</u>
Loss attributable to the shareholders of the Company	(13,549)
Loss per ordinary share (RUR) – basic	(0.00151)
Loss per ordinary share (RUR) – diluted	(0.00161)

(in millions of RUR)

19. Loans and borrowings

This note provides information about the Group's loans and borrowings. Certain loan agreements include financial and non-financial covenants.

Loans and borrowings	Currency	30 June 2014	31 December 2013
Mejregionenergostroy JSC, VTB Factoring LLC (iv)	RUR	15,978	15,345
EBRD (iii)	RUR	4,468	–
ROSSIYA JSC	RUR	4,405	2,757
Raiffeisenbank CJSC	RUR	2,000	2,000
Sberbank JSC	RUR	600	1,695
Gazprombank JSC	RUR	310	4,219
Other	RUR	700	699
Total in RUR	RUR	28,461	26,715
Vnesheconombank SC (ii)	USD	5,469	5,323
ING Bank NV (ix)	USD	5,460	5,327
Vakifbank (x)	USD	3,620	3,699
EBRD (v)	USD	684	715
Other	USD	820	814
Total in USD	USD	16,053	15,878
ING Bank NV	EUR	1,145	–
EBRD (vi)	EUR	1,071	1,171
SWEDBANK AB ¹	EUR	997	1,069
Vnesheconombank SC (vii)	EUR	574	627
Gazprombank JSC	EUR	–	180
Total in EUR	EUR	3,787	3,047
Government of Armenia (i)	JPY	615	591
Government of Georgia	JPY	337	324
Total in JPY	JPY	952	915
Total in AMD	AMD	99	97
Total in GEL	GEL	76	83
Finance leases			
Financial lease	USD	1,143	1,296
Financial lease (viii)	RUR	310	386
Financial lease	LTL	36	37
Financial lease	EUR	3	1
Total long-term loans and borrowings		50,920	48,455
Less: current portion of long-term loans and borrowings and long-term finance leases		(25,839)	(8,257)
		25,081	40,198

Effective interest rates

	30 June 2014	31 December 2013
Loans and borrowings at fixed interest rate		
RUR	6.85-11.00%	8.89-10.30%
USD	8.00-15.40%	10.00-15.40%
JPY	8.00-19.00%	8.00-19.00%
GEL	19.00%	19.00%
Loans and borrowings at variable interest rate		
RUR	11.18-11.56%	–
USD	2.43-4.88%	2.47-5.04%
EUR	1.05-6.75%	2.78-6.75%
Finance leases		
RUR	12.50-13.11%	10.50-13.30%
USD	6.49-14.81%	6.49-14.81%
EUR	4.90-4.95%	4.90%
LTL	4.80%	4.80%

¹ As at 30 June 2014 Vydmantai wind park UAB breached Debt Service Coverage Ratio under the loan with SWEDBANK AB. The non-compliance with this covenant affected the classification of the loans as current. In July 2014 Vydmantai wind park UAB received the letters from SWEDBANK AB which waived the covenants at 30 June 2014.

(in millions of RUR)

19. Loans and borrowings (continued)

As at 30 June 2014 fair value of loans and borrowings is RUR 49,156 million (31 December 2013: RUR 44,829 million), which is estimated by discounting of contractual future cash flows at the prevailing current market interest rates available to the Group for similar financial instruments.

30 June 2014	Fair value	Method of valuation	Ranges
Financial liabilities at amortised cost			
Total loans and borrowings	49,156	discontinued cash flows	
Loans denominated in RUR	28,377	discontinued cash flows	10.96-13.11%
Loans denominated in USD	17,200	discontinued cash flows	2.43-11.30%
Loans denominated in EUR	2,798	discontinued cash flows	1.05-6.75%
Loans denominated in JPY	567	discontinued cash flows	11.30-12.00%
Loans denominated in AMD	96	discontinued cash flows	15.70%
Loans denominated in GEL	81	discontinued cash flows	16.20%
Loans denominated in LTL	37	discontinued cash flows	4.80%

- (i) The credit line of JPY 3,877 million at nominal interest rate of 1.8% was obtained for the purposes of financing the Armenian power system programme "Transmission and distribution of electricity network". The loan is to be repaid from 10 February 2009 to 10 February 2039.
- Since the interest rate stipulated by this loan was significantly lower than the market rates, initially the loan has been recognised at discounted amounts using market rates prevailing at initial recognition (8%). Further to initial recognition, the loan is carried at amortised cost, using the discount rate applied at initial recognition.
- (ii) As at 30 June 2014 the Group had a loan in the amount of USD 163 million at effective interest rate of 4.82% (for 2013 – 4.85%), which was obtained to finance acquisition of Freecom Trading Limited, the owner of 49% share in CJSC Moldavskaya GRES. The loan is payable on 11 November 2015.
- (iii) In May 2014 the Group obtained RUR 4.5 billion under the credit line with EBRD at floating interest rate MosPrime+1.85% for the purpose construction of the forth power generation block Verkhnetagilskaya GRES JSC INTER RAO – Electric Power Plants. The Parent Company acts as a guarantor under this agreement. The credit limit is RUR 12 billion.
- (iv) Direct financing received from JSC Mejregionenergostroy for construction of the second power generation block Kaliningradskaya TEC-2 was novated into long-term loan agreement with the contractual interest rate of 0.83%. The loan and interest are payable in 2015. All obligations related to loan were transferred to one of the Group entities, CJSC Inter RAO UES Capital. The Parent Company acts as a guarantor under the agreement. The Group signed an addendum to the long-term loan agreement and entered into a call option with JSC Mejregionenergostroy. The loan was discounted using effective interest rate of 9% (Note 26). On 17 June 2014 JSC Mejregionenergostroy signed the cession agreement with VTB Factoring LLC and conceded the rights of money requirement from the Group in the amount of RUR 13,000 million.
- (v) In February 2011 JSC Telasi obtained a loan from European Bank of Reconstruction and Development (EBRD) amounting to USD 25 million at floating interest rate Libor + Margin. The Margin varies from 3.5% to 5.0%, the loan was obtained for financing of the investment programme to rehabilitate electricity distribution low-voltage network system in Georgia. The loan is payable on 4 November 2020. The Parent Company acts as a guarantor under this agreement.
- (vi) On 30 April 2009 CJSC Elektricheskie seti Armenii obtained a loan amounting to EUR 42 million at floating interest rate Libor + Margin for the purposes of financing the investment programme on rehabilitation and upgrading of the electricity distribution network system. The margin varies from 3.5% to 5.0%. The loan is payable in October 2018. The Parent Company acts as a guarantor under this agreement.¹
- (vii) On 17 June 2009 CJSC Elektricheskie seti Armenii obtained a loan from SC Vnesheconombank amounting to EUR 22.5 million at floating interest rate Euribor + 7.0% for the purpose of financing the investment programme on rehabilitation and upgrading of the electricity distribution network system. In the first half of 2011, in accordance with terms of agreement, the margin was changed to 5.0%. The loan is payable in October 2018. On 15 October 2009 the Parent Company issued financial guarantee for the joint liability under the above loan agreement.¹
- (viii) Financial lease liability nominated in RUR is mainly comprised of indebtedness to CJSC Busines-Aliance in the amount of RUR 307 million (31 December 2013: RUR 370 million) and represents Groups' finance lease liabilities for equipment for the second power generating block at Sochinskaya TPS. The power generating block was put into operation at the end of 2009. Under the terms of the lease agreement the Group imposes all the costs arising from change in floating interest rate (EURIBOR) and/or currency rate (SEK/EUR and RUR/EUR).

1

As at 30 June 2014 and 31 December 2013 CJSC Elektricheskie seti Armenii breached certain financial ratio under these loan agreements with EBRD and Vnesheconombank SC in respect of maintaining Financial Debt/EBITDA and Debt Service Coverage Ratio. The non-compliance with this covenant affected the classification of the loans as current. In June 2014 CJSC Elektricheskie seti Armenii received the letters from EBRD and Vnesheconombank SC which waived the covenants.

(in millions of RUR)

19. Loans and borrowings (continued)

(ix) On 23 September 2011 INTER RAO Credit B.V. obtained a loan from ING Bank N.V. in the amount of USD 74 million at nominal interest rate of 2.43%, for the purposes of financing an acquisition of JSC Khrameshi GES I and JSC Khrameshi GES II. The loan is payable in September 2016. The Parent Company and JSC INTER RAO – Electric Power Plants act as guarantors under this agreement.

On 10 December 2012 INTER RAO Turkey Enerji Holding A.S. obtained a loan from ING Bank N.V. in the amount of USD 89 million with variable interest rate Libor + 3.75%, with the purposes of financing acquisition of Trakya Elektrik Uretim ve Ticaret A.S. (see Note 5). The loan is payable in December 2017. Parent Company and JSC INTER RAO – Electric Power Plants act as guarantors under this agreement.

(x) With the acquisition of controlling interest in Trakya Elektrik Uretim ve Ticaret A.S., the Group assumed liability under two loans from Vakifbank with variable interest rate Libor + 4.15%, in the amount of USD 108 million as at 30 June 2014. The loans are payable in June 2019.

JSC Stantsiya Ekibastuzskaya GRES-2, joint venture, recognizes liability under two loans in the amount of USD 385 million and RUR 12,000 million from Eurasian Development Bank and SC Vnesheconombank, accordingly, maturing in 2025. Shareholders of JSC Stantsiya Ekibastuzskaya GRES-2 issued guarantees to the banks at the amount of 50% of two loans value and pledged shares of JSC Stantsiya Ekibastuzskaya GRES-2 as a collateral. The Parent Company's liability under the guarantee and collateral is limited by 50% of the two loans in the amount of RUR 6,220 million as at 30 June 2014 (as at 31 December 2013: RUR 6,178 million); another 50% of the loans were guaranteed and collateralised by AO Samruk-Energo.

Gross finance lease liabilities – minimum lease payments:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Less than one year	723	689
Between one and five years	927	1,232
After five years	33	23
	<u>1,683</u>	<u>1,944</u>
Future finance charges on finance leases	(191)	(224)
Present value of finance lease liabilities	<u><u>1,492</u></u>	<u><u>1,720</u></u>

Present value of finance lease liabilities is as follows:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Less than one year	627	572
Between one and five years	837	1,119
After five years	28	29
	<u>1,492</u>	<u>1,720</u>

Changes in interest rates impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Parent Company has a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favourable to the Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject for approval by the Parent Company. Management applies the same policy in making decisions in respect of the conditions of raising loans and borrowings on the subsidiary level.

Current loans and borrowings and current portion of non-current loans and borrowings:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Current loans and borrowings	6,794	4,189
Current portion of non-current loans and borrowings	25,212	7,685
Current portion of finance lease liability	627	572
Interest payable	188	107
Total	<u><u>32,821</u></u>	<u><u>12,553</u></u>

As at 30 June 2014 loan from CJSC HSBC Bank Armenia is collateralised by property, plant and equipment of the Group with carrying amount of RUR 31 million (31 December 2013: RUR 31 million) (see Note 6 (b)).

*(in millions of RUR)***19. Loans and borrowings (continued)**

The Group has the following undrawn borrowing facilities:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Floating rate		
Expiring within one year	4,550	1,600
Expiring beyond one year	65,491	74,359
	<u>70,041</u>	<u>75,959</u>
Fixed rate		
Expiring within one year	17,187	10,817
Expiring beyond one year	30,622	28,015
	<u>47,809</u>	<u>38,832</u>
Total	<u>117,850</u>	<u>114,791</u>

On 31 July 2012, the Group signed a long-term credit line agreement with EBRD to repay obligations under Put and Call option agreement with SC Vnesheconombank (Note 20, 34) with the credit limit of RUR 9,600 million. No funds were obtained by the Group under this loan agreement as at 30 June 2014.

20. Accounts payable and accrued liabilities

	<u>30 June 2014</u>	<u>31 December 2013</u>
Financial liabilities		
Trade payables	38,177	40,155
Short-term derivative financial instruments	26,450	24,558
Dividends payable	341	170
Other payables and accrued expenses	6,022	6,166
Total	<u>70,990</u>	<u>71,049</u>
Non-financial liabilities		
Advances received	17,992	17,911
Staff payables	4,697	5,845
Provisions, short-term	3,463	4,009
Total	<u>26,152</u>	<u>27,765</u>
	<u>97,142</u>	<u>98,814</u>

As at 30 June 2014 short-term derivative financial instruments include Put and Call option agreement with SC Vnesheconombank signed by the Parent Company in the amount of RUR 25,554 million (31 December 2013: RUR 23,955 million), fair value of open electricity derivatives of RAO Nordic Oy held for the purposes of hedging future electricity purchases equaled to RUR 571 million (31 December 2013: RUR 322 million), RUR 293 million of foreign currency forward of the Parent Company and Eastern Energy Company JSC (31 December 2013: RUR 246 million), held for the purposes of hedging risks related to EUR/RUR exchange rate foreign currency swap contracts of RAO Nordic Oy in the total amount of RUR 17 million (31 December 2013: RUR 21 million) and RUR 15 million of short-term portion of interest rate swap of Vydantai Wind Park UAB (31 December 2013: RUR 14 million).

As at 30 June 2014 other payables and accrued expenses included RUR 1,999 million of VAT on advances received by JSC INTER RAO – Electric Power Plants (31 December 2013: RUR 1,567 million) and RUR 596 million of the Group's liability for the contribution to the additional paid-in-capital of RUS Gas Turbines Holding B.V. (31 December 2013: RUR 585 million).

As at 30 June 2014 advances received included RUR 4,422 million of advances received by the Parent Company from buyers of equipment in Ecuador and Venezuela (31 December 2013: RUR 4,602 million) (see Note 30) and RUR 9,765 million of advances received for electricity sales from customers of JSC Mosenergosbyt (Group of companies), JSC PSK, LLC RN-Energo and LLC Bashkir Generation Company (31 December 2013: RUR 11,396 million).

As at 30 June 2014 provisions short-term included other provisions related to JSC INTER RAO – Electric Power Plants penalties on delay of fulfillment of power delivery construction contracts in the amount of RUR 654 million (31 December 2013: RUR 370 million), RUR 718 million related to litigation against one of the Company's subsidiaries for non-compliance with the Russian legislation on competition (31 December 2013: RUR 721 million).

(in millions of RUR)

20. Accounts payable and accrued liabilities (continued)

Movements in short-term provisions are as follows:

	<i>Provision for legal claims</i>	<i>Provision for taxes</i>	<i>Other provisions</i>	<i>Total</i>
Balance at 31 December 2012	756	108	1,713	2,577
Additions	201	51	456	708
Provision used during the period	(13)	(35)	(766)	(814)
Release of provision	(63)	(73)	(5)	(141)
Reclassification	–	–	3	3
Restoration provision additions	–	–	52	52
Translation difference	4	–	6	10
Balance at 30 June 2013	885	51	1,459	2,395
Balance at 31 December 2013	1,792	690	1,527	4,009
Additions	789	40	737	1,566
Provision used during the period	(1,090)	–	(484)	(1,574)
Release of provision	(515)	(42)	(22)	(579)
Reclassification	–	–	55	55
Translation difference	2	–	(16)	(14)
Balance at 30 June 2014	978	688	1,797	3,463

Additional provision (net of release) for the six months ended 30 June 2014 in the amount of RUR 987 million (for the six months ended 30 June 2013: RUR 567 million) included additional provisions related to JSC INTER RAO – Electric Power Plants penalties on delay of fulfilment of power delivery contracts in the amount of RUR 736 million (for the six months ended 30 June 2013: RUR 367 million), additional provisions related to JSC PSK legal claims in the amount of RUR 306 million (for the six months ended 30 June 2013: RUR 56 million) and release of provision related to Mosenergosbyt legal claims in the amount of RUR 87 million (additional provisions for the six months ended 30 June 2013: RUR 110 million). Additional provision (net of release) was recognised in Other provisions within Operating expenses, net in the consolidated interim statement of comprehensive income.

21. Other non-current liabilities

	<i>30 June 2014</i>	<i>31 December 2013</i>
Financial liabilities		
Long-term derivative financial instruments	1,233	1,097
Other long-term liabilities	107	855
Total financial liabilities	1,340	1,952
Non-financial liabilities		
Pensions liabilities	3,322	3,797
Advances received	1,333	1,538
Restoration provision	642	826
Government grants	451	454
Other long-term liabilities	6	2
Total non-financial liabilities	5,754	6,617
Total	7,094	8,569

Long-term derivative financial instruments as at 30 June 2014 in the total amount of RUR 1,233 million (31 December 2013: RUR 1,097 million) are represented by the fair value of derivatives of RAO Nordic Oy held for the purposes of hedging future electricity purchases in the amount RUR 941 million (31 December 2013: RUR 1,077 million) in RAO Nordic Oy (Note 20), foreign currency forward contract of the Parent Company in the amount of RUR 272 million (31 December 2013: RUR 15 million) and RUR 20 million of long-term portion of interest rate swap of Vydmantai Wind Park UAB (31 December 2013: RUR 5 million).

As at 30 June 2014 advances received were represented by the amounts received by the Parent Company from buyers of equipment in Ecuador and Venezuela in the amount of RUR 197 million (31 December 2013: RUR 402 million) (Note 30) and advances received by Inter RAO Export for construction of power station in Ecuador in the amount of RUR 1,136 million (31 December 2013: RUR 1,136 million).

(in millions of RUR)

21. Other non-current liabilities (continued)

Government grants relate to loan arrangements with the Government of Armenia (see Note 19, (vi) and (vii)).

Restoration provision relates to rehabilitation of land plots used for ash dumps by coal powered plants of the Group. The Group has recognized an obligation to restore the disturbed plots occupied by ash dumps on expiration of their useful lives.

Restoration provision 31 December 2012	896
Unwinding of discount	29
Changes in estimates of existing obligations	(159)
Reclass of short-term portion	(4)
	<hr/>
Restoration provision at 30 June 2013	762
	<hr/> <hr/>
Restoration provision at 31 December 2013	826
Unwinding of discount	31
Changes in estimates of existing obligations (Note 6)	(160)
Reclass of short-term portion	(55)
	<hr/>
Restoration provision at 30 June 2014	642
	<hr/> <hr/>

Discount rates used to calculate net present value of future cash outflows for land rehabilitation are in the range from 6.40-9.25% per annum in 2014 (from 6.08% to 8.34% per annum in 2013).

Post employment benefits

The Group provides certain post-employment benefits to their employees in accordance with labour agreements. Post employment benefits consist of pension benefits via non state fund, lump sum payments at retirement and towards, employees' jubilees, pension benefits to non-working pensioners-veterans and funeral compensation.

These benefits generally depend on the years of service, terminal salary and amount of benefits provided under labour agreements. The Group pays post employment benefits when they fall due.

The tables below provide information about liabilities related to pension and other post-employment benefits, plan assets and actuarial assumptions used for current and previous reporting periods.

Amounts recognised in the consolidated interim statement of financial position:

	30 June 2014	31 December 2013	30 June 2013
Present value of defined benefit obligations	3,322	3,797	3,369
Less: Fair value of plan assets	–	–	–
Deficit in plan	3,322	3,797	3,369
Pension liabilities in the consolidated statement of financial position	3,322	3,797	3,369

Amounts recognised in the consolidated statement of comprehensive income:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Current service cost	3	81
Interest cost	132	129
Recognised actuarial loss	(63)	(140)
Recognised past service cost	(372)	13
Total	(300)	83
Curtailment and settlement gain	(148)	–
Other	93	–
Total	(355)	83

(in millions of RUR)

21. Other non-current liabilities (continued)**Post employment benefits (continued)**

Changes in the present value of the Group's defined benefit obligation and plan assets are as follows:

	30 June 2014	30 June 2013
Present value of defined benefit obligations as at the beginning of the period	3,797	3,517
Current service cost	3	90
Interest cost	132	120
Actuarial (loss)/gain	(98)	(183)
Past service cost	(372)	13
Benefits paid	(94)	(95)
Curtailement and settlement gain	(148)	–
Increase in liabilities as a result of acquisitions of controlling interest	–	(93)
Other	102	–
Present value of defined benefit obligations as at the end of the period	3,322	3,369

Plan assets:

	30 June 2014	30 June 2013
Employer contributions	94	95
Benefits paid	(94)	(95)
Fair value of plan assets as at the end of the period	–	–

Changes in the pension liabilities are as follows:

	30 June 2014	30 June 2013
Pension liabilities at the beginning of the year	3,797	3,517
Net expense recognised in the consolidated statement of comprehensive income	(355)	83
Benefits paid	(94)	(95)
Increase in liabilities as a result of acquisitions of controlling interest	–	(93)
Other income	(26)	(43)
Pension liabilities at end of period	3,322	3,369

Principal actuarial assumptions are as follows:

	30 June 2014	31 December 2013	30 June 2013
Discount rate	8.30%	7.70%	7.50%
Salary increase	7.50%	7.00%	7.50%
Inflation	6.00%	5.50%	6.00%
Mortality	RUS 2011 mortality reduced by 20%	RUS 2011 mortality reduced by 20%	Russian population mortality table 2009

Staff turnover was assessed using an experience-based model.

The Group's best estimate of contributions to be paid in next year-long period is RUR 172 million (31 December 2013: RUR 152 million).

Sensitivity analysis as of 30 June 2014 on principal actuarial assumptions is presented below:

	Change in assumption	Effect on defined benefit obligation
Discount rate	+ / -0.75% p.a.	265
Salary increase	+ / -0.75% p.a.	104
Inflation	+ / -0.75% p.a.	71
Staff turnover	+ / -1.5% p.a.	141

Funded status of the pension and other post employment and long-term obligations as well as gains arising from experience adjustments is as follows:

	30 June 2014	31 December 2013
Defined benefit obligation	3,322	3,797
Deficit in plan	3,322	3,797
Experience adjustments on plan liabilities, gain	72	60

*(in millions of RUR)***22. Other taxes payable**

	30 June 2014	31 December 2013
Value added tax (VAT)	3,063	2,318
Property tax	817	808
Social tax	704	442
Personal income tax	326	215
Other taxes	162	242
	5,072	4,025

23. Revenue

	Six months ended 30 June 2014	Six months ended 30 June 2013
Electricity and capacity	329,371	298,546
Thermal energy sales	18,195	15,898
Other revenue	5,330	3,299
	352,896	317,743

24. Other operating income

	Six months ended 30 June 2014	Six months ended 30 June 2013
Penalties and fines receivable	928	1,131
Income from sale of available-for-sale financial assets and assets classified as held for sale	147	–
Electricity derivatives	737	786
Rental income	209	263
Other	1,131	1,368
	3,152	3,548

Other operating income for the six months ended 30 June 2014 included: income from insurance compensation in the amount of RUR 154 million (for the six months ended 30 June 2013: RUR 551 million); income from sale of equipment to Venezuela and Ecuador in the amount of RUR 222 million (for the six months ended 30 June 2013: RUR 145 million); income from reassessment of property tax for previous periods in the amount of RUR 219 million (for the six months ended 30 June 2013: RUR 20 million).

25. Operating expenses, net

	Six months ended 30 June 2014	Six months ended 30 June 2013
Purchased electricity and capacity	129,721	119,375
Electricity transmission fees	90,319	80,723
Fuel expense	68,292	64,304
Employee benefit expenses and payroll taxes	20,121	18,819
Depreciation and amortization (Note 6, 7)	10,675	12,423
Provision for impairment of account receivables, net	3,069	3,545
Agency fees	2,034	1,668
Other materials for production purposes	1,859	2,080
Taxes other than income tax	1,666	1,879
Water supply expenses	1,168	1,135
Repairs and maintenance	1,105	1,615
Other provisions – charge	975	576
Operating lease expenses	846	770
Thermal power transmission expenses	808	703
Loss from electricity derivatives	778	715
Transportation expenses	586	680
Consulting, legal and auditing services	479	556
Impairment of goodwill (Note 7)	344	–
Impairment of available-for-sale financial assets (Note 10)	305	2,696
Impairment of assets classified as held-for-sale	180	–
Loss from disposal of controlling interest	4	5
Cost of equipment sold	3	2
Impairment of property, plant and equipment – (release)/charge (Note 6)	(23)	10,346
Other	8,175	6,469
	343,489	331,084

*(in millions of RUR)***26. Finance income and expense**

	<i>Six months ended 30 June 2014</i>	<i>Six months ended 30 June 2013</i>
Finance income		
Interest income	1,262	1,362
Dividend income	959	1,144
Other finance income	136	94
	2,357	2,600
	<i>Six months ended 30 June 2014</i>	<i>Six months ended 30 June 2013</i>
Finance expenses		
Interest expense	1,893	1,902
Foreign currency exchange loss, net	470	29
Put and Call option agreement	1,599	7,625
Other finance expenses	472	399
	4,434	9,955

In June 2014 the Group received dividend income from JSC Irkutskenergo in amount of RUR 787 million (for the year 2013) and in June 2013 in amount of RUR 1,017 million (for the year 2012).

For the six months ended 30 June 2014 the unwinding of discount of the long-term loan from JSC Mejregionenergostroy, LLC VTB factoring (see Note 19 (iv)) in the amount of RUR 633 million (for the six months ended 30 June 2013: RUR 613 million) was recognized within interest expense.

The amount of RUR 1,599 million for the six months ended 30 June 2014 (RUR 7,625 million for the six months ended 30 June 2013), included into Put and Call option agreements, is related to recognition of fair value change of the Put and Call option agreement with SC Vnesheconombank signed in June 2010.

For the six months ended 30 June 2014 the Group recognizes expenses from Parent Company's foreign currency forward and option contracts in the amount of RUR 404 million within other finance expenses (for the six months ended 30 June 2013: income RUR 65 million within other finance income).

For the six months ended 30 June 2013 the Group recognized the unwinding of discount for promissory notes issued by Parent Company in favour of JSC Systema-Invest for acquisition of JSC Bashenergoactive with final settlement in September 2013 in the amount of RUR 306 million within other finance expenses.

27. Income tax expense

	<i>Six months ended 30 June 2014</i>	<i>Six months ended 30 June 2013</i>
Current tax expense	2,033	1,223
Deferred tax expense/(benefit)	1,894	(2,544)
Amended tax returns	(267)	(18)
Income tax expense/(benefit)	3,660	(1,339)

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (30 June 2013: 20%). The corporate income tax rate in Finland is 26% (30 June 2013: 26%), in Georgia is 15% (30 June 2013: 15%), in Lithuania is 15% (30 June 2013: 15%) in Armenia is 20% (30 June 2013: 20%), in Kazakhstan 20% (30 June 2013: 20%). The tax system in Transdniestria Republic, Moldavia, where Moldavskaya GRES operates, is based on revenue at a rate of 7.0% (30 June: 4.0%).

In accordance with tax legislation, tax losses in various Group entities in the countries where they operate may not be offset against taxable profit of other Group entities. Accordingly, profit tax may be accrued even where there is a net consolidated tax loss.

(in millions of RUR)

27. Income tax expense (continued)

(Profit)/loss before tax for financial reporting purposes is reconciled to income tax expense/(benefit) as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
(Profit)/loss before tax	(10,516)	15,184
Theoretical profit tax charge at 20% – expense/(benefit)	2,103	(3,037)
Effect of different tax rates	(139)	(304)
Effect of different tax base	175	11
Tax effect on remeasurement of Put and Call options and option programme	320	1,534
Utilisation of previously unrecognised tax losses	(2)	(44)
Tax effect of items which are not deductible or assessable for taxation purposes, net	333	438
Effect from impairment of goodwill	69	–
Recognition of previously unrecognised temporary differences	(11)	(19)
Effect from impairment of available-for-sale financial assets and assets classified as held for sale	97	245
Other	715	(163)
Income tax expense/(benefit)	3,660	(1,339)

28. Financial instruments and financial risk factors**Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rates risk), credit risk and liquidity risk. Risk management is carried out in accordance with risk policy approved by the Management Board.

This risk policy provides principles of overall risk management and policies for specific areas, such as foreign exchange risk, and credit risk. Management considers these measures to be sufficient to control the risks within the Group's business activities.

Information on financial instruments in terms of categories is presented below:

As at 30 June 2014	Note	Loans and receivables, held to maturity investments	Derivatives used for hedging	Available for sale financial assets	Total
Assets as per consolidated statement of financial position					
Available-for-sale financial assets	10	–	–	9,516	9,516
Derivative financial instruments	11, 16	–	1,606	–	1,606
Trade and other receivables excluding prepayments	11, 13	57,397	–	–	57,397
Restricted cash	16	631	–	–	631
Bank deposits with maturity exceeding 3 months	11, 16	2,568	–	–	2,568
Bonds	16	336	–	–	336
Cash and cash equivalents	14	56,499	–	–	56,499
Total assets		117,431	1,606	9,516	128,553
Liabilities as per consolidated statement of financial position					
As at 30 June 2014	Note	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Finance lease liabilities	Total
Loans and borrowings (excluding finance lease liabilities)	19	–	56,410	–	56,410
Finance lease liabilities	19	–	–	1,492	1,492
Derivative financial instruments	20, 21	27,683	–	–	27,683
Trade and other payables excluding taxes	20, 21	–	44,647	–	44,647
Total liabilities		27,683	101,057	1,492	130,232

(in millions of RUR)

28. Financial instruments and financial risk factors (continued)**Financial risk factors (continued)**

<i>As at 31 December 2013</i>	<i>Note</i>	<i>Loans and receivables, held to maturity investments</i>	<i>Derivatives used for hedging</i>	<i>Available for sale financial assets</i>	<i>Total</i>
Assets as per consolidated statement of financial position					
Available-for-sale financial assets	10	–	–	9,149	9,149
Assets classified as held-for-sale	15	–	–	4,232	4,232
Derivative financial instruments	11, 16	–	1,497	–	1,497
Trade and other receivables excluding prepayments	11, 13	57,302	–	–	57,302
Restricted cash	16	456	–	–	456
Bank deposits with maturity exceeding 3 months	11, 16	1,568	–	–	1,568
Bonds and promissory notes	16	337	–	–	337
Cash and cash equivalents	14	39,882	–	–	39,882
Total assets		99,545	1,497	13,381	114,423
Liabilities as per consolidated statement of financial position					
<i>As at 31 December 2013</i>	<i>Note</i>	<i>Liabilities at fair value through profit and loss</i>	<i>Other financial liabilities at amortised cost</i>	<i>Finance lease liabilities</i>	<i>Total</i>
Loans and borrowings (excluding finance lease liabilities)	19	–	51,031	–	51,031
Finance lease liabilities	19	–	–	1,720	1,720
Derivative financial instruments	20, 21	25,655	–	–	25,655
Trade and other payables excluding taxes	20, 21	–	47,346	–	47,346
Total liabilities		25,655	98,377	1,720	125,752

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay amounts in full when due. Credit risk is managed on the Group basis, as well as at the level of a particular Group entity. Financial assets which are potentially subject to credit risk are presented in the tables below net of provision for impairment and consist principally of trade and other receivables.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group's current arrangements include assessing customers' financial position, past experience and other relevant factors. Carrying amount of trade and other receivables, net of provision for impairment, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic and other factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment already recorded.

Cash is placed in financial institutions, which are considered to have minimal risk of default. Despite the fact that certain banks do not have international credit ratings they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation or other countries in which the Group entities operate.

As at 30 June 2014 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of RUR 47,089 million (31 December 2013: RUR 49,893 million), and other receivables in the amount of RUR 10,308 million (31 December 2013: RUR 7,409 million). Total carrying value of receivables as at 30 June 2014 was RUR 57,397 million (as at 31 December 2013: RUR 57,302 million).

The Group's general objective in managing credit risk is to ensure continuous revenue collection and stable cash inflow as well as efficient financial assets utilization.

Being mainly linked to trade receivables, the Group's exposure to credit risk is generally affected by quality of debtors. It is considered, that business activities among the diverse entities within the Group differ. Consequently, credit risks are specific for different types of trade receivables (residential sector, wholesale trading, etc.).

*(in millions of RUR)***28. Financial instruments and financial risk factors (continued)****Financial risk factors (continued)**

Due to impracticability of determining independent credit ratings for each customers and trade partner, as well as taking into account dissimilarity among different groups of them, the Group assesses credit risks allied with trade receivables based upon particular precedent experience and business relationship supported by other factors.

In order to obtain better credit risk monitoring the Group classifies receivables according to understanding of their credit risk rate. The Group makes sure that provision for impairment of accounts receivable reflects the credit risk classification in order to consistently grade and treat different groups of receivables in a similar manner.

<i>As at 30 June 2014</i>	Nominal value	Provision for impairment	Carrying amount	Share in total, %
A	49,490	–	49,490	60%
B'	5,269	(421)	4,848	6%
B''	2,153	(662)	1,491	3%
B'''	3,289	(2,025)	1,264	4%
C	22,774	(22,470)	304	27%
Total	82,975	(25,578)	57,397	100%

<i>As at 31 December 2013</i>	Nominal value	Provision for impairment	Carrying amount	Share in total, %
A	47,401	–	47,401	59%
B'	6,034	(591)	5,443	7%
B''	2,969	(907)	2,062	4%
B'''	5,351	(3,309)	2,042	7%
C	18,637	(18,283)	354	23%
Total	80,392	(23,090)	57,302	100%

The Group applies three main Credit risk Classes – A (premium), B (medium), C (low-grade).

Class A – parties with stable financial performance who have rarely allowed delayed settlement or defaulted on their financial obligations towards the Group. The credit risk related to those entities and individuals is considered minimal. No provision is applied for such receivables.

Class B – parties, whose capacity to clear their financial obligations towards the Group is to some extent affected by credit risk. This group is sequentially divided into three sub-classes:

- ▶ Class B' – parties with satisfactory creditworthiness, where any delaying of payments has been only short-term and temporary in character, related agreements are put in place accordingly, credit risk related to those entities and individuals is considered low.
- ▶ Class B'' – parties with poor creditworthiness, reasonably frequent delays in payments happen from time to time, there is reasonable uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered acceptable.
- ▶ Class B''' – parties with unsatisfactory creditworthiness, frequent delay in payments happen or/and have systematic grounds (reasons), there is significant uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered moderate.

The main reason behind dividing Class B into the three sub-classes is to develop a tool for more precise monitoring of the status of receivables and the outcome of credit risk-management measures employed.

Class C – parties with uncertain capacity to meet their financial obligations towards the Group. The credit risk related to those entities and individuals, mainly residential subscribers in the Russian Federation and Georgia, is considered high. The Group cannot switch off the debtors from electricity supply or reject potential debtors of this class due to social and political reasons.

Policies and procedures to address credit risk-management include participation in financial claims and court proceedings. Group entities also use a wide range of proactive credit risk-management procedures where they consider the rules of national energy markets. Such procedures include preliminary credit risk-assessment before setting up a contract or a deal.

(in millions of RUR)

28. Financial instruments and financial risk factors (continued)**Financial risk factors (continued)****(b) Market risk***(i) Foreign exchange risk*

Individual subsidiaries and the Group as a whole are exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than their functional currency. The currencies giving rise to this risk are primarily USD and EUR. Since 2010 the Group uses forward contracts to manage the Group's foreign currency risks (see Notes 16,17, 20 and 21).

The Group has the following foreign-currency denominated financial assets and liabilities (these are disclosed on stand-alone basis inclusive of intercompany balances and exclusive receivables considered as net investments and liabilities related to those assets):

At 30 June 2014	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	4,390	11,891	99	16,380
Long-term bank deposits	46	–	–	46
Bank deposits with maturity of 3-12 months	952	–	–	952
Cash and cash equivalents	1,675	10,463	47	12,185
Restricted cash	75	66	–	141
Derivative financial instruments (assets)	19	–	–	19
Loans and borrowings (excluding finance lease liabilities)	(7,437)	(21,562)	(958)	(29,957)
Finance lease liabilities	(338)	(1,144)	–	(1,482)
Derivative financial instruments (liabilities)	(591)	(8)	–	(599)
Trade and other payables (excluding taxes)	(976)	(1,224)	(139)	(2,339)
Net foreign currency position	(2,185)	(1,518)	(951)	(4,654)

At 30 June 2013	EUR	USD	Other	Total
Trade and other receivables (excluding prepayments)	4,032	14,743	65	18,840
Long-term bank deposits	43	–	–	43
Bank deposits with maturity of 3-12 months	–	95	–	95
Cash and cash equivalents	1,006	4,558	13	5,577
Restricted cash	75	22	–	97
Derivative financial instruments (assets)	212	–	–	212
Loans and borrowings (excluding finance lease liabilities)	(6,505)	(24,757)	(996)	(32,258)
Finance lease liabilities	(1,008)	(360)	–	(1,368)
Derivative financial instruments (liabilities)	(105)	(95)	–	(200)
Trade and other payables (excluding taxes)	(532)	(722)	(71)	(1,325)
Net foreign currency position	(2,782)	(6,516)	(989)	(10,287)

For sensitivity analysis, management estimated the reasonably possible changes in currency exchange rates based on expectations on their volatility. If currency exchange rates had weakened/strengthened within the estimated levels (see table below), with all other variables held constant, the hypothetical effect on income/(loss) and equity for the six months ended 30 June 2014 would have been increase of income by RUR 513 million or decrease of income by RUR 514 million (for the six months ended 30 June 2013: decrease of loss RUR 542 million or increase of loss by RUR 546 million) in accordance with positive and negative scenario, respectively.

At 30 June 2014	USD/EUR	RUR/USD	RUR/EUR	AMD/USD	AMD/EUR	AMD/JPY	GEL/USD	GEL/EUR
Upper level	1.53%	(5.83)%	(5.92)%	3.47%	5.05%	(1.55)%	(2.31)%	(0.81)%
Lower level	(1.53)%	5.83%	5.92%	(3.47)%	(4.95)%	1.72%	2.31%	0.74%
At 30 June 2013	USD/EUR	RUR/USD	RUR/EUR	AMD/USD	AMD/EUR	AMD/JPY	GEL/USD	GEL/EUR
Upper level	1.85%	(3.40)%	(1.61)%	3.18%	5.09%	(6.13)%	(2.19)%	(0.38)%
Lower level	(1.85)%	6.96%	4.98%	(3.18)%	(4.97)%	7.48%	2.19%	0.30%

Expected deviations are based on possible changes in exchange rates based on an analysis of recent trends.

(in millions of RUR)

28. Financial instruments and financial risk factors (continued)**Financial risk factors (continued)***(ii) Interest rate risk*

The Group's income/(loss) and operating cash flows are substantially independent of changes in market interest rates. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group has formal policy to determine how much of the Group's exposure is attributable to fixed or variable rates.

Variable rate debt	30 June 2014	30 June 2013
Libor	15,233	14,857
MosPrime	4,468	–
EURIBOR	3,787	1,527

The hypothetical effect on income/(loss) for the period due to change in basic points (bp) in the floating interest rates, with all other variables held constant:

	Deviation of LIBOR			
	4bp decrease		5 bp increase	
Hypothetical effect on income/(loss) for the six months ended 30 June 2014	4		(6)	
	3 bp decrease		8 bp increase	
	4		(9)	
	Deviation of EURIBOR		Deviation of MosPrime	
	5 bp increase	15 bp increase	195 bp decrease	175 bp increase
Hypothetical effect on income/(loss) for the six months ended 30 June 2014	(2)	(5)	70	(63)
	5 bp decrease	7 bp increase	–	–
	1	(1)		

(c) Liquidity risk

The Group's approach to manage liquidity is to ensure, as far as possible, that it has sufficient liquidity to satisfy its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking to damage the Group's reputation. The Group adopts prudent approach to liquidity risk management which implies holding a reasonable level of cash and maintaining funding available through an adequate amount of committed borrowing facilities (Note 19).

The table below analyses the Group's financial liabilities allocated to relevant maturity groupings based on remaining contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows:

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years	Total
Loans and borrowings	33,256	9,397	13,281	6,948	2,558	65,440
Payable on demand	2,641	–	–	–	–	2,641
Trade and other payables	44,546	19	9	8	18	44,600
Finance lease payables	723	374	553	33	–	1,683
Derivative financial liabilities	26,450	659	485	89	–	27,683
Total	107,616	10,449	14,328	7,078	2,576	142,047
At 31 December 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 20 years	Over 20 years	Total
Loans and borrowings	11,849	28,245	16,639	1,335	2,188	60,256
Payable on demand	1,799	–	–	–	–	1,799
Trade and other payables	46,491	653	490	9	17	47,660
Finance lease payables	689	559	673	23	–	1,944
Derivative financial liabilities	24,558	1,097	–	–	–	25,655
Total	85,386	30,554	17,802	1,367	2,205	137,314

*(in millions of RUR)***28. Financial instruments and financial risk factors (continued)****Financial risk factors (continued)****(d) Capital management**

The Group's objective in managing capital is to safeguard the Group's ability to continue operations on a going concern basis and to provide returns to shareholders as well as to maintain a strong capital base to provide creditor's and the market with confidence in operating with the Group.

The Company monitors capital based on ratios calculated based on the statutory financial statements of JSC "Inter RAO and management accounts of its subsidiaries prepared according to local statutory requirements. The Group analyses equity and debt financing (see Notes 17 and 19 respectively). As at 30 June 2014 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks.

Group entities registered in the Russian Federation are individually subject to the following externally imposed capital requirements that are relevant for joint stock companies only:

- ▶ share capital cannot be lower than 1,000 minimum wages at the date of the company registration;
- ▶ if share capital is greater than its net assets, then share capital must be reduced to a value not exceeding net assets;
- ▶ if minimum allowed share capital is greater than net assets, then a liquidation procedure shall follow.

As at 30 June 2014, the Group entities registered in the Russian Federation were in compliance with the above capital requirements.

(e) Electricity derivatives

The Group is exposed to financial risk in relation to electricity derivative instruments traded on NASDAQ OMX¹ by RAO Nordic Oy. The Group has a risk policy in place to ensure that gains and losses on those derivatives are within acceptable limits. The Group accepts the risk related to open electricity derivatives with an aggregate amount of 80% of defined risk capital of EUR 15 million. The Group holds "stop loss" positions to limit potential losses to EUR 6 million. If limits are reached, all open risk positions are closed and loss or profit is realised. Other procedures applied within for risk management measures are set up of maximum volume of open positions in electricity derivatives and use of valuation techniques such as stress-test, Value-at-Risk, etc. to form trading portfolio.

(f) Fair values

Fair value is determined either by reference to market or by discounting relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. Fair value of loans and borrowings is disclosed in Note 19.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by observable current market transactions and assets and liabilities for which pricing is obtained via pricing services. In case prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable. Non market observable inputs mean that fair values are determined in whole or partly using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions with the same instrument nor they are based on available market data. Main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, whereby allow situations in which there is little, if any, market activity for the financial instrument at the measurement date. Therefore, unobservable inputs reflect the Group's own assumptions about the assumptions that market participants would use in pricing of the financial instrument (including risk assumptions). These inputs are developed based on the best information available, which might include the Group's own data.

Determination of fair value and fair values hierarchy

The Group uses the following hierarchy to determine and disclose fair value of financial instruments:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

¹

Previously Nord Pool

(in millions of RUR)

28. Financial instruments and financial risk factors (continued)**Financial risk factors (continued)**

The following table shows an analysis of financial instruments by level of the fair value hierarchy:

At 30 June 2014	Note	Total fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets					
Derivative financial instruments					
Forward foreign exchange contracts	11, 16	16	16	–	–
Foreign exchange SWAP	11	3	–	3	–
Electricity derivatives	11, 16	1,587	1,587	–	–
Available-for-sale financial assets					
Quoted investment securities	10	8,061	8,061	–	–
Held to maturity financial assets					
Long-term bank deposits	11	46	–	–	46
Bonds issued by financial institutions	16	336	336	–	–
Total financial assets		10,049	10,000	3	46
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	20, 21	1,512	1,512	–	–
Foreign exchange SWAPs	20	17	–	17	–
Interest rate SWAP	20, 21	35	–	35	–
Forward foreign exchange contracts	20, 21	565	565	–	–
Financial liabilities designated at fair value through profit or loss					
Put and Call option agreement	20	25,554	–	25,554	–
Financial liabilities at amortised cost					
Loans and borrowings	19	49,156	–	49,156	–
Total financial liabilities		76,839	2,077	74,762	–
At 31 December 2013					
	Note	Total fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets					
Derivative financial instruments					
Forward foreign exchange contracts	11, 16	77	77	–	–
Electricity derivatives	11, 16	1,420	1,420	–	–
Available-for-sale financial assets					
Quoted investment securities	10	7,670	7,670	–	–
Assets classified as held-for-sale					
Quoted investment securities	15	4,232	4,232	–	–
Held to maturity financial assets					
Long-term bank deposits	11	23	–	–	23
Bonds issued by financial institutions	16	219	219	–	–
Promissory notes received	16	118	–	–	118
Total financial assets		13,759	13,618	–	141
Financial liabilities					
Derivative financial instruments					
Electricity derivatives	20, 21	1,399	1,399	–	–
Foreign exchange SWAPs	20	20	–	20	–
Interest rate SWAP	20, 21	20	–	20	–
Forward foreign exchange contracts	20, 21	261	261	–	–
Financial liabilities designated at fair value through profit or loss					
Put and Call option agreement	20	23,955	–	23,955	–
Financial liabilities at amortised cost					
Loans and borrowings	19	44,829	–	44,829	–
Total financial liabilities		70,484	1,660	68,824	–

*(in millions of RUR)***28. Financial instruments and financial risk factors (continued)****Financial risk factors (continued)**

The following table shows summary of financial instruments as at 31 December 2013 carried at cost within Level 3 of the hierarchy:

30 June 2014	Note	Carrying value	Method of valuation
Financial assets			
Financial assets held to maturity			
Long-term bank deposits	11	46	at cost

The following is a description of determination of fair value of financial instruments within Level 2, using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative instruments valued using a valuation technique with market observable inputs (Level 2) are represented by Put and Call option described in Note 20. Applied valuation techniques include Monte-Carlo simulation in the Black-Scholes framework, where underlying stock price follows Geometric Brownian Motion process with the drift corresponding to risk-free rates term structure. The model incorporates various inputs including stock pricing as at valuation dates, volatilities of shares and risk free rates.

During the six months ended 30 June 2014 the loss on derivatives in the amount of RUR 1,559 million was recognized in profit and loss in the consolidated interim statement of comprehensive income (during the six months ended 30 June 2013: RUR 7,625 million).

As at 30 June 2014 market price of the Company's shares equalled to RUR 0.0095 per share; as at initial recognition – RUR 0.04770 per share. Put and call option price is RUR 0.05781 and RUR 0.04811 per share, respectively; at initial recognition – RUR 0.04020 and RUR 0.04209 per share, respectively.

If market price of the shares as at 30 June 2014 would have been 10% higher or 10% lower, with all other variables held constant, the hypothetical effect on profit and loss for the six months ended 30 June 2014 would have been a decrease/increase of income by RUR 504 million, respectively.

29. Operating leases

Non-cancellable operating leases are payable as follows:

	30 June 2014	31 December 2013
Less than one year	4,722	1,240
Between one and five years	2,475	2,501
Over five years	9,025	11,118
Total	16,222	14,859

The above table includes the Group's lease agreements relating to land plots owned by local governments. Land lease payments are determined by lease agreements. Lease agreements are concluded for different periods. Part of the lease contracts are concluded annually with the right of future prolongation.

During the six months ended 30 June 2014 operating lease expenses were recognised in the amount of RUR 846 million in the consolidated statement of comprehensive income (for the six months ended 30 June 2013: RUR 770 million).

*(in millions of RUR)***30. Commitments****Investment and capital commitments**

In accordance with the memorandum signed between the Group and the Government of Georgia in March 2013, the Group has to invest in realisation of projects aimed to improve the electricity network which belongs to the Group entity JSC Telasi. In accordance with memorandum the investment commitments as at 30 June 2014 are as follows:

Year	Investments, GEL million
2014	12
2015-2017	45
2018-2020	53
2021-2023	64
2024-2025	49

As at 30 June 2014 realisation of investment commitments was in line with schedule for the year 2014. Exchange rate for Georgian lari to Russian ruble as at 30 June 2014 is set by National Bank of Georgia at GEL 5.217 for RUR 100.

As at 30 June 2014 JSC Stantsiya Ekibastuzskaya GRES-2 has contracted its capital commitments for construction of block 3 in the amount of RUR 4,412 million.

As at 30 June 2014 capital commitments of subsidiaries of the Company, are as follows:

Subsidiary	RUR, million
JSC INTER RAO – Electric Power Plants	43,905
JSC TGK-11	1,608
LLC Bashkir Generation Company	142
Total	45,655

Capital commitments of JSC TGK-11 mainly comprise of contractual obligation to JSC Power Machines on purchase of gas turbine and to JSC Stroytransgaz on reconstruction of ash dump.

Capital commitments of LLC Bashkir Generation Company included contractual liabilities in favour of JSC Power Machines on purchase of energy blocks.

Capital commitments of JSC INTER RAO – Electric Power Plants mainly comprise of contractual obligation to Group E4 on construction for Permskaya GRES (block 4), to several companies for construction, for gas turbines and other equipments for Verkhnetagilskaya GRES (block 12), to CJSC Atomstroyexport for construction of energy complex of Yuzhnouralskaya GRES-2 (block 1,2), to JSC Power Machines for gas turbines for Kostromskaya GRES, to JSC Technopromexport for construction of energy complex of Cherepetskaya GRES (block 8,9) and Urengoiskaya GRES.

As at 30 June 2014 capital commitments of power generating units of JSC INTER RAO – Electric Power Plants are as follows:

Power generating units	RUR, million
Permskaya GRES	22,830
Verkhnetagilskaya GRES	15,442
Yuzhno-Uralskaya GRES-2	4,766
Kostromskaya GRES	407
Urengoiskaya GRES	244
Cherepetskaya GRES	161
Other	55
Total	43,905

30. Commitments (continued)

Guarantees

The Group has the following guarantees as at 30 June 2014:

- ▶ Counter-guarantee to BNP Paribas S.A. and then for issuing letters of Guarantee by BNP Paribas S.A in favour of the Buyer In November 2010 the Group entered into Purchase Contract between Bariven, S.A (“Buyer”) and JSC Inter RAO (“Seller”) for the purpose of sale and purchase of 13 Units of LM2500+G4 Gas Turbine Generator Package. The total amount of the contract is USD 309 million (or RUR 10,392 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014) with an advance payment of USD 43 million (or RUR 1,446 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014) against the letter of Guarantee. The price per Unit is USD 24 million (or RUR 807 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014). As a security for the due performance of Seller’s obligations under the Contract BNP Paribas S.A. issued advance letter of Guarantee in the amount of 20% of the Contract price for the amount of USD 43 million (or RUR 1,446 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014) and letters of Guarantee in the amount of 15-30% of the price per Unit or USD 3.5-7 million (or RUR 118 - 235 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014) for the total amount of USD 105 million (or RUR 3,531 million). The letters of guarantee issued by BNP Paribas S.A and by ABN AMRO Bank’s in favour of the Buyer. In connection with the letters of Guarantee JSC Inter RAO entered into counter-guarantee agreement with VTB Bank JSC (hereafter referred to as “Bank VTB”) in favour of BNP Paribas S.A. and other foreign banks. The last date of guarantees is in September 2014.
- ▶ Counter-guarantee to Banco PICHINCHA C.A. In October 2010 the Group entered into Purchase and Installation Contract between HIDROTOAPI EP (“Buyer”) and JSC Inter RAO (“Seller”) for the purpose of sale, purchase and installation of 7 Turbine Generator Blocks for hydroelectric project “Toachi-Pilation” in Ecuador. The total amount of the contract is USD 145 million (or RUR 4,876 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014) with an advance payment of 20% of total contract value or USD 29 million (or RUR 975 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014) against the letter of Guarantee. As a security for the due performance of Seller’s obligations under the Contract Banco PICHINCHA C.A. issued the letter of Guarantee in the amount of 5% of total contract value or USD 7 million (or RUR 244 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014). Both letters of guarantee issued by Banco PICHINCHA C.A. in favour of the Buyer. In connection with letters of Guarantee JSC Inter RAO entered into counter-guarantee agreement with Nordea Bank (hereafter referred to as “Nordea”) in favour of Banco PICHINCHA C.A. These guarantees expire in April-May 2015.
- ▶ In May 2014 one of the Group entities RAO Nordic Oy has entered into the bank guarantee agreement with ING Bank (Eurasia) to maintain its financial trading operations on the NASDAQ OMX exchange. As at 30 June 2014 the amount of the used bank guarantee was EUR 80 million (or RUR 3,666 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014) at 16% rate per annum. The Parent Company acted as guarantor under this agreement. The guarantee expires in June 2015.
- ▶ In December 2010 the Group established together with General Electric and State Corporation Russian Technologies an associate entity, RUS Gas Turbines Holding B.V. The Group’s share in the entity is 25%. The entity was established to participate in production and sales of high-performance industrial gas turbines in the Russian Federation. The Group carries certain financial obligations to finance the associate.

By the order of the Parent Company VTB Bank JSC issued a StandBy Letter of Credit in favour of GE ENERGY HOLDINGS VOSTOK B.V. (Beneficiary) to the maximum aggregate amount of EUR 50 million in order to fulfill the Group’s investment obligations related to the associate at annual interest rate of 0.45%.

As at 30 June 2014 the financial guarantee outstanding amount was EUR 32 million, or RUR 1,466 million at the Central Bank of the Russian Federation exchange rate as of 30 June 2014 (as at 31 December 2013: EUR 28 million (or RUR 1,259 million at the Central Bank of the Russian Federation as of 31 December 2013)).

The guarantee expires in August 2020.
- ▶ Guarantees of the Group’s share of the joint ventures contingent liabilities in the amount of RUR 3,292 million which are to be incurred jointly with other investors.

Guarantees given under certain loans and borrowings agreements are disclosed in Note 19.

*(in millions of RUR)***31. Contingencies****(a) Political environment**

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia, Georgia, Armenia, Moldavia (including Transdniestria Republic), Lithuania and Kazakhstan.

In March-August 2014, the United States, European Union and other countries have introduced a series of unilateral restrictive political and economic actions against the Russian Federation and a number of Russian and Ukrainian individuals and organizations. These official actions, particularly in the case of a further escalation, may result in reduction of economic cooperation between business of before mentioned countries and Russian companies on the international capital markets, as well as other economic consequences. The impact of these events on the future results of operations and financial position of the Company at this time is difficult to determine.

(b) Insurance

The unified corporate standards are established in the Group for insurance coverage, for insurance companies reliability requirements and insurance coverage procedures developed by Parent Company.

There are two types of insurance undertaken by the Group: obligatory (as required by the law or by agreement between parties) and voluntary.

Obligatory insurance includes public liability insurance of owners of dangerous facilities and public liability insurance of car owners. The Group is obligated to insure different types of property plant and equipment under loan agreements provisions.

Voluntary insurance includes property insurance against certain risks and equipment breakdown insurance, vehicles insurance, insurance against construction and assembly risks, voluntary public liability insurance of owners of dangerous facilities against social and environmental harm risks. The Group also undertakes insurance of directors' and officials' of certain Group entities responsibilities to cover financial losses of third parties.

The Groups' assets are insured for its replacement value which is set by valuation reports for insurance purposes considering technical risks. Obligatory condition of the property insurance of foreign subsidiaries is the availability of reliable reinsurance protection, which is done by transferring part of the risk to the foreign reinsurers with high reliability ratings.

In order to optimize insurance protection management performs regular appraisal of efficiency of Group's insurance terms and rationale for new insurance products acquired.

(c) Litigation***Legal proceedings***

In the normal course of business the Group is a party to legal actions and consequently had received a number of legal claims from customers with the likelihood of negative outcome for the Group as not probable, but only possible, and, consequently, no provision has been made in these financial statements:

	<u>30 June 2014</u>	<u>31 December 2013</u>
Subcontractors claims	315	288
Customer's complaints	74	71
	<u>389</u>	<u>359</u>

Other than those litigations which have been accrued in the provisions (Note 20) and disclosed above, management of the Group is unaware of any actual, pending or threatened claims as at the date of approval of these consolidated financial statements, which would have a material impact on the Group.

(d) Tax contingencies

The taxation systems in the Russian Federation and in other countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during three to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

(in millions of RUR)

31. Contingencies (continued)

(d) Tax contingencies (continued)

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganisation related to reforming of the electric utilities industry in the Russian Federation. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

These circumstances may create tax risks in the Russian Federation and in the other countries in which the Group operates. Management believes that it has adequately provided for tax liabilities based on its interpretations of applicable relevant tax legislation, official pronouncements and court decisions.

However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Parent Company and subsidiaries in the countries where they operate have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group entities operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

The Group includes a number of operating and investment companies located in a number of different tax jurisdictions across Europe and the CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group entities as at 30 June 2014 would be successfully challenged in the amount of RUR 234 million (as at 31 December 2013: RUR 301 million).

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUR 1 billion in 2014 and RUR 2 billion in 2013. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

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

In 2014 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices [or making appropriate transfer pricing adjustments (where applicable)].

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

Environmental matters

Group entities operate in the electric power industry in the Russian Federation, Georgia, Armenia, Kazakhstan and Moldavia. The enforcement of environmental regulations in these countries is evolving and position of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

Restoration provision liabilities relate to reclamation of land plots, used for ash dumps by generating entities, which use coal for production purposes (see Note 21).

*(in millions of RUR)***31. Contingencies (continued)****(e) Ownership of land**

The current legislation in Georgia is unclear in relation to ownership issues with regard to land over which the Company's equipment for the transmission of electricity is located. On further clarification of the law, it is possible that the Company may be required to acquire ownership to certain land plots or to pay rentals to other parties for their use. At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which JSC Telasi might incur and consequently, no provision has been made against such potential liabilities in these financial statements.

32. Related party transactions**(a) Parent Company and control relationships**

The Russian Federation is the ultimate controlling party of JSC Inter RAO and has a controlling interest in the Company of over 50%. Details of operations with entities controlled by the Russian Federation are provided in the Note 32 (d).

(b) Transactions with key management personnel

The members of the Management Board own 0.0063% of ordinary shares of JSC Inter RAO as at 30 June 2014 (31 December 2013: 0.0063%).

Compensation paid to key management and members of the Board of Directors for their service in that capacity is made up of contractual salary and performance bonuses. Key management and members of the Board of Directors received the following remuneration during the period, which is included in employee benefit expenses and payroll taxes (Note 25):

	<i>Six months ended 30 June 2014</i>	<i>Six months ended 30 June 2013</i>
Salaries and bonuses	565	404

Employee's Share Option Programme. In December 2010 the Company's Board of Directors approved Share Option Programme (hereinafter referred to as "the Programme") in which members of the Management Board and other key employees of the Group were to be participants (hereinafter referred to as "the Programme participants").

The number of shares, which the Programme participants may purchase within the framework of the Programme, is calculated proportionally based on the number of days worked prior to terminating the employment provided that termination meets certain conditions of Labour Code or in full amount based on decision of Chairman of the Board. In the case of breaching certain defined provisions of the labour agreement and terminating employment at the initiative of the Group the Programme participants will lose their right to purchase the shares.

Participation in the Programme and the exact number of shares in the participants' individual share option agreements are determined by decision of the Company's Board of Directors. In 2011 the Company's Board of Directors approved the final form and conditions of the Programme. These stipulated exact number of shares to which Programme participants were entitled and their fixed exercise price.

The Programme participants could exercise the share option at any time during 2013-2015.

Changes in the amounts of options granted are described in the table below:

	<i>All options granted under the Programme</i>	<i>Attributed to members of the Management Board</i>
Number of options outstanding as at 31 December 2012	126,763,437,501	65,583,000,000
Options agreement signed in 2013	–	–
Number of options outstanding as at 31 December 2013	126,763,437,501	65,583,000,000
Options exercised during the six months ended 30 June 2014	(48,580,000)	–
Number of options outstanding as at 30 June 2014	126,714,857,501	65,583,000,000

*(in millions of RUR)***32. Related party transactions (continued)****(b) Transactions with key management personnel (continued)**

Fair value of services received in return for share options granted to employees is measured by reference to fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Binomial model.

	<u>30 June 2014</u>	<u>31 December 2013</u>
Weighted average price (RUR)	0.0093	0.0112
Expected volatility	40.00%	40.00%
Option life, years	3.9	3.9
Risk-free interest rate	6.6%	6.6%
Fair value of the option at measurement date (in RUR)	0.013601241	0.013601241

To determine volatility the Group used the historical volatility of the market prices of the Company's publicly traded shares. No loss was recognized for the six months ended 30 June 2014 within employee benefit expenses in the consolidated interim statement of comprehensive income related to fair value of the options agreements signed (for the six months ended 30 June 2013 the Group recognised a loss in the amount of RUR 45 million).

To implement the Share Option Programme the Company issued interest-free loans to key-management; as at 30 June 2014 discounted amount of the loans equals to RUR 37 million (31 December 2013: RUR 35 million).

(c) Transactions with associates and joint ventures

Detailed list of the Group's joint ventures and associates is disclosed in Note 8. Sales to and purchases from joint ventures and associates are made at terms equivalent to those that prevail in arm's length transactions.

The Group's transactions with associates and joint ventures are disclosed below.

	<u>Six months ended 30 June 2014</u>	<u>Six months ended 30 June 2013</u>
Revenue		
Joint ventures	635	309
Other operating income		
Joint ventures	15	4
Interest income		
Joint ventures	30	21
Dividend income		
Joint ventures	331	44
	<u>1,011</u>	<u>378</u>
Purchased power		
Joint ventures	34	22
Purchased capacity		
Joint venture	300	198
Other expenses		
Joint venture	246	656
Interest expenses		
Joint venture	8	–
	<u>588</u>	<u>876</u>
Capital expenditures		
Joint ventures	195	3,598
	<u>30 June 2014</u>	<u>31 December 2013</u>
Accounts receivable		
Joint ventures	308	542
Loans issued		
Joint ventures	150	350
Accounts payable		
Joint ventures	212	365

*(in millions of RUR)***32. Related party transactions (continued)****(d) Transactions with entities controlled by the Russian Federation**

Sales to and purchases from entities controlled by the Russian Federation are made at terms equivalent to those that prevail in arm's length transactions.

Information on transactions with entities controlled by the Russian Federation is presented below:

	<i>Six months ended 30 June 2014</i>	<i>Six months ended 30 June 2013</i>
Revenue		
Electricity and capacity	111,651	98,950
Other revenues	1,866	479
Other operating income	393	229
	113,910	99,658
Operating expenses		
Purchased power and capacity	34,267	30,860
Transmission fees	86,953	74,990
Fuel expense (gas)	23,325	20,514
Fuel expense (coal)	427	503
Other purchases	133	23
Other expenses	5,767	1,741
	150,872	128,631
Capital expenditures	2,412	1,675
	<i>Six months ended 30 June 2014</i>	<i>Six months ended 30 June 2013</i>
Finance income/(expenses)		
Interest income	683	715
Other finance income	10	–
Interest expenses	(847)	(945)
Put and Call option agreements (Note 26)	(1,599)	(7,625)
	(1,753)	(7,855)
	<i>30 June 2014</i>	<i>31 December 2013</i>
Other non-current assets and liabilities		
Long-term derivative financial instruments – liabilities (Note 20)	25,554	23,955
	<i>30 June 2014</i>	<i>31 December 2013</i>
Long-term accounts receivable		
Other account receivables	434	196
Less impairment provision	(90)	(66)
Other receivables – net	344	130
Short-term accounts receivable		
Trade accounts receivable, gross	20,104	19,128
Less impairment provision	(8,478)	(6,442)
Trade receivables – net	11,626	12,686
Advances issued	460	839
Advances issued for capital construction	120	13
Other receivables	2,056	1,399
	14,262	14,937

*(in millions of RUR)***32. Related party transactions (continued)****(d) Transactions with entities controlled by the Russian Federation (continued)**

	30 June 2014	31 December 2013
Accounts payable		
Trade accounts payable	19,561	20,043
Payables for capital construction	2,304	3,052
Other accounts payable	389	732
Advances received	1,851	3,069
	24,105	26,896
	30 June 2014	31 December 2013
Loans and borrowings		
Short-term loans and borrowings	18,956	2,548
Long-term loans and borrowings	5,535	21,174
Interest on loans and borrowings	360	55
	24,851	23,777
	30 June 2014	31 December 2013
Cash and cash equivalents	3,136	5,622
	30 June 2014	31 December 2013
Other current assets (bank deposits)	14,303	8,293
	Six months ended	Six months ended
	30 June 2014	30 June 2013
Financial transactions		
Loans and borrowings received	1,907	2,956
Loans and borrowings repaid	(2,971)	(8,530)
	(1,064)	(5,574)

In July 2011 subsidiary of JSC Inter RAO entered into an agreement with a state-controlled company for sale of electric power under the "take-or-pay" arrangement through 30 June 2026. The sales to and purchases from enterprises controlled by the Russian Federation are made at terms equivalent to those that prevail in arm's length transactions.

*(in millions of RUR)***32. Related party transactions (continued)****(e) Transactions with other related parties**

Sales to and purchases from other related parties are made at terms equivalent to those that prevail in arm's length transactions. Amounts of transactions with other related parties (except for those controlled by the Russian Federation, associates and joint ventures), for each of the reporting periods are provided below:

	<i>Six months ended 30 June 2014</i>	<i>Six months ended 30 June 2013</i>
Revenue		
Electricity and capacity	584	1,497
Dividends received	787	1,018
	<u>1,371</u>	<u>2,515</u>
Operating expenses		
Purchased electricity and capacity	64	135
	<u>30 June 2014</u>	<u>31 December 2013</u>
Short-term accounts receivable		
Trade and other accounts receivable	49	45
Short-term accounts payable		
Trade and other accounts payable	58	40
	<u>30 June 2014</u>	<u>31 December 2013</u>
Loans and borrowings payable		
Long-term loans and borrowings	4,066	2,033
Short-term loans and borrowings	3,044	724
	<u>7,110</u>	<u>2,757</u>
	<u>30 June 2014</u>	<u>31 December 2013</u>
Cash and cash equivalents		
Cash in bank	7,434	5,892
Short-term bank deposits	3,077	830
	<u>10,511</u>	<u>6,722</u>
	<u>30 June 2014</u>	<u>30 June 2013</u>
Income and expenses		
Interest expenses	131	161

*(in millions of RUR)***33. Significant subsidiaries**

Significant subsidiaries consolidated in the Group's consolidated financial statements are disclosed in the table below:

	Country of incorporation	30 June 2014 ownership/voting	31 December 2013 ownership/voting
Trading entities			
RAO Nordic Oy ¹	Finland	100.00%	100.00%
UAB INTER RAO Lietuva ¹	Lithuania	51.00%	51.00%
Distributing entities			
JSC Telasi	Georgia	75.11%	75.11%
CJSC Elektricheskiye seti Armenii	Armenia	100.00%	100.00%
Supply entities			
JSC Mosenergosbyt (group of companies)	The Russian Federation	50.92%	50.92%
JSC PSK	The Russian Federation	100.00%	100.00%
JSC Tambov Energy Retailing Company	The Russian Federation	59.38%	59.38%
JSC Saratovenergo	The Russian Federation	56.97%	56.97%
JSC Altayenergosbyt	The Russian Federation	100.00%	100.00%
JSC Industrial Energetics	The Russian Federation	51.00%	51.00%
LLC RN – Energo	The Russian Federation	100.00%	100.00%
JSC Tomskenergosbyt (Note 5)	The Russian Federation	59.18% ²	59.18% ²
Generating entities			
Mtkvari Energy LLC	Georgia	100.00%	100.00%
CJSC Moldavskaya GRES	Moldavia, Transdnistria Republic	100.00%	100.00%
JSC INTER RAO – Electric Power Plants	The Russian Federation	100.00%	100.00%
JSC Khramhesi GES I	Georgia	100.00%	100.00%
JSC Khramhesi GES II	Georgia	100.00%	100.00%
JSC TGK-11 (group of companies)	The Russian Federation	100.00%	100.00%
LLC Bashkir Generation Company	The Russian Federation	100.00%	100.00%
LLC Bashkir Heat Distribution Grid	The Russian Federation	100.00%	100.00%
JSC RazTES	Armenia	100.00%	100.00%
Trakya Elektrik Uterim Ve Ticaret A.S. (Note 5)	Turkey	100.00%	100.00%
Other entities			
CJSC INTER RAO UES Capital	The Russian Federation	100.00%	100.00%
LLC INTER RAO – Procurement Centre	The Russian Federation	100.00%	100.00%
JSC Eastern energy company	The Russian Federation	100.00%	100.00%
JSC Electrolutch	The Russian Federation	100.00%	100.00%
LLC Kvarz Group (Note 5)	The Russian Federation	100.00%	100.00%
INTER RAO Credit B.V.	Netherlands	100.00%	100.00%

¹ RAO Nordic Oy and UAB INTER RAO Lietuva also act as holding companies for certain Group entities.

² included 24.8% shares sold under sale and repurchase agreements ('repos')

JSC Inter RAO

(in millions of RUR)

33. Significant subsidiaries (continued)**Non-controlling interests in subsidiaries**

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests, before any intra-group eliminations for the year ended 30 June 2014, including amounts related to both: shareholders and non-controlling interest:

	<i>JSC Mosener- gosbyt (group of companies)</i>	<i>UAB INTER RAO Lietuva</i>	<i>JSC Telasi</i>	<i>JSC Tambov Energy Retailing Company</i>	<i>JSC Saratov- energo</i>	<i>JSC Industrial Energetics</i>	<i>Tomskenergo- sbyt JSC</i>	<i>Other individually immaterial subsidiaries</i>	<i>Total</i>
Non-controlling interest (percentage)	49.08%	49.00%	24.89%	40.62%	43.03%	49.00%	40.82%		
Non-current assets	6,452	558	2,896	171	168	–	845	1,298	12,388
Current assets	25,503	903	1,494	348	2,069	370	1,168	419	32,274
Non-current liabilities	(818)	–	(694)	(17)	(106)	–	–	(909)	(2,544)
Current liabilities	(23,704)	(965)	(1,743)	(348)	(2,561)	(348)	(2,244)	(428)	(32,341)
Net assets	7,433	496	1,953	154	(430)	22	(231)	380	9,777
Carrying amount of non-controlling interest at 30 June 2014	(3,704)	(243)	(660)	(54)	(59)	(11)	94	40	(4,597)
Revenue	127,362	3,779	2,731	2,386	8,228	2,222	6,027	764	153,499
Profit/(loss) for the period	1,109	246	318	(8)	3	11	521	35	2,235
Total comprehensive (loss)/income for the six months ended 30 June 2014	1,101	246	318	(8)	5	11	521	35	2,229
Profit/(loss) allocated to non-controlling interest	1,371	121	80	(3)	1	5	213	(59)	1,729
Cash flows from operating activities	(1,111)	335	178	63	(225)	(74)	322	115	(397)
Cash flows from investing activities	269	5	(311)	4	2	–	8	(35)	(58)
Cash flows from financing activities before dividends to non-controlling interest	82	(276)	(72)	(21)	221	8	(102)	(116)	(276)
Net (decrease)/increase in cash and cash equivalents for the six months ended 30 June 2014	(760)	64	(205)	46	(2)	(66)	228	(36)	(731)
Cash flows from financing activities - cash dividends to non-controlling interest	(16)	(37)	–	–	–	–	–	–	(53)

(in millions of RUR)

33. Significant subsidiaries (continued)

Non-controlling interests in subsidiaries (continued)

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests, before any intra-group eliminations for the year ended 30 June 2013, including amounts related to both: shareholders and non-controlling interest:

	<i>JSC Mosener- gosbyt (group of companies)</i>	<i>UAB INTER RAO Lietuva</i>	<i>JSC Telasi</i>	<i>JSC Tambov Energy Retailing Company</i>	<i>JSC Saratov- energo</i>	<i>JSC Industrial Energetics</i>	<i>Other individually immaterial subsidiaries</i>	<i>Total</i>
Non-controlling interest (percentage)	49.08%	49.00%	24.89%	40.62%	43.03%	49.00%		
Non-current assets	6,369	445	8,161	174	130	1	2,616	17,896
Current assets	24,161	815	1,296	277	1,310	328	660	28,847
Non-current liabilities	(799)	–	(758)	(19)	(22)	–	(1,148)	(2,746)
Current liabilities	(24,148)	(704)	(2,079)	(291)	(2,388)	(278)	(993)	(30,881)
Net assets	5,583	556	6,620	141	(970)	51	1,135	13,116
Carrying amount of non-controlling interest at 30 June 2013	(2,911)	(272)	(571)	(49)	173	(25)	(96)	(3,751)
Revenue	117,597	4,326	2,415	2,046	7,454	2,303	174	136,315
(Loss)/profit for the period	(147)	184	(1,106)	(25)	(168)	39	(76)	(1,299)
Total comprehensive income for the six months ended 30 June 2013	(101)	184	(1,106)	(25)	(167)	39	(76)	(1,252)
(Loss)/profit allocated to non-controlling interest	(22)	90	(276)	(15)	(72)	19	(20)	(296)
Cash flows from operating activities	(1,144)	289	(81)	(74)	(228)	(52)	51	(1,239)
Cash flows from investing activities	(391)	16	(173)	(3)	(1)	(152)	17	(687)
Cash flows from financing activities before dividends to non-controlling interest	(16)	(118)	(144)	51	219	–	(96)	(104)
Net (decrease)/ increase in cash and cash equivalents for the six months ended 30 June 2013	(1,551)	187	(398)	(26)	(10)	(204)	(28)	(2,030)
Cash flows from financing activities - cash dividends to non-controlling interest	(16)	(157)	–	–	–	–	–	(173)

(in millions of RUR)

34. Events after the reporting period

On 10 July 2014 the Group received put notice from SC Vnesheconombank under Put and Call option agreement signed in June 2010 to exercise the Put option with respect to 529 303 482 587 of option shares of JSC Inter RAO. Under the terms of agreement the Group has to exercise the Put option within 90 days from the date of receipt.

On 30 July 2014 the Group obtained RUR 9,600 million under long-term credit line from EBRD within the agreement signed 31 July 2012 with an interest rate 3M Mosprime+1,5% for the purpose repayment of obligations under Put and Call option agreement with SC Vnesheconombank (Note 19).