# SO UPS GROUP

# International Financial Reporting Standards (IFRS)
# Consolidated Financial Statements
# for the year ended 31 December 2013
# and Auditors' Report

# Contents

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## Auditors' Report

To the Shareholder and Board of Directors
Open Joint Stock Company System Operator of the United Power System (OJSC SO UPS)

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

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

Audited entity: Open Joint Stock Company System Operator of the United Power System.

Registered by the Moscow Registration Chamber on 17 June 2002, Registration No. 001.025.494

Registered in the Unified State Register of Legal Entities on 24 August 2009 by Inter-Regional inspectorate of Federal Tax Service No.46 of Moscow , Registration No. 1027700201352, Certificate series 77 No. 011601836.

Building 3, 7, Kitaigorodsky proezd, Moscow, 109074.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Altukhov K.V.

Director, (power of attorney dated 1 October 2013 № 65/13)

ZAO KPMG

26 June 2014

Moscow, Russian Federation

In millions of Russian Roubles (RUB)

## Consolidated Statement of Financial Position as at 31 December 2013

| | Notes | 31 December 2013 | 31 December 2012 (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 20,023 | 19,032 |
| Intangible assets | 6 | 2,344 | 2,205 |
| Other non-current assets | 7 | 1,357 | 621 |
| **Total non-current assets** | | **23,724** | **21,858** |
| **Current assets** | | | |
| Cash and cash equivalents | | 6,076 | 6,908 |
| Accounts receivable and prepayments | 8 | 894 | 1,026 |
| Income tax receivable | | 193 | 194 |
| Inventories | | 111 | 129 |
| Other investments | | - | 75 |
| Other current assets | | 2 | 45 |
| **Total current assets** | | **7,276** | **8,377** |
| **TOTAL ASSETS** | | **31,000** | **30,235** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to the shareholder** | | | |
| Share capital registered | 9 | 2,576 | 2,576 |
| Share premium | 9 | 7,800 | 7,800 |
| Revaluation reserve | 5 | 4,683 | 4,709 |
| Contribution from the shareholder | 9 | 833 | 833 |
| Retained earnings and other reserves | | 9,914 | 7,649 |
| **Total equity** | | **25,806** | **23,567** |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 15 | 506 | 552 |
| Retirement benefit obligations | 11 | 1,925 | 1,712 |
| **Total non-current liabilities** | | **2,431** | **2,264** |
| **Current liabilities** | | | |
| Current debt and current portion of non-current debt | 10 | - | 1,799 |
| Accounts payable | 12 | 1,709 | 1,782 |
| Taxes payable | 13 | 1,054 | 823 |
| **Total current liabilities** | | **2,763** | **4,404** |
| **Total liabilities** | | **5,194** | **6,668** |
| **TOTAL EQUITY AND LIABILITIES** | | **31,000** | **30,235** |

Director, Finance and Economics — I.L. Solonar

Chief Accountant — M.S. Sedyakin

"26" June 2014



The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

In millions of Russian Roubles (RUB)

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013

| | Notes | Year ended 31 December 2013 | Year ended 31 December 2012 (Restated) |
|---|---|---|---|
| *Revenues* | | | |
| Dispatch management fees | | 23,573 | 21,394 |
| Other income | | 645 | 577 |
| **Total revenues** | | **24,218** | **21,971** |
| *Operating expenses* | | | |
| Wages, benefits and payroll taxes | | (12,683) | (11,173) |
| Depreciation of property, plant and equipment and amortization of intangible assets | 5, 6 | (2,662) | (2,345) |
| Rental expenses | | (416) | (596) |
| Consulting services | | (454) | (664) |
| Repairs and maintenance expenses | | (1,154) | (855) |
| Transportation expenses | | (454) | (414) |
| Taxes other than income tax | | (375) | (322) |
| Services on regulation of frequency | | (777) | (790) |
| Other materials | | (228) | (233) |
| Insurance expense | | (217) | (187) |
| Business travel expenses | | (261) | (258) |
| Telecommunication services | | (300) | (180) |
| Utilities expenses | | (192) | (149) |
| Research costs | | (62) | (128) |
| Revaluation of property, plant and equipment | 5 | (16) | (128) |
| Other operating expenses | | (1,227) | (804) |
| **Operating expenses** | | **(21,478)** | **(19,226)** |
| **Operating profit** | | **2,740** | **2,745** |
| *Finance income and costs* | | | |
| Finance income | 14 | 393 | 374 |
| Finance costs | 14 | (147) | (279) |
| **Profit before income tax** | | **2,986** | **2,840** |
| Income tax expense | 15 | (817) | (755) |
| **Profit for the year** | | **2,169** | **2,085** |
| **Other comprehensive income/(loss)** | | | |
| *Items that will never be reclassified to profit or loss* | | | |
| Revaluation of property, plant and equipment | 5 | (32) | (213) |
| Remeasurements of defined benefit liability | 11 | 120 | (417) |
| Related income tax | | (18) | 126 |
| **Other comprehensive income (loss), net of income tax** | | **70** | **(504)** |
| Total comprehensive income for the year | | 2,239 | 1,581 |
| Total comprehensive income attributable to Shareholder | | 2,239 | 1,581 |

Director, Finance and Economics I.L. Solonar

Chief Accountant M.S. Sedyakin

"26" June 2014



The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

**In millions of Russian Roubles (RUB)**

## Consolidated Statement of Cash Flows for the year ended 31 December 2013

| | Note | Year ended 31 December 2013 | Year ended 31 December 2012 (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| **Profit before income tax** | | **2,986** | **2,840** |
| *Adjustments to reconcile profit before income tax to net cash provided by operations*: | | | |
| Depreciation and revaluation of property, plant and equipment and amortization of intangible assets | 5, 6 | 2,662 | 2,345 |
| Retirement benefit charge | 11 | 424 | 182 |
| Foreign exchange (gain)/loss | 14 | (55) | 18 |
| Finance income, net (excluding interest on retirement benefit obligations) | 14 | (311) | (215) |
| Non-refundable VAT | | 13 | 23 |
| (Gain)/loss on disposal of property, plant and equipment | | (6) | 15 |
| Adjustment for other non-cash activities | | 211 | 48 |
| **Operating cash flows before working capital changes and income tax paid** | | **5,924** | **5,256** |
| *Working capital changes:* | | | |
| Change in accounts receivable and prepayments | | (15) | (145) |
| Change in other non-current and current assets | | (24) | (32) |
| Change in inventories | | 18 | (53) |
| Change in accounts payable and accruals | | (73) | 351 |
| Change in taxes payable, other than income tax | | 232 | 191 |
| Income tax paid | | (881) | (871) |
| Retirement benefits paid | 11 | (91) | (87) |
| **Net cash generated by operating activities** | | **5,090** | **4,610** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment and intangible assets | | (4,583) | (4,200) |
| Proceeds from sale of property, plant and equipment | | 11 | 10 |
| Interest received | | 346 | 364 |
| Disposal of investments | | 75 | 125 |
| **Net cash used in investing activities** | | **(4,151)** | **(3,701)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from loans and borrowings | | - | 4 |
| Repayment of borrowings | | (1,823) | (469) |
| Interest paid | | (3) | (156) |
| Dividends paid | | - | (795) |
| **Net cash used in financing activities** | | **(1,826)** | **(1,416)** |
| **Net decrease in cash and cash equivalents** | | **(887)** | **(507)** |
| Cash and cash equivalents at the beginning of the year | | 6,908 | 7,431 |
| Effect of exchange rate fluctuations on cash held | | 55 | (16) |
| **Cash and cash equivalents at the end of the year** | | **6,076** | **6,908** |

Director, Finance and Economics I.L. Solonar

Chief Accountant M.S. Sedyakin

"26" June 2014



The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

In millions of Russian Roubles (RUB)

## Consolidated Statement of Changes in Equity for the year ended 31 December 2013

| | Share capital | Share premium | Revaluation reserve | Contribution from the shareholder | Remeasurements of defined benefit liability (asset) | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2012, as previously reported** | **2,576** | **7,800** | **4,880** | **833** | **-** | **6,915** | **23,004** |
| **Impact of change in accounting policy** | **-** | **-** | **-** | **-** | **(138)** | **(85)** | **(223)** |
| **Balance at 1 January 2012 (restated)** | **2,576** | **7,800** | **4,880** | **833** | **(138)** | **6,830** | **22,781** |
| Profit for the year | - | - | - | - | - | 2,085 | 2,085 |
| Other comprehensive loss, net of tax | - | - | (171) | - | (333) | - | (504) |
| **Total comprehensive income for the year** | **-** | **-** | **(171)** | **-** | **(333)** | **2,085** | **1,581** |
| Dividends | - | - | - | - | - | (795) | (795) |
| **At 31 December 2012** | **2,576** | **7,800** | **4,709** | **833** | **(471)** | **8,120** | **23,567** |
| Profit for the year | - | - | - | - | - | 2,169 | 2,169 |
| Other comprehensive income, net of tax | - | - | (26) | - | 96 | - | 70 |
| **Total comprehensive income for the year** | **-** | **-** | **(26)** | **-** | **96** | **2,169** | **2,239** |
| **At 31 December 2013** | **2,576** | **7,800** | **4,683** | **833** | **(375)** | **10,289** | **25,806** |

Director, Finance and Economics — I.L. Solonar

Chief Accountant — M.S. Sedyakin

"26" June 2014



The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

## Note 1. General information

### The Company and its operations

The Open Joint Stock Company System Operator of the United Power System ("the Company" or OJSC SO UPS) was founded based on the Resolution of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") No.39r of 13 June 2002 in accordance with the Decree of the Russian Federation Government No.526 of 11 July 2001 "On reforming of electricity (power) generation industry of the Russian Federation".

The Company's registered office is located at 7 Kitaigorodsky proezd, bld. 3, 109074, Moscow, Russia.

The Company's principal activities include electricity dispatching functions within the Unified Energy System of the Russian Federation and organization of forecasting of power production and consumption.

As at 31 December 2013, the Company had 67 branches (31 December 2012: 67).

The SO UPS Group ("the Group") includes the Company and its subsidiaries. As at 31 December 2013 the Company owned 100 % (2012: 100%) of the share capital of JSC Scientific and Technical Center of Unified Power System (JSC "STC UPS", former JSC "NIIPT") and 100 % (2012: 100%) of the share capital CJSC "Inspection of Electric Power Facilities" (CJSC "Technical Inspection of UES"). All subsidiaries have been established and operate in the territory of the Russian Federation.

### Business environment

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

### Relations with the State

As at 31 December 2013 and as at 31 December 2012 the Russian Federation represented by the Federal Agency of State Property Management owned 100 percent of OJSC SO UPS.

The Group's customer base includes a large number of enterprises which are either controlled by or directly relate to the State.

The Government of the Russian Federation directly affects the Company's operations through:

- participation of its representatives on the Board of Directors of the Company;
- regulation by the Federal Service on Tariffs ("FST") of the fees chargeable by the Company for the provision of dispatching services related to electric power transmission in the Unified Energy System of Russia;
- control over and approval of the Company's investment program; and
- antimonopoly regulation.

## Note 2. Basis of preparation

*Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Each company of the Group maintains its accounting records and prepares its financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purposes of fair presentation in accordance with IFRS.

*Basis of measurement*

These consolidated financial statements have been prepared on the historical cost basis except for the property, plant and equipment class "Buildings" which is stated at a revalued amount, and financial instruments classified as available-for-sale which are stated at fair value.

*Functional and presentation currency*

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the functional currency of the Company and each of the Group's consolidated entities and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million, unless otherwise stated.

*Comparative amounts*

Certain comparative amounts have been reclassified either as a result of a change in the accounting policy regarding the presentation of items of OCI (see p. (e) below) or to conform with the current year presentation.

*Changes in accounting policies*

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a. Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7);
b. IFRS 10 Consolidated Financial Statements (2011);
c. IFRS 12 Disclosure of Interests in Other Entities;
d. IFRS 13 Fair Value Measurement;
e. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1);
f. IAS 19 Employee Benefits (2011).

The nature and effects of the changes are explained below.

## Note 2. Basis of preparation (continued)

*(a) Offsetting of financial assets and financial liabilities*

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

As a result of the amendments to IFRS 7, the Group has not expanded its disclosures about the offsetting of financial assets and financial liabilities due to immateriality.

*(b) IFRS 10 Consolidated Financial Statements (2011)*

IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

As a result of IFRS 10 (2011), the Group has not changed its control conclusion in respect of any of its investments.

*(c) IFRS 12 Disclosure of Interests in Other Entities*

As a result of IFRS 12, the Group has not expanded its disclosures about its interests in subsidiaries due to irrelevance.

*(d) IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has not included additional disclosures in this regard due to immateriality.

*(e) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(f) *IAS 19 Employee Benefits (2011)*

The standard has been significantly amended in relation to defined benefits plans, including the following:

- the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur;
- remeasurements of the net defined benefit obligation (asset) are recognised only in other comprehensive income, the current ability to recognise all changes in the defined benefit obligation and plan assets in profit or loss is eliminated;

In millions of Russian Roubles (RUB)

## Note 2. Basis of preparation (continued)

- the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation.

Besides, new disclosures, such as quantitative sensitivity analysis, are now required.

The Group applied IAS 19 (2011) to its pension plan which is a defined benefit plan retrospectively beginning from 1 January 2012. As a result, past service costs are recognised in the full amount as an expense at the earlier of the following dates: (a) the date of plan amendment or plan curtailment, and (b) the date when the related restructuring costs or termination benefits are recognised. Previously the entity recognised past service costs as an expense on a straight-line basis over the average period until the benefits become vested.

According to IAS 19 (2011) remeasurements of the net defined benefit obligation (asset) are recognised in other comprehensive income. Previously the Group applied the corridor method.

The application of the revised IAS 19 had the following impact on the financial position of the Group:

| **1 January 2012** | **As previously reported** | **Effect of revised IAS 19** | **As restated** |
|---|---|---|---|
| **Total non-current assets** | **20,238** | **-** | **20,238** |
| **Total current assets** | **8,776** | **-** | **8,776** |
| **Total assets** | **29,014** | **-** | **29,014** |
| Share capital registered | 2,576 | - | 2,576 |
| Share premium | 7,800 | - | 7,800 |
| Revaluation reserve | 4,880 | - | 4,880 |
| Contribution from the Shareholder | 833 | - | 833 |
| Reserves | - | (138) | (138) |
| Retained earnings | 6,915 | (85) | 6,830 |
| **Total equity** | **23,004** | **(223)** | **22,781** |
| Non-current debt | 1,655 | - | 1,655 |
| Retirement benefit obligations | 924 | 276 | 1,200 |
| Deferred income tax liabilities | 751 | (53) | 698 |
| **Total non-current liabilities** | **330** | **223** | **3,553** |
| **Total current liabilities** | **2,680** | **-** | **2,680** |
| **Total liabilities** | **6,010** | **223** | **6,233** |
| **Total equity and liabilities** | **29,014** | **-** | **29,014** |

**In millions of Russian Roubles (RUB)**

## Note 2. Basis of preparation (continued)

| **31 December 2012** | **As previously reported** | **Effect of revised IAS 19** | **As restated** |
|---|---|---|---|
| **Total non-current assets** | **21,858** | **-** | **21,858** |
| **Total current assets** | **8,377** | **-** | **8,377** |
| **Total assets** | **30,235** | **-** | **30,235** |
| Share capital registered | 2,576 | - | 2,576 |
| Share premium | 7,800 | - | 7,800 |
| Revaluation reserve | 4,709 | - | 4,709 |
| Contribution from the Shareholder | 833 | - | 833 |
| Reserves | - | (466) | (466) |
| Retained earnings | 8,211 | (96) | 8,115 |
| **Total equity** | **24,129** | **(562)** | **23,567** |
| Retirement benefit obligations | 1,014 | 698 | 1,712 |
| Deferred income tax liabilities | 692 | (140) | 552 |
| **Total non-current liabilities** | **1,706** | **558** | **2,264** |
| **Total current liabilities** | **4,400** | **4** | **4,404** |
| **Total liabilities** | **6,106** | **562** | **6,668** |
| **Total equity and liabilities** | **30,235** | **-** | **30,235** |

The application of the revised IAS 19 had the following impact on the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2012.

| | **As previously reported** | **Effect of revised IAS 19** | **As restated** |
|---|---|---|---|
| Revenue | 21,971 | - | 21,971 |
| Operating expenses | (19,231) | 5 | (19,226) |
| Finance income | 374 | - | 374 |
| Finance costs | (270) | (9) | (279) |
| Income tax expense | (758) | 3 | (755) |
| **Profit for the year** | **2,086** | (1) | **2,085** |
| Revaluation of property, plant and equipment | (213) | - | (213) |
| Remeasurements of the defined benefit liability | 6 | (423) | (417) |
| Income tax on items that will never be reclassified to profit or loss | 41 | 85 | 126 |
| **Other comprehensive loss, net of income tax** | (166) | (338) | (504) |
| **Total comprehensive income for the year** | **1 920** | **(339)** | **1 581** |

## Note 2. Basis of preparation (continued)

*Critical accounting estimates and assumptions*

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 5 - Revaluation of the class ‘Buildings’ within property, plant and equipment;

Notes 3 and 5 - Useful life of property, plant and equipment;

Note 11 - Retirement benefit obligations.

*New standards and Interpretations not yet adopted*

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective:

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group has not yet analysed the likely impact of the amendments on its financial position or performance.

## Note 2. Basis of preparation (continued)

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 July 2014. Entities are permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

*Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## Note 3. Summary of significant accounting policies

Except for the changes in accounting policies set out in Note 2, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

*(a) Consolidation principles*

The Group's consolidated financial statements incorporate the results, cash flows, assets and liabilities of OJSC "SO UPS" and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All intragroup transactions and balances, and any unrealized income and expenses arising from the intragroup transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

## Note 3. Summary of significant accounting policies (continued)

*(b) Foreign currency transactions*

Monetary assets and liabilities which are held by the Group and denominated in foreign currencies at the balance sheet date are translated into RUB at the exchange rates effective at that date. Foreign currency transactions are accounted for at the exchange rates effective at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*(c) Dividends*

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

*(d) Property, plant and equipment*

Items of property, plant and equipment, except for buildings, are stated at acquisition or construction cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Property, plant and equipment items comprising the Buildings class are stated at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis to ensure that the carrying amount does not differ significantly from that which would be determined using fair value at the reporting date. The frequency of revaluations depends upon the movements in the fair values of the assets being revalued.

The increase in the carrying amount arising on revaluation of an item of property, plant and equipment is recognised directly under the heading of revaluation reserve in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A revaluation decrease on property, plant and equipment is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group recognizes deferred tax assets and liabilities arising from revaluation of items of property, plant and equipment directly in equity, except when the revaluation result was recognised in profit or loss.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment (other than the class Buildings). If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

## Note 3. Summary of significant accounting policies (continued)

Renewals and improvements are capitalized and the assets replaced are retired. Repair and maintenance costs are expensed as incurred.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Land is not depreciated. The useful lives, in years, of assets by type of facility are as follows:

| | **The useful lives** |
|---|---|
| Buildings | 20 to 50 years |
| Electrical equipment | 15 to 20 years |
| Computer, dispatching and communication equipment | 3 to 20 years |
| Other PPE items (motor vehicles, office equipment, furniture and fixtures etc.) | 3 to 20 years |

Useful lives of property, plant and equipment are reviewed annually.

*(e) Intangible Assets*

All of the Group’s intangible assets have definite useful lives and primarily include capitalized computer software and licences.

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring them to use.

After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives of 1-5 years.

At each reporting date management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of the assets’ fair value less costs to sell and their value in use.

Research costs are recognised as an expense as incurred. Development costs are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

*(f) Cash and Cash Equivalents*

Cash and cash equivalents comprise cash at banks, cash on hand and cash deposited on demand at banks with an original maturity of three months or less.

## Note 3. Summary of significant accounting policies (continued)

*(g) Accounts receivable and prepayments*

Accounts receivable are recorded inclusive of value added taxes less an allowance made for impairment of these receivables. An allowance 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 receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective rate of interest. Where provision has been made for impairment of receivables, the impairment loss is recognised for the gross amount of the debtor's balance, including value added tax.

*(h) Value added tax on purchases and sales*

Output value added tax ("VAT") related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

*(i) Borrowings*

Borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily requires extended period to prepare the asset for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are recognised as an expense in the period in which they were incurred. Borrowing costs include interest costs and other costs incurred by the Group in connection with borrowings.

The Group capitalizes borrowing costs relating to all the qualifying assets for which the commencement date for construction is on or after 1 January 2009. The Group continues to recognize as an expense borrowing costs associated with construction projects for which the commencement date is before 1 January 2009.

*(j) Accounts payable and accrued charges*

Accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

*(k) Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## Note 3. Summary of significant accounting policies (continued)

*(l) Employee benefits*

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in wages, benefits and payroll taxes in the statement of comprehensive income.

The Group incurs employee costs related to the provision of other benefits such as medical insurance and accident insurance, which are also expensed when incurred.

The Group operates defined benefit plans that cover the majority of the Group's employees.

Benefit plans define the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined benefit plans, the cost of providing benefits is determined using the Project Unit Credit Method, with actuarial valuations being carried out as at 31 December 2013, 2012 and 2011.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Remeasurements of Other non-current employee benefits are recognised in profit or loss in the period in which they arise.

*(m) Deferred income tax*

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset for deductible temporary differences is recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## Note 3. Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

*(n) Revenue recognition*

Revenue from rendering services is recognised in the period the services are provided. Revenue amounts are presented exclusive of value added taxes. Revenue from rendering dispatching services related to electric power transmission and reliability control services is determined based on tariffs authorised and approved by the Federal service on tariffs ("FST").

*(o) Leases*

Assets held by the Group under leases that transfer to the Group 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.

Other leases are operating leases and the leased assets are not recognised on the Group’s statement of financial position.

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

## Note 4. Balances and transactions with related parties

The Group’s related parties are represented by:

- other government-related entities;
- members of the Company’s Board of Directors and members of the Company’s Management Board.

*Government-related entities*

In the normal course of business the Group enters into transactions with other government-related entities. The Group had the following significant transactions and balances with government-related entities:

In millions of Russian Roubles (RUB)

## Note 4. Balances and transactions with related parties (continued)

| | For the year ended 31 December 2013 | For the year ended 31 December 2012 |
|---|---|---|
| Dispatch management fees | 16,881 | 15,990 |
| Purchase of goods and services | 1,108 | 1,253 |

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Accounts receivable | 429 | 416 |
| Cash and cash equivalents | 3,105 | 3,286 |
| Accounts payable | 100 | 157 |
| Current debt (Note 10) (non-interest bearing) | - | 1,799 |

Dispatch services were provided to government-related entities on the same terms as those to the other companies at the set tariffs.

Current debt included promissory notes issued by the Company. The terms of the issued promissory notes are disclosed in Notes 9 and 10.

*Directors' compensation*

Compensation is paid to the members of the Company’s Management Board for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

The short-term compensations paid to the members of the Board of Directors and Management Board in monetary and non-monetary (medical insurance, provision of accommodation) forms amounted to RUB 240 million and RUB 207 million for the years ended 31 December 2013 and 31 December 2012, respectively.

The members of the Management Board also participate in the Company’s pension plan (Note 11). The retirement benefit obligation relating to the members of the Management Board amounted to RUB 1 million as at 31 December 2013 (31 December 2012: RUB 1 million).

**In millions of Russian Roubles (RUB)**

## Note 5. Property, plant and equipment

| | Buildings | Electrical equipment | Computer, dispatching and communication equipment | Land | Other | Construction in progress | TOTAL |
|---|---|---|---|---|---|---|---|
| **Cost / Revalued amount** | | | | | | | |
| **Balance at 1 January 2013** | **11,652** | **2,265** | **9,919** | **694** | **858** | **715** | **26,103** |
| Additions | 177 | 27 | 1,041 | 1 | 93 | 1,805 | 3,144 |
| Reclassifications | 62 | (55) | - | - | (7) | - | - |
| Transfers | 545 | 37 | 518 | - | 26 | (1,126) | - |
| Disposals | (2) | (37) | (194) | - | (19) | - | (252) |
| **Balance at 31 December 2013** | **12,434** | **2,237** | **11,284** | **695** | **951** | **1,394** | **28,995** |
| **Accumulated depreciation and impairment loss** | | | | | | | |
| **Balance at 1 January 2013** | **-** | **(1,011)** | **(5,714)** | **-** | **(346)** | **-** | **(7,071)** |
| Charge for the period | (187) | (285) | (1,525) | - | (103) | - | (2,100) |
| Impairment loss | (44) | - | - | - | - | (4) | (48) |
| Disposals | 1 | 36 | 192 | - | 18 | - | 247 |
| **Balance at 31 December 2013** | **(230)** | **(1,260)** | **(7,047)** | **-** | **(431)** | **(4)** | **(8,972)** |
| **Net book value as at 1 January 2013** | **11,652** | **1,254** | **4,205** | **694** | **512** | **715** | **19,032** |
| **Net book value as at 31 December 2013** | **12,204** | **977** | **4,237** | **695** | **520** | **1,390** | **20,023** |

**In millions of Russian Roubles (RUB)**

## Note 5. Property, plant and equipment (continued)

| | Buildings | Electrical equipment | Computer, dispatching and communication equipment | Land | Other | Construction in progress | TOTAL |
|---|---|---|---|---|---|---|---|
| **Cost / Revalued amount** | | | | | | | |
| **Balance at 1 January 2012** | **10,262** | **1,505** | **7,902** | **596** | **718** | **1,038** | **22,021** |
| Additions | 321 | 646 | 1,716 | 98 | 172 | 2,099 | 5,052 |
| Transfers | 1,755 | 162 | 461 | - | 44 | (2,422) | - |
| Disposals | (3) | (48) | (160) | - | (76) | - | (287) |
| Revaluation decrease recognised in equity | (213) | - | - | - | - | - | (213) |
| Revaluation decrease recognised in profit or loss | (128) | - | - | - | - | - | (128) |
| Elimination of depreciation of revalued assets | (342) | - | - | - | - | - | (342) |
| **Balance at 31 December 2012** | **11,652** | **2,265** | **9,919** | **694** | **858** | **715** | **26,103** |
| **Accumulated depreciation and impairment loss** | | | | | | | |
| **Balance at 1 January 2012** | **(159)** | **(835)** | **(4,571)** | **-** | **(310)** | **-** | **(5,875)** |
| Charge for the period | (185) | (222) | (1,295) | - | (98) | - | (1,800) |
| Disposals | 2 | 46 | 152 | - | 62 | - | 262 |
| Elimination of depreciation of revalued assets | 342 | - | - | - | - | - | 342 |
| **Balance at 31 December 2012** | **-** | **(1,011)** | **(5,714)** | **-** | **(346)** | **-** | **(7,071)** |
| **Net book value as at 1 January 2012** | **10,103** | **670** | **3,331** | **596** | **408** | **1,038** | **16,146** |
| **Net book value as at 31 December 2012** | **11,652** | **1,254** | **4,205** | **694** | **512** | **715** | **19,032** |

In millions of Russian Roubles (RUB)

## Note 5. Property, plant and equipment (continued)

The table below provides information about the carrying amount that would have been recognised had the assets of the "Buildings" class been carried under the cost model:

| | **Buildings** |
|---|---|
| **Cost** | |
| **Balance at 1 January 2013** | **7,556** |
| Additions | 239 |
| Transfers | 546 |
| Disposals | (10) |
| **Balance at 31 December 2013** | **8,331** |
| | |
| **Accumulated Depreciation and Impairment** | |
| **Balance at 1 January 2013** | **(584)** |
| Charge for the period | (117) |
| Impairment loss | (12) |
| Disposals | 9 |
| **Balance at 31 December 2013** | **(704)** |
| | |
| **Net book value as at 1 January 2013** | **6,972** |
| **Net book value as at 31 December 2013** | **7,627** |

| | **Buildings** |
|---|---|
| **Cost** | |
| **Balance at 1 January 2012** | **5,484** |
| Additions | 321 |
| Transfers | 1,755 |
| Disposals | (4) |
| **Balance at 31 December 2012** | **7,556** |
| | |
| **Accumulated Depreciation and Impairment** | |
| **Balance at 1 January 2012** | **(466)** |
| Charge for the period | (122) |
| Disposals | 4 |
| **Balance at 31 December 2012** | **(584)** |
| | |
| **Net book value as at 1 January 2012** | **5,018** |
| **Net book value as at 31 December 2012** | **6,972** |

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation.

Depreciation is charged once an asset is available for use.

## Revaluation

Starting from 1 January 2007 the Group adopted the revaluation model for property, plant and equipment comprising the "Buildings" class (see Note 3).

Property, plant and equipment items comprising the "Buildings" class were revalued as at 1 January 2007, as at 31 December 2008, as at 31 December 2010 and as at 31 December 2012 by independent appraisers.

As at 31 December 2012 the fair value of property, plant and equipment items comprising the "Buildings" class was determined to be RUB 11,652 million based on the Level 3 inputs described below. Fair values were estimated mostly using market comparison method based on observable market prices in an active market.

In millions of Russian Roubles (RUB)

## Note 5. Property, plant and equipment (continued)

Market prices for buildings with similar location and purpose were used as analogues to determine the base price adjusted for:

The determined price was adjusted for:

- The bargain discount (up to 5.0%);
- Factor of location based on recent market transactions;
- Physical condition of a building.

As a result of the revaluation performed as at 31 December 2012, a revaluation decrease of RUB 341 million was recognized including RUB 128 million recognised in profit or loss and RUB 171 million recognised in equity, comprising a decrease in carrying value of property, plant

and equipment of RUB 213 million, excluding a related deferred tax liability decrease of RUB 42 million.

PP&E revaluation decrease of RUB 128 million incurred in 2012 was recognised in profit or loss.

Management determined that the carrying values of property, plant and equipment comprising class Buildings were not materially different from their fair values as at 31 December 2013. As a result no revaluation was made by the independent appraisers during the year.

As at 31 December 2013 the Group recognised an impairment loss of RUB 48 million in respect of individual PP&E items. RUB 16 million was recognised in profit or loss and RUB 26 million was recognised in equity, comprising a decrease in carrying value of PP&E of RUB 32 million, excluding a related deferred tax liability decrease of RUB 6 million.

**Operating leases**

The Group leases a number of land areas, buildings and other properties under operating lease. The lease payments due are determined based on the lease agreements and payable as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Under one year | 338 | 135 |
| Between one and five years | 563 | 187 |
| Over five years | 824 | 583 |
| **Total** | **1,725** | **905** |

The above lease agreements are signed for 1 to 49 years for land areas and for short-term period (less than 1 year) for other properties and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

In millions of Russian Roubles (RUB)

## Note 6. Intangible assets

| | Computer software and licences | Construction in progress (computer software SCADA/EMS system) | Development costs | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2013 | **3,149** | **1,012** | **229** | **4,390** |
| Additions | 127 | 123 | 451 | 701 |
| Transfers | 497 | - | (497) | - |
| Disposals | (8) | - | - | (8) |
| **Balance at 31 December 2013** | **3,765** | **1,135** | **183** | **5,083** |
| **Accumulated amortisation and impairment** | | | | |
| Balance at 1 January 2013 | **(2,185)** | **-** | **-** | **(2,185)** |
| Amortisation expense | (562) | - | - | (562) |
| Disposals | 8 | - | - | 8 |
| **Balance at 31 December 2013** | **(2,739)** | **-** | **-** | **(2,739)** |
| **Net book value** | | | | |
| **Balance at 1 January 2013** | **964** | **1,012** | **229** | **2,205** |
| **Balance at 31 December 2013** | **1,026** | **1,135** | **183** | **2,344** |

| | Computer software and licences | Construction in progress (computer software SCADA/EMS system) | Development costs | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2012 | **2,602** | **988** | **171** | **3,761** |
| Additions | 452 | 24 | 196 | 672 |
| Transfers | 135 | - | (135) | - |
| Disposals | (40) | - | (3) | (43) |
| **Balance at 31 December 2012** | **3,149** | **1,012** | **229** | **4,390** |
| **Accumulated amortisation and impairment** | | | | |
| Balance at 1 January 2012 | **(1,680)** | **-** | **-** | **(1,680)** |
| Amortisation expense | (545) | - | - | (545) |
| Disposals | 40 | - | - | 40 |
| **Balance at 31 December 2012** | **(2,185)** | **-** | **-** | **(2,185)** |
| **Net book value** | | | | |
| **Balance at 1 January 2012** | **922** | **988** | **171** | **2,081** |
| **Balance at 31 December 2012** | **964** | **1,012** | **229** | **2,205** |

In millions of Russian Roubles (RUB)

## Note 7. Other non-current assets

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Advances to suppliers | 1,225 | 486 |
| Financial assets available-for-sale | 120 | 118 |
| Trade receivables | 11 | 16 |
| Non-current portion of value added tax recoverable | 1 | 1 |
| **Total** | **1,357** | **621** |

Advances to suppliers include advances given to contractors for construction of administrative and production buildings in the amount of RUB 1,124 million as at 31 December 2013 (RUB 416 million as at 31 December 2012).

Financial assets available-for-sale relate to the Group contributions accumulated in the solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

## Note 8. Accounts receivable and prepayments

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Trade receivables (net of provision for impairment of RUB 375 million as at 31 December 2013 and RUB 190 million as at 31 December 2012) | 607 | 746 |
| Other receivables (net of provision for impairment of RUB 4 million as at 31 December 2013 and RUB 0 million as at 31 December 2012) | 70 | 128 |
| **Financial accounts receivable and prepayments** | **677** | **874** |
| Advances to suppliers | 29 | 20 |
| Value added tax recoverable | 188 | 132 |
| **Non-financial accounts receivable and prepayments** | **217** | **152** |
| **Total** | **894** | **1,026** |

Value added tax recoverable balances will be settled by means of offset against future tax liabilities.

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value of accounts receivable approximates their fair value.

In millions of Russian Roubles (RUB)

## Note 9. Equity

*Share capital*

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Issued and fully paid:** | | |
| Registered share capital: | | |
| Ordinary shares | 2,576 | 2,576 |
| Share premium | 7,800 | 7,800 |
| **Total** | **10,376** | **10,376** |

As at 31 December 2013 the total number of authorised ordinary shares was 3,810,560,564 (31 December 2012: 3,810,560,564) with a nominal value per share of 1 (one) RUB each, including the issued, fully paid and registered ordinary shares of 2,576,367,429 (31 December 2012: 2,576,367,429).

*Dividends*

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

In 2013 no dividends were declared or paid for the year ended 31 December 2012.

At the annual shareholders meeting held on 30 June 2012 the decision was made to declare dividends for ordinary shares in the amount of RUB 795 million from the profit for 2011.

## Note 10. Current debt

| | Currency | Effective interest rate | Due | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|---|
| **Current debt** | | | | | |
| Notes payable | RUB | 0% | | - | 1,795 |
| Bank loans | RUB | 13% | | - | 4 |
| **Total current debt** | | | | **-** | **1,799** |

*Debt maturity*

| Due for repayment | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Less than one year | - | 1,799 |
| Between one and two years | - | - |
| Between two and three years | - | - |
| Between three and four years | - | - |
| Between four and five years | - | - |
| Over five years | - | - |
| **Total** | **-** | **1,799** |

The Group has not entered into hedging arrangements in respect of its foreign currency obligations or interest rate exposure.

In millions of Russian Roubles (RUB)

## Note 11. Retirement benefit obligations

*Defined benefit plans*

The Group operates a number of unfunded defined benefit plans for employees and pensioners, in particular:

- Lump sum upon retirement;
- Death benefits;
- Jubilee benefits;
- Non-state pension benefits;
- Regular financial support after retirement which includes annual payments for holidays.

The actuarial valuation of the Group's defined benefit obligations as at 31 December 2013 and 2012 was performed by an independent actuary.

Key actuarial assumptions used to measure the obligations are presented below:

| | **Year ended 31 December 2013** | **Year ended 31 December 2012** |
|---|---|---|
| Discount rate | 7.9% | 7.0% |
| Wage growth rate | 7.5% | 7.5% |
| General inflation rate | 5.0% | 6.0% |
| Growth rate for benefits in respect of pensioners | 6.0% | 6.0% |
| Mortality | Table of mortality of the RF urban population in 2012 | Table of mortality of the RF urban population in 1998 |
| Probability of resignation | Profile depending on age | Profile depending on age |
| Retirement age | 57 years old for women and 63 years old for men | 57.5 years old for women and 62.5 years old for me |

**In millions of Russian Roubles (RUB)**

## Note 11. Retirement benefit obligations (continued)

Profits and losses recognized in the Consolidated Statement of Comprehensive Income:

| | Year ended 31 December 2013 | | | Year ended 31 December 2012 (restated) | | |
|---|---|---|---|---|---|---|
| | Post-employment benefits | Other long-term employee benefits | Total | Post-employment benefits | Other long-term employee benefits | Total |
| **Profits and losses in the consolidated statement of profit or loss and other comprehensive income:** | | | | | | |
| ***Service cost:*** | | | | | | |
| Current service cost | 74 | 10 | **84** | 47 | 12 | **59** |
| Past service cost as a result of changes in the plan | 277 | - | **277** | - | - | **-** |
| Net interest expense | 107 | 13 | **120** | 89 | 13 | **102** |
| ***Revaluation effects (for other long-term benefits):*** | | | | | | |
| Actuarial (gains)/losses - experience | **-** | (48) | **(48)** | **-** | 4 | **4** |
| Actuarial (gains)/losses - changes in actuarial assumptions | - | (9) | **(9)** | **-** | 17 | **17** |
| **Total to be recognized in profit and losses in the consolidated statement of profit or loss and other comprehensive income:** | **458** | **(34)** | **424** | **136** | **46** | **182** |
| **Other comprehensive income in the consolidated statement of profit or loss and other comprehensive income::** | | | | | | |
| ***Revaluation effects (for post-employment benefits):*** | | | | | | |
| Actuarial (gains)/losses - experience | (22) | - | **(22)** | 166 | **-** | **166** |
| Actuarial (gains)/losses - changes in actuarial assumptions | (98) | - | **(98)** | 251 | **-** | **251** |
| **Total to be recognized in other comprehensive income in the consolidated statement of profit or loss and other comprehensive income:** | **(120)** | - | **(120)** | **417** | **-** | **417** |

**In millions of Russian Roubles (RUB)**

## Note 11. Retirement benefit obligations (continued)

Changes in the present value of the Group’s defined benefit plan obligations are presented below:

| | Year ended 31 December 2013 | | | Year ended 31 December 2012 (restated) | | |
|---|---|---|---|---|---|---|
| | **Post-employment benefits** | **Other long-term employee benefits** | **Total** | **Post-employment benefits** | **Other long-term employee benefits** | **Total** |
| **Benefit obligations at the period beginning** | **1,532** | **180** | **1,712** | **1,052** | **148** | **1,200** |
| Current service cost | 74 | 10 | **84** | 47 | 12 | **59** |
| Interest cost | 107 | 13 | **120** | 89 | 13 | **102** |
| Past service cost as a result of changes in the plan | 277 | - | **277** | - | - | **-** |
| Actuarial (gains)/losses - experience | (22) | (48) | **(70)** | 166 | 4 | **170** |
| Actuarial (gains)/losses - changes in finance assumptions | (213) | (12) | **(225)** | 251 | 17 | **268** |
| Actuarial (gains)/losses - changes in demographic assumptions | 115 | 3 | **118** | - | - | - |
| Benefit payments | (77) | (14) | **(91)** | (73) | (14) | **(87)** |
| **Benefit obligations at the period end** | **1,793** | **132** | **1,925** | **1,532** | **180** | **1,712** |

In millions of Russian Roubles (RUB)

## Note 11. Retirement benefit obligations (continued)

### *Sensitivity analysis*

Calculation of defined benefit plan obligations is sensitive to significant actuarial assumptions.

The table below presents the effect of changes in respective actuarial assumptions on the defined benefit plan obligations as at the specified date:

| Actuarial assumption | Decrease | Increase |
|---|---|---|
| Discount rate (1% movement) | 253 | (206) |
| Growth rate for benefits in respect of pensioners and salary increase rate (1% movement) | (171) | 205 |
| Change in mortality rate (10% movement) | 58 | (53) |
| Change in employee turnover rate (1% movement) | 159 | (135) |

## Note 12. Accounts payable

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Payroll liabilities | 1,120 | 1,039 |
| Trade payables | 537 | 609 |
| Other creditors | 52 | 134 |
| **Total** | **1,709** | **1,782** |

## Note 13. Taxes payable

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Value added tax | 620 | 470 |
| Unified social tax | 202 | 137 |
| Employee taxes | 95 | 87 |
| Property tax | 85 | 80 |
| Other taxes | 52 | 49 |
| **Total** | **1,054** | **823** |

## Note 14. Finance income and finance costs

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Interest expense | (3) | (19) |
| Interest expense on retirement benefit obligation | (120) | (102) |
| Unwinding of discount of non-interest promissory notes | (24) | (140) |
| Foreign exchange loss | - | (18) |
| **Finance costs** | **(147)** | **(279)** |
| Interest income | 337 | 374 |
| Unwinding of discount of non-current accounts receivable | 1 | - |
| Foreign exchange gain | 55 | - |
| **Finance income** | **393** | **374** |
| **Net finance income** | **246** | **95** |

In millions of Russian Roubles (RUB)

## Note 15. Income tax

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| Current income tax charge | (841) | (776) |
| Adjustments in respect of current income tax of previous years | (40) | - |
| Deferred income tax benefit | 64 | 21 |
| **Total income tax expense** | **(817)** | **(755)** |

During 2013, the Group was subject to a 20% income tax rate (in 2012: 20%).

Reconciliation between the theoretical and the actual income tax charge is provided below:

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| **Profit before income tax** | **2,986** | **2,840** |
| Theoretical tax charge at the applicable tax rate | (597) | (568) |
| Tax effect of items which are not deductible or assessable for taxation purposes | (220) | (187) |
| **Total income tax expense** | **(817)** | **(755)** |

Tax effects of components of other comprehensive income:

| | Year ended 31 December 2013 | | | Year ended 31 December 2012 | | |
|---|---|---|---|---|---|---|
| | **Before tax** | **Tax charge** | **After tax** | **Before tax** | **Tax charge** | **After tax** |
| Revaluation of property and plant equipment | (32) | 6 | (26) | (213) | 43 | (170) |
| Net change in fair value of available-for-sale financial assets | - | - | - | - | - | - |
| Remeasurements of defined benefit liability | 120 | (24) | 96 | (417) | 83 | (334) |
| **Total** | **88** | **(18)** | **70** | **(630)** | **126** | **(504)** |

*Deferred income tax.* Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities are measured at 20%, the rate expected to be applicable when the assets or liabilities will reverse.

| Deferred income tax assets/(liabilities) | 1 January 2013 | Recognised in profit or loss | Recognised in other comprehensive income | 31 December 2013 |
|---|---|---|---|---|
| Property, plant and equipment | (1,035) | (13) | 6 | (1,042) |
| Non-current debt | (5) | 5 | - | - |
| Pension obligation | 342 | 67 | (24) | 385 |
| Accounts payable and accrued charges | 128 | 32 | - | 160 |
| Accounts receivable | (23) | 4 | - | (19) |
| Intangible assets | 48 | (75) | - | (27) |
| Others | (7) | 44 | - | 37 |
| **Total deferred income tax assets/(liabilities), net** | **(552)** | **64** | **(18)** | **(506)** |

In millions of Russian Roubles (RUB)

## Note 15. Income tax (continued)

| Deferred income tax assets/(liabilities) | 1 January 2012 | Recognised in profit or loss | Recognised in other comprehensive income | 31 December 2012 |
|---|---|---|---|---|
| Property, plant and equipment | (1,120) | 43 | 42 | (1,035) |
| Non-current debt | (33) | 28 | - | (5) |
| Pension obligation | 240 | 19 | 83 | 342 |
| Accounts payable and accrued charges | 118 | 10 | - | 128 |
| Accounts receivable | (3) | (20) | - | (23) |
| Intangible assets | 98 | (50) | - | 48 |
| Others | 2 | (9) | - | (7) |
| **Total deferred income tax assets/(liabilities), net** | **(698)** | **21** | **125** | **(552)** |

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which the Group can utilize the benefits therefore. Temporary differences on property, plant and equipment relate to differences in depreciation rates and revaluation.

## Note 16. Commitments

*Capital commitments.* Future capital expenditures for which contracts have been signed amounted to RUB 9,891 million as at 31 December 2013 (31 December 2012: RUB 9,058 million).

## Note 17. Contingencies

*Insurance*

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

*Legal proceedings*

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

## Note 17. Contingencies (continued)

*Taxation*

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

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

*Environmental matters*

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

## Note 18. Financial instruments and risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Management Committee is responsible for developing and monitoring the Group’s risk management policies.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In millions of Russian Roubles (RUB)

## Note 18. Financial instruments and risk management (continued)

The Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The oversight role is assigned to Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures.

Financial instruments by categories:

| | Loans and accounts receivable | Available for sale | Other financial liabilities | Total |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| Other non-current assets (Note 7) | 11 | - | - | 11 |
| Financial assets available for sale (Note 7) | - | 120 | - | 120 |
| Accounts receivable (Note 8) | 677 | - | - | 677 |
| Cash and cash equivalents | 6,076 | - | - | 6,076 |
| **Total financial assets** | **6,764** | **120** | **-** | **6,884** |
| | | | | |
| Accounts payable (Note 12) | - | - | 1,709 | 1,709 |
| **Total financial liabilities** | **-** | **-** | **1,709** | **1,709** |
| | | | | |
| **At 31 December 2012** | | | | |
| Other non-current assets (Note 7) | 16 | - | - | 16 |
| Financial assets available for sale (Note 7) | - | 118 | - | 118 |
| Accounts receivable (Note 8) | 874 | - | - | 874 |
| Other investments | 75 | - | - | 75 |
| Cash and cash equivalents | 6,908 | - | - | 6,908 |
| **Total financial assets** | **7,873** | **118** | **-** | **7,991** |
| | | | | |
| Current debt (Note 10) | - | - | 1,799 | 1,799 |
| Accounts payable (Note 12) | - | - | 1,782 | 1,782 |
| **Total financial liabilities** | **-** | **-** | **3,581** | **3,581** |

*Credit risk*

Financial assets which potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and trade receivables principally.

At the reporting date the maximum exposure to credit risk was:

| | Book value | |
|---|---|---|
| | At 31 December 2013 | At 31 December 2012 |
| Accounts receivable (Note 8) | 677 | 874 |
| Other investments | - | 75 |
| Cash and cash equivalents | 6,076 | 6,908 |
| **Total financial assets** | **6,753** | **7,857** |

In millions of Russian Roubles (RUB)

## Note 18. Financial instruments and risk management (continued)

*a) Cash*

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

| Cash in bank | Rate | Rating agency | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|
| JSC The All-Russia Bank of Development of Regions | **Ba2 (stable)** | Moody's Investors Service | 3,010 | 3,132 |
| CJSC Raiffeisenbank Austria | **Baa3** (**stable**) | Moody's Investors Service | 2,355 | 2,998 |
| JSC Eurofinance Mosnarbank | **Ba3** (**negative**) | Moody's Investors Service | 248 | 143 |
| CJSC VTB 24 | **Baa1** (**negative**) | Moody's Investors Service | 66 | 152 |
| JSC Bank Vozrojdenie | **Ba3 (stable)** | Moody's Investors Service | 1 | 23 |
| Other | - | - | 396 | 460 |
| **Total cash and cash equivalents** | | | **6,076** | **6,908** |

*b) Accounts receivable*

Credit risk related to accounts receivable is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors.

The Group's trade and other accounts receivable are principally represented by balances receivable from electricity utilities entities. The table below shows the net balances of trade and other accounts receivable from main customers:

| | At 31 December 2013 | At 31 December 2012 |
|---|---|---|
| Enel OGK-5 | 103 | 95 |
| TGK-2 | 92 | 146 |
| Yuzhno-Kuzbasskaya GRES | 15 | - |
| Mosenergosbyt | 13 | 12 |
| Lukoil-Volgogradenergo | 9 | 10 |
| InterRao EES | 4 | 8 |
| Tver municipal systems | - | 30 |
| Irkutskenergo | - | 127 |
| Others | 441 | 446 |
| **Total** | **677** | **874** |

Credit risk related to accounts receivable is systematically monitored and is considered when the provision for impairment is made. The carrying amount of accounts receivable, net of the provision for impairment, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment already recorded.

In millions of Russian Roubles (RUB)

## Note 18. Financial instruments and risk management (continued)

The table below shows the movement in the allowance for impairment in respect of trade receivables (see Note 8) during the year:

| | 2013 | 2012 |
|---|---|---|
| Balance at 1 January | 190 | 144 |
| Increase during the year | 194 | 47 |
| Decrease due to reversal | (5) | (1) |
| **Balance at 31 December** | **379** | **190** |

The provision for impairment in respect of receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

As at 31 December 2013 the receivables past due for which no allowance was recorded amounted to RUB 213 million (at 31 December 2012: RUB 185 million). Management believes that due to established long-lasting nature of business relations with counterparties, the delays in settlement of obligations will not impact the inflow of economic benefits.

The table below shows the aging of the receivables:

| | At 31 December 2013 | | At 31 December 2012 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| Not past due | 464 | 14 | 689 | - |
| Past due 0 to 1 months | 49 | 2 | 9 | - |
| Past due 1 to 3 months | 107 | 19 | 117 | 17 |
| Past due 3 to 6 months | 122 | 109 | 111 | 44 |
| Past due 6 months to 1 year | 128 | 91 | 71 | 63 |
| Past due more than 1 year | 186 | 144 | 67 | 66 |
| **Total** | **1,056** | **379** | **1,064** | **190** |

*Liquidity risk*

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the objective of minimising such losses, such as maintaining sufficient cash and other highly liquid current assets.

The table below shows the financial liability contractual maturity dates, including the estimated amounts of interest payments as at 31 December:

| | Book value | Contractual cash flows | 0 to 12 months | 1 year to 2 years | 2 years to 3 years | 3 years to 4 years | 4 years to 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | | | | |
| Accounts payable | 1 709 | 1 709 | 1 709 | - | - | - | - | - |
| **Total** | **1 709** | **1 709** | **1 709** | **-** | **-** | **-** | **-** | **-** |
| | **Book value** | **Contractual cash flows** | **0 to 12 months** | **1 year to 2 years** | **2 years to 3 years** | **3 years to 4 years** | **4 years to 5 years** | **Over 5 years** |
| **At 31 December 2012** | | | | | | | | |
| Bank loans | 4 | 4 | 4 | - | - | - | - | - |
| Promissory notes | 1,795 | 1,819 | 1,819 | - | - | - | - | - |
| Accounts payable | 1,782 | 1,782 | 1,782 | - | - | - | - | - |
| **Total** | **3,581** | **3,605** | **3,605** | **-** | **-** | **-** | **-** | **-** |

## Note 18. Financial instruments and risk management (continued)

*Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

a) *Foreign exchange risk.* The Group operates within the Russian Federation. The majority of the Group's purchases and borrowings are denominated in RUB. The Group does not have arrangements to hedge foreign exchange risks of the Group's operations.

**Exposure to currency risk**

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

| *In millions of* | **RUB 2013** | **EUR 2013** | **RUB 2012** | **EUR 2012** |
|---|---|---|---|---|
| Cash | 521 | 12 | 465 | 12 |
| Gross exposure | 521 | 12 | 465 | 12 |
| Net exposure | 521 | 12 | 465 | 12 |

The following significant exchange rates applied during the year:

| *in RUB* | **Average rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| EUR 1 | 42.3132 | 39.9524 | 44.9699 | 40.2286 |

**Sensitivity analysis**

A strengthening of the RUB against the euro at 31 December would have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

## Note 18. Financial instruments and risk management (continued)

*Effect in millions of RUB*

| | Strengthening | Weakening |
|---|---|---|
| | Profit or loss | Profit or loss |
| **31 December 2013** | | |
| EUR (5% movement) | 26 | (26) |
| **31 December 2012** | | |
| EUR (5% movement) | 23 | (23) |

*b) Interest rate risk.* The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long term borrowings. The Group has no significant interest bearing asset.

Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effect on the financial performance of the Group.

*Fair value*

Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The book value less impairment provision of trade receivables is assumed to approximate their fair value due to the short-term nature of the receivables. The fair value of financial liabilities for the purpose of disclosure in the financial statements is estimated by discounting future contractual cash flows at the current market interest rate that is available for the Group for similar financial instruments.

The maximum exposure to each type of risk is limited by fair value of each class of financial instruments.

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| Other non-current assets (Note 7) | 11 | 11 | 16 | 16 |
| Financial assets available-for-sale (Note 7) | 120 | 120 | 118 | 118 |
| Other investments | - | - | 75 | 75 |
| Accounts receivable (Note 8) | 677 | 677 | 874 | 874 |
| Cash and cash equivalents | 6,076 | 6,076 | 6,908 | 6,908 |
| Current debt (Note 10) | - | - | 1,799 | 1,799 |
| Accounts payable (Note 12) | 1,709 | 1,709 | 1,782 | 1,782 |

Прошнуровано, сброшюровано и скреплено печатью 40 (сорок) листов.

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