OPEN JOINED STOCK COMPANY KUBANENERGO

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

AND AUDITORS' REPORT

Contents

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Auditors' Report

To the Shareholders and Board of Directors

Open Joint Stock Company Kuban Power and Electrification

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Kuban Power and Electrification (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 Kuban Power and Elictrification (OJSC "Kubanenergo")

Registered by Octyabrsky municipal district Administration of Krasnodar on 10 February 1993, Registration No.127.

Entered in the Unified State Register of Legal Entities on 17 September 2002 by Tax inspectorate #3 in Krasnodar, Registration No. 1022301427268, Certificate series 23 No. 001806938.

2, Stavropolskaya Street, Krasnodar Region, 350033

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.

Krasnikhina T. E.

Director, (power of attorney dated 1 October 2013 No. 74/13)

ZAO KPMG

18 April 2014

Moscow, Russian Federation

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Revenue	6	33,763,376	27,769,135
Operating expenses	7	(34,318,798)	(31,622,154)
Other operating income/(loss), net	8	192,966	(34,113)
Results from operating activities		**(362 456)**	**(3,887,132)**
Finance income	10	485,240	448,699
Finance costs	10	(343,277)	(846,905)
Net finance income/(costs)		**141,963**	**(398,206)**
Loss before income tax		**(220,493)**	**(4,285,338)**
Income tax (expense)/benefit	11	(416,367)	793,270
Loss for the year		**(636,860)**	**(3,492,068)**
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		(267,702)	(34,320)
Related income tax		53,540	6,864
Other comprehensive loss for the year, net of income tax		**(214,162)**	**(27,456)**
Total comprehensive loss for the year		**(851,022)**	**(3,519,524)**
Loss attributable to:			
Shareholders of the Company		(636,860)	(3,492,068)
Total comprehensive loss attributable to:			
Shareholders of the Company		**(851,022)**	**(3,519,524)**
Loss per share – basic and diluted (in Russian Roubles)	20	**(2.94)**	**(26.45)**

These consolidated financial statements were approved by management on 16 April 2014 and were signed on its behalf by:

General Director A.I. Gavrilov

Chief Accountant I.V. Skiba

КРАСНОДАРСКИЙ КРАЙ Г. КРАСНОДАР ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ЭНЕРГЕТИКИ И ЭЛЕКТРИФИКАЦИИ КУБАНИ ОАО "КУБАНЬЭНЕРГО" ИНН 2309001660 РОССИЯ

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 10 to 44.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	12	38,465,178	27,411 467	22,508,972
Intangible assets	13	280,850	257,305	216,249
Investments and financial assets	14	150,368	154,799	170,492
Trade and other receivables	17	17,880	8,667	4,975
Deferred tax assets	15	1,213,750	1,576,577	838,894
Total non-current assets		**40,128,026**	**29,408,815**	**23,739,582**
Current assets				
Inventories	16	1,360,419	1,021,980	999,067
Trade and other receivables	17	5,862,988	4,206,661	3,357,779
Income tax receivable		4,334	4,455	288,534
Cash and cash equivalents	18	12,624,404	4,298,307	5,698,530
Total current assets		**19,852,145**	**9,531,403**	**10,343,910**
TOTAL ASSETS		**59,980,171**	**38,940,218**	**34,083,492**
EQUITY AND LIABILITIES				
Equity				
Share capital	19	28,286,813	14,294,283	9,746,094
Share premium		6,481,916	3,428,746	3,272,288
Reserves		(256,429)	(42,267)	(14,811)
Accumulated losses		(6,345,935)	(5,709,075)	(2,217,007)
Total equity attributable to owners of the Company		**28,166,365**	**11,971,687**	**10,786,564**
Non-current liabilities				
Loans and borrowings	21	17,237,000	5,917,000	10,022,165
Finance lease liabilities	22	-	3,853	15,557
Trade and other payables	24	591,091	262,360	55,197
Employee benefits	23	577,735	304,064	251,925
Total non-current liabilities		**18,405,826**	**6,487,277**	**10,344,844**
Current liabilities				
Loans and borrowings	21	402,725	10,025,584	5,235,233
Finance lease liabilities	22	-	11,704	63,115
Trade and other payables	24	11,919,405	8,797,791	6,149,779
Provisions	25	1,085,850	1,645,956	1,503,272
Income tax liabilities		-	219	685
Total current liabilities		**13,407,980**	**20,481,254**	**12,952,084**
TOTAL LIABILITIES		**31,813,806**	**26,968,531**	**23,296,928**
TOTAL EQUITY AND LIABILITIES		**59,980,171**	**38,940,218**	**34,083,492**

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 10 to 44.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the year		**(636,860)**	**(3,492,068)**
Adjustments for:			
Depreciation and amortisation	12, 13	1,558,373	1,331,626
Impairment of property, plant and equipment	12	-	2,957,435
Finance costs	10	343,277	846,905
Finance income	10	(485,240)	(448,699)
Loss on disposal of property, plant and equipment	8	70,610	7,789
Income tax expense/(benefit)		416,367	(793,270)
Other non-cash transaction		130	-
Cash flows from operating activities before changes in working capital and provisions		**1,266,657**	**409,718**
Change in trade and other accounts receivable		(2,022,072)	(276,463)
Change in finance assets related to employee benefits fund		10,776	15,899
Change in inventories		(338,439)	(22,913)
Change in trade and other accounts payable		4,353,132	1,448,287
Change in employee benefit liabilities		(16,009)	(1,804)
Change in provisions		(560,106)	206,746
Cash flows from operations before income tax and interest paid		**2,693,939**	**1,779,470**
Income tax return / (paid)		(228)	346,064
Interest paid (including capitalized interest)		(1,539,419)	(1,483,005)
Net cash flows from operating activities		**1,154,292**	**642,529**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(12,078,964)	(7,828,245)
Proceeds from disposal of property, plant and equipment		49,903	16,682
Interest received		475,330	446,964
Net cash flows used in investing activities		**(11,553,731)**	**(7,364,599)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		11,722,660	5,917,000
Repayment of loans and borrowings		(10,027,267)	(5,236,685)
Repayment of finance lease liabilities		(15,557)	(63,115)
Proceeds from issue of share capital		17,045,700	4,704,647
Net cash flows from financing activities		**18,725,536**	**5,321,847**
Net increase/ (decrease) in cash and cash equivalents		**8,326,097**	**(1,400,223)**
Cash and cash equivalents at the beginning of the year	18	**4,298,307**	**5,698,530**
Cash and cash equivalents at the end of the year	18	**12,624,404**	**4,298,307**

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 10 to 44.

(in thousands of Russian Roubles, unless otherwise stated)

	Equity attributable to owners of the Company				
	Share capital	**Share premium**	**Reserves**	**Accumulated losses**	**Total equity**
Balance at 1 January 2012, as previously reported	**9,746,094**	**3,272,288**	-	**(2,198,916)**	**10,819,466**
Effect of changes in accounting policies (Note 3s)	-	-	(14,811)	(18,091)	**(32,902)**
Balance at 1 January 2012 (restated)	**9,746,094**	**3,272,288**	**(14,811)**	**(2,217,007)**	**10,786,564**
Loss for the year	-	-	-	(3,492,068)	**(3,492,068)**
Other comprehensive loss for the year					
Remeasurement of the defined benefit liability	-	-	(34,320)	-	**(34,320)**
Income tax on other comprehensive income	-	-	6,864	-	**6,864**
Total other comprehensive loss for the year	-	-	**(27,456)**	-	**(27,456)**
Total comprehensive loss for the year	-	-	**(27,456)**	**(3,492,068)**	**(3,519,524)**
Transactions with owners, recorded directly in equity					
Share issue (Note 19)	4,548,189	156,458	-	-	**4,704,647**
Total transactions with owners, recorded directly in equity	**4,548,189**	**156,458**	-	-	**4,704,647**
Balance at 31 December 2012	**14,294,283**	**3,428,746**	**(42,267)**	**(5,709,075)**	**11,971,687**

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 10 to 44.

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

(in thousands of Russian Roubles, unless otherwise stated)

	Equity attributable to owners of the Company				
	Share capital	**Share premium**	**Reserves**	**Accumulated losses**	**Total equity**
Balance at 1 January 2013	**14,294,283**	**3,428,746**	-	**(5,690,061)**	**12,032,968**
Effect of changes in accounting policies (Note 3s)	-	-	**(42,267)**	**(19,014)**	**(61,281)**
Balance at 1 January 2013 (restated)	**14,294,283**	**3,428,746**	**(42,267)**	**(5,709,075)**	**11,971,687**
Loss for the year	-	-	-	(636,860)	**(636,860)**
Other comprehensive loss for the year					
Remeasurement of the defined benefit liability	-	-	(267,702)	-	**(267,702)**
Income tax on other comprehensive income	-	-	53,540	-	**53,540**
Total other comprehensive loss for the year	-	-	**(214,162)**	-	**(214,162)**
Total comprehensive loss for the year	-	-	**(214,162)**	**(636,860)**	**(851,022)**
Transactions with owners, recorded directly in equity					
Share issue (Note 19)	13,992,530	3,053,170	-	-	**17,045,700**
Total transactions with owners, recorded directly in equity	**13,992,530**	**3,053,170**	-	-	**17,045,700**
Balance at 31 December 2013	**28,286,813**	**6,481,916**	**(256,429)**	**(6,345,935)**	**28,166,365**

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 10 to 44.

(in thousands of Russian Roubles, unless otherwise stated)

1 BACKGROUND

(a) The Group and its operations

In 1993 the Krasnodar Production Association of Power and Electrification "Krasnodarenergo" was reorganized into Kuban Power and Electrification Open Joint Stock Company (hereinafter referred to as OJSC "Kubanenergo" or "the Company") in accordance with Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992, with Decree No. 923 of the President of the Russian Federation "On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization Conditions" dated 15 August 1992, with Decree No. 1334 of the President of the Russian Federation dated 05 November 1992 "On Implementation in the Electric-Power Industry of Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992".

The Company's registered office is located at 2, Stavropolskaya St., Krasnodar, Krasnodar Region, Russia, 350033.

The Company's principal activities are electric power transmission and technological connection services.

The Kubanenergo Group (hereinafter referred to as "the Group") comprises OJSC "Kubanenergo" and its subsidiaries presented below:

		Ownership, %	
Subsidiary	**Principal activity**	**31 December 2013**	**31 December 2012**
OJSC "Ozdorovitelniy kompleks "Plamya"	Recreation	100	100
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100
OJSC "Energoservis Kubani"	Repair service	100	100

(b) Group formation

In the past few years the Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the companies can raise the capital required to maintain and expand current capacity.

On 1 July 2008 the Unified Energy System of Russia (hereinafter referred to as "RAO UES") ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint Stock Company Interregional Distribution Grid Companies Holding, a newly formed state-controlled entity, which was renamed to Joint Stock Company Russian Grids in April of 2013.

As at 1 January 2012, the Government of the Russian Federation owned 55.95% of the voting ordinary shares and 7.01% of preference shares of JSC Russian Grids, which in turn owned 45.77% of the Company.

As at 31 December 2012, the Government of the Russian Federation owned 56.58 % of the voting ordinary shares and 7.01% of the preference shares of JSC Russian Grids, which in turn owned 63.01% of the Company.

As at 31 December 2013, the Government of the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of preference shares of JSC Russian Grids, which in turn owned 92.24% of the Company.

(c) Relations with the state and current regulations

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

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

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Based (RAB) tariffs setting system is being implemented in the Russian Federation.

(d) Russian business environment

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

Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements (hereinafter "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Group additionally prepares IFRS consolidated financial statements in Russian language in accordance with Federal Law No.208-FZ "On consolidated financial reporting".

(b) Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for property, plant and equipment at 1 January 2011 that were measured at carrying amounts included in the consolidated IFRS financial statements of JSC Russian Grids as part of the Group's first time adoption of IFRSs as at 1 January 2011 (Note 12).

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgements

The preparation of the 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 these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate 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 15 – deferred tax assets;
- Note 26 – impairment of trade and other receivables.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 12 – determination of recoverable amount of property, plant and equipment;
- Note 23 – employee benefits;
- Note 25 – provisions;
- Note 28 – commitments and contingencies;

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial assets of the Group comprise cash and cash equivalents and receivables.

Cash and cash equivalents and receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and highly liquid investments normally with maturities at initial recognition of three months or less.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables, finance lease liabilities.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Trade accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to its carrying amounts included in the consolidated IFRS financial statements of the Company's parent – JSC Russian Grids.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other operating income / expense in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of the Group's property, plant and equipment are as follows:

- buildings 1-83 years;
- transmission networks 4-79 years;
- equipment for electricity transmission 1-42 years;
- other 1-50 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year and adjusted if appropriate.

(e) Intangible assets

(i) Initial recognition

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- licenses and certificates 1-10 years;
- software 1-15 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Group 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.

Other leases are operating leases and the leased assets are not recognised in the statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, 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.

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

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, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of CGU. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a 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.

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) 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 (asset), taking into account any changes in the net defined benefit liability (asset) 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.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for 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 the employee and the obligation can be estimated reliably.

(j) Provisions

A provision is recognised if, as a result of a 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 the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in profit or loss when the customer acceptance of the volume of electricity transmitted obtained. The tariffs for electricity transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

(ii) Connection services

Revenue from connection services represents a financial remuneration for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when electricity is activated and the customer is connected to the grid network, or, for contracts where connection services are performed in stages, revenue is recognized upon stages of completion.

(iii) Other revenue

Revenue from installation, repair and maintenance services and other sales is recognized when the services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(l) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) 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 or loss as incurred.

(m) Finance income and costs

Finance income comprises interest income on funds invested, discount on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, discount on financial instruments and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised in other comprehensive income or directly in equity.

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

Deferred tax is recognised in respect of 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:

- the 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 it is probable that they will not reverse in the foreseeable future.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. A deferred tax asset is recognised for unused tax losses, tax credits and deductable temporary differences 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 each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(p) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Management Board, which is the Group's chief operating decision making body.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office revenue, expenses, assets and liabilities.

Inter-segment pricing is determined on an arm's length basis.

(q) Related parties

As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of the Russian Federation has control, joint control or significant influence over them.

The Group discloses a share of sales to government-related entities and share of key purchases from such entities as quantitative indications of related-parties transactions.

(r) Change in presentation

Certain comparative amounts have been reclassified to conform to the current year's presentation.

(s) Changes in accounting policies

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IAS 19 (Revised 2011) *Employee Benefits*, IFRS 10 *Consolidated Financial Statements*, IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. As required by IAS 8, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 *Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment are described below:

Amendment to IAS 1 Presentation of items of other comprehensive income

The Amendment requires an entity to present separately items of other comprehensive income that could be reclassified in the future to profit or loss from those items that will never be reclassified to profit or loss. In addition, according to the Amendment the title of statement of comprehensive income was changed to statement of profit or loss and other comprehensive income. However, use of other titles is permitted.

IAS 19 (2011) Employee Benefits:

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;

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.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 full amount as expense as 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 the 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.

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

Effects from the restating are presented below.

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements

IFRS 10 introduces a single control model that applies to all entities including special purpose entities. IFRS 10 supersedes a part of previously effective IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. The new standard changes the definition of control such that an investor controls an investee when:

- it has power over the investee;
- it is exposed, or has rights, to variable returns from its involvement with the investee, and
- it has the ability to affect those returns through its power over the investee (i.e. there is a link between power and returns).

This standard had no impact on the consolidation of the Group's investees.

IFRS 13 Fair Value Measurement supersedes the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. Comparative disclosure information is not required for periods before the date of initial application.

The application of IFRS 13 has not had a significant impact on the fair value measurements carried out by the Group.

Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see note 26).

Summary of quantitative impacts

The following tables summarise the impacts of the above changes on the Group's financial position, comprehensive income and cash flows.

(in thousands of Russian Roubles, unless otherwise stated)

Consolidated statement of financial position

	1 January 2012 (As previously reported)	Effect of changes in accounting policies	1 January 2012 (restated)
Deferred tax assets	830,669	8,225	838,894
Total non-current assets	**23,731,357**	**8,225**	**23,739,582**
Total assets	**34,075,267**	**8,225**	**34,083,492**
Employee benefits	210,798	41,127	251,925
Total non-current liabilities	**10,303,717**	**41,127**	**10,344,844**
Reserves	-	(14,811)	(14,811)
Accumulated losses	(2,198,916)	(18,091)	(2,217,007)
Total equity attributable to equity holders of the Company	**10,819,466**	**(32,902)**	**10,786,564**
Total equity and liabilities	**34,075,267**	**8,225**	**34,083,492**

	31 December 2012 (As previously reported)	Effect of changes in accounting policies	31 December 2012 (restated)
Deferred tax assets	1,561,257	15,320	1,576,577
Total non-current assets	**29,393,495**	**15,320**	**29,408,815**
Total assets	**38,924,898**	**15,320**	**38,940,218**
Employee benefits	227,463	76,601	304,064
Total non-current liabilities	**6,410,676**	**76,601**	**6,487,277**
Reserves	-	(42,267)	(42,267)
Accumulated losses	(5,690,061)	(19,014)	(5,709,075)
Total equity attributable to equity holders of the Company	**12,032,968**	**(61,281)**	**11,971,687**
Total equity and liabilities	**38,924,898**	**15,320**	**38,940,218**

Consolidated statement of Profit or Loss and Other Comprehensive Income

For 2012 year	**As previously reported**	**Effect of changes in presentation**	**Effect of changes in accounting policies**	**As restated**
Operating expenses	(31,720,293)	79,670*	18,469	(31,622,154)
Other operating, net	45,557	(79,670)*	-	(34,113)
Results from operating activities	**(3,905,601)**	-	**18,469**	**(3,887,132)**
Finance costs	(827,282)	-	(19,623)	(846,905)
Net finance costs	**(378,583)**	-	**(19,623)**	**(398,206)**
Loss before income tax	**(4,284,184)**	-	**(1,154)**	**(4,285,338)**
Income tax	793,039	-	231	793,270
Loss for the year	**(3,491,145)**	-	**(923)**	**(3,492,068)**
Other comprehensive loss				
Remeasurement of the defined benefit liability	-	-	(34,320)	(34,320)
Income tax on other comprehensive income	-	-	6,864	6,864
Total other comprehensive loss for the year	-	-	**(27,456)**	**(27,456)**
Total comprehensive loss for the year	**(3,491,145)**	-	**(28,379)**	**(3,519,524)**
Loss per share – basic and diluted (in Russian Roubles)	**(26.45)**	-	-	**(26.45)**

* *Certain comparative amounts have been reclassified to conform to the current year's presentation.*

(t) 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. The Group has not yet analysed the likely impact of the new Standards on its financial position and performance. The Group plans to adopt the following 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.

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.

- 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.

- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets.* The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.

- IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted.

- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.

4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(in thousands of Russian Roubles, unless otherwise stated)

(a) Trade and other receivables

The fair value of non-current trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount. This fair value is determined for disclosure purpose.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 OPERATING SEGMENTS

The Group has one reportable segment, as described below, which is the Group's strategic business unit. This strategic business unit offers electricity transmission services including technological connection services in separate geographical regions of the Russian Federation (Krasnodar region and Republic of Adygeya) and is managed in common. The "other" segment includes insignificant operating segments such as rent services and repair and maintenance services. None of them meets any of the quantitative thresholds for determining reportable segments in 2013 or 2012.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

Segment capital expenditures are the total costs incurred during the year to acquire property, plant and equipment.

Key segment items presented to and analysed by the Management Board are presented in the tables below:

(i) Information about reportable segments

For the year ended 31 December 2013:

	Kubanenergo	Other	Total
Revenue from external customers	33,902,179	55,352	**33,957,531**
Inter-segment revenue	1,579	4,365	**5,944**
Total segment revenue	**33,903,758**	**59,717**	**33,963,475**
Segment operating (loss) / profit	**1,702,333**	**(6,288)**	**1,696,045**
Finance income	475,329	1	**475,330**
Finance costs	(1,535,351)	(65)	**(1,535,416)**
Segment loss before income tax	**(2,509,433)**	**(10,212)**	**(2,519,645)**

For the year ended 31 December 2012:

	Kubanenergo	Other	Total
Revenue from external customers	28,118,169	47,988	**28,166,157**
Inter-segment revenue	337	22,908	**23,245**
Total segment revenue	**28,118,506**	**70,896**	**28,189,402**
Segment operating (loss) / profit	**(701)**	**7,958**	**7,257**
Finance income	446,963	28	**446,991**
Finance costs	(1,462,895)	(17)	**(1,462,912)**
Segment (loss) / profit before income tax	**(2,167,326)**	**6,458**	**(2,160,868)**

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2013:

	Kubanenergo	Other	Total
Segment assets	**64,537,179**	**66,603**	**64,603,782**
Including property, plant and equipment	*42,610,826*	*53,738*	*42,664,564*
Segment liabilities	**31,283,747**	**14,764**	**31,298,511**
Capital expenditures	**11,299,972**	**4,085**	**11,304,057**

As at 31 December 2012:

	Kubanenergo	Other	Total
Segment assets	**42,974,070**	**72,678**	**43,046,748**
Including property, plant and equipment	*31,207,441*	*54,869*	*31,262,310*
Segment liabilities	**26,392,807**	**12,281**	**26,405,088**
Capital expenditures	**9,289,933**	**2,339**	**9,292,272**

(ii) Reconciliation of reportable segments revenues, loss before income tax, assets and liabilities

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Total segment revenues	**33,963,475**	**28,189,402**
Adjustment on revenue from electricity transmission	(194,155)	(404,730)
Inter-segment revenue elimination	(5,944)	(23,245)
Reclassification from other income	-	7,708
Revenues per Consolidated Statement of Profit or Loss and Other Comprehensive Income	**33,763,376**	**27,769,135**

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Total segment loss before income tax	**(2,519,645)**	**(2,160,868)**
Adjustments for:		
Impairment of property, plant and equipment recognised according IFRS	-	(2,957,435)
Reversal of impairment of property, plant and equipment recognised according RAS	241,540	-
Borrowing costs capitalised to property plant and equipment	1,221,381	661,271
Depreciation and loss from property plant and equipment disposal	478,779	198,087
Impairment of accounts receivable	373,189	108,221
Revenue from electricity transmission	167,478	(88,550)
Impairment of advances on CIP	23,454	(39,292)
Finance lease	21,713	84,076
Disagreements with distribution selling entities	(188,786)	(156,167)
Accrual of provision for legal claims	-	64,062
Accrual of provision for unused vacations and bonuses	(21,964)	74,612
Recognition of long term employee benefits	(10,401)	(33,512)
Other adjustments	(7,231)	(39,843)
Loss before income tax for the year per Consolidated Statement of Profit or Loss and Other Comprehensive Income	**(220,493)**	**(4,285,338)**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of reportable segment total assets is presented below:

	31 December 2013	31 December 2012
Total segment assets	**64,603,782**	**43,046,748**
Adjustments for:		
Inter-segment balances	(2,435)	(2,132)
Inter-segment investments	(62,921)	(62,921)
Net book value of property, plant and equipment	(4,892,731)	(4,761,123)
Trade receivables written-off	(590,452)	(189,173)
Deferred expenses	(90,679)	(78,521)
Impairment of trade and other receivables	581,561	224,210
Deferred tax	179,059	569,331
Recognition of financial assets related to long term employee benefit fund	150,367	154,798
Finance lease	-	(6,156)
Other	104,620	45,157
Total assets per Consolidated Statement of Financial Position	**59,980,171**	**38,940,218**

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2013	31 December 2012
Total segment liabilities	**31,298,511**	**26,405,088**
Adjustments for:		
Inter-segment balances	(2,435)	(2,132)
Long term employee benefits	577,735	304,064
Accrual of provision for unused vacations and bonuses	82,333	60,369
Deferred tax	(126,581)	(138,829)
Disagreements with distribution selling entities	-	342,086
Finance lease	-	15,557
Other adjustments	(15,757)	(17,672)
Total assets per Consolidated Statement of Financial Position	**31,813,806**	**26,968,531**

The Group performs its activities in the Russian Federation.

For the year ended 31 December 2013 the Group had two major customers - distribution companies in Krasnodarskiy area of the Russian Federation with individual turnover over 10% of the total Group revenues. The total amount of revenues for these major customers for the year ended 31 December 2013 was RUB 27,172,400 thousand or 80.5% of the Group's total revenues (2012: RUB 24,311,508 thousand or 87.5%).

6 REVENUE

	Year ended 31 December 2013	Year ended 31 December 2012
Electricity transmission	30,309,948	26,791,921
Connection services	3,335,847	848,757
Rental income	19,752	13,772
Other revenue	97,829	114,685
	33,763,376	**27,769,135**

7 OPERATING EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Electricity transmission	14,957,416	14,163,958
Purchased electricity for compensation of technological losses	8,298,460	7,427,499
Impairment of property, plant and equipment (Note 12)	-	2,957,435
Personnel costs (Note 9)	4,744,160	2,898,584
Depreciation and amortization (Notes 12, 13)	1,558,373	1,331,626

(in thousands of Russian Roubles, unless otherwise stated)

	Year ended 31 December 2013	Year ended 31 December 2012
Legal claims	914,555	206,746
Raw materials and supplies	778,775	644,542
Repairs, maintenance and installation services	559,764	398,267
Business trip expenses	504,940	104,904
Impairment of capital advances	394,803	-
Registration of the property right	213,992	-
Security services	150,630	157,290
Taxes other than income tax	121,848	46,596
Insurance	98,268	99,814
Electricity and heat power for own needs	82,449	70,596
Managing services	76,485	76,485
Rent	76,390	74,831
Consulting, legal and audit services	72,945	271,805
Impairment of trade and other receivables	3,719	375,372
Other expenses	710,826	315,804
	34,318,798	**31,622,154**

8 OTHER OPERATING INCOME / (EXPENSES), NET

	Year ended 31 December 2013	Year ended 31 December 2012
Non-contractual consumption of electricity	77,143	42,305
Insurance compensation received	76,485	8,933
Fines and penalties received/(paid)	66,070	(79,670)
Surplus of assets as the result of inspection	35,605	1,708
Loss on disposal of property, plant and equipment	(70,610)	(7,789)
Other income	8,273	400
	192,966	**(34,113)**

9 PERSONNEL COSTS

	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	3,001,277	2,121,478
Payroll taxes	1,023,221	588,148
Expense in respect of post-employment defined benefit plan (Note 23)	5,505	23,780
Other personnel costs	714,157	165,178
	4,744,160	**2,898,584**

10 FINANCE INCOME AND COSTS

	Year ended 31 December 2013	Year ended 31 December 2012
Finance income		
Interest income on cash held in banks	475,330	446,964
Interest income on defined benefit plan	6,345	206
Other finance income	3,565	1,529
	485,240	**448,699**
Finance costs		
Interest expenses on loans and borrowings	(314,035)	(801,641)
Financial expense related to employee benefits	(21,979)	(19,623)
Interest on finance lease liabilities	(4,068)	(18,626)
Effect of discounting of financial instruments	(3,195)	(7,015)
	(343,277)	**(846,905)**

(in thousands of Russian Roubles, unless otherwise stated)

11 INCOME TAX

	Year ended 31 December 2013	Year ended 31 December 2012
Current tax benefit		
Current year	-	(1,595)
Over provided in prior years	-	64,046
	-	**62,451**
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	(416,367)	730,819
	(416,367)	**730,819**
	(416,367)	**793,270**

Reconciliation of effective tax rate:

	Year ended 31 December 2013	%	Year ended 31 December 2012	%
Loss before income tax	**(220,493)**	**100**	**(4,285,338)**	**100**
Income tax at applicable tax rate	44,099	(20)	857,068	(20)
Non-deductible expenses	(460,466)	209	(127,844)	3
Over provided in prior years	-	-	64,046	(1)
	(416,367)	**189**	**793,270**	**(18)**

In 2013 and 2012 the Group's applicable tax rate is the income tax rate of 20%.

12 PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to their carrying amounts included in the consolidated IFRS financial statements of the parent – JSC Russian Grids.

(in thousands of Russian Roubles, unless otherwise stated)

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
Balance as at 1 January 2012	2,680,076	5,784,761	6,017,436	3,580,878	9,026,925	27,090,076
Additions	16,633	86,386	76,694	32,652	9,034,635	9,247,000
Transfers	910,394	1,186,389	2,188,498	476,310	(4,761,591)	-
Disposals	(2,259)	(16,137)	(879)	(24,215)	(34,772)	(78,262)
Balance as at 31 December 2012	**3,604,844**	**7,041,399**	**8,281,749**	**4,065,625**	**13,265,197**	**36,258,814**
Balance as at 1 January 2013	3,604,844	7,041,399	8 281 749	4,065,625	13,265,197	36,258,814
Additions	111,933	153,243	675 845	565,100	11,179,678	12,685,799
Transfers	308,716	2,346,948	1 213 425	126,475	(3,995,564)	-
Disposals	(4,936)	(63,563)	(4 434)	(4,272)	(47,020)	(124,225)
Balance as at 31 December 2013	**4,020,557**	**9,478,027**	**10 166 585**	**4,752,928**	**20,402,291**	**48,820,388**
Depreciation and impairment						
Balance as at 1 January 2012	(450,536)	(1,708,438)	(1,130,506)	(1,291,624)	-	(4,581,104)
Impairment of property, plant and equipment	(315,527)	(425,213)	(741,036)	(176,441)	(1,299,218)	(2,957,435)
Charge for the year	(131,041)	(336,975)	(422,832)	(435,707)	-	(1,326,555)
Disposals	553	6,354	677	10,163	-	17,747
Balance as at 31 December 2012	**(896,551)**	**(2,464,272)**	**(2,293,697)**	**(1,893,609)**	**(1,299,218)**	**(8,847,347)**
Balance as at 1 January 2013	(896,551)	(2,464,272)	(2,293,697)	(1,893,609)	(1,299,218)	(8,847,347)
Reallocation of impairment charge	(24,295)	(111,683)	(66,350)	(13,657)	215,985	-
Charge for the year	(132,281)	(374,021)	(552,936)	(477,041)	-	(1,536,279)
Disposals	1,884	20,147	2,977	3,408	-	28,416
Balance as at 31 December 2013	**(1,051,243)**	**(2,929,829)**	**(2,910,006)**	**(2,380,899)**	**(1,083,233)**	**(10,355,210)**
Carrying amounts						
At 1 January 2012	**2,229,540**	**4,076,323**	**4,886,930**	**2,289,254**	**9,026,925**	**22,508,972**
At 31 December 2012	**2,708,293**	**4,577,127**	**5,988,052**	**2,172,016**	**11,965,979**	**27,411,467**
At 31 December 2013	**2,969,314**	**6,548,198**	**7,256,579**	**2,372,029**	**19,319,058**	**38,465,178**

As at 31 December 2013 construction in progress includes prepayments for property, plant and equipment of RUB 1,532,093 thousand (as at 31 December 2012: RUB 1,170,936 thousand), which are stated net of impairment provision of RUB 367,356 thousand (as at 31 December 2012: RUB 33,298 thousand).

The amount of capitalised interest for the year ended 31 December 2013 was RUB 1,221,381 thousand (2012: RUB 661,271 thousand). The capitalization rate for general purpose borrowings for the year ended 31 December 2013 was 7.7% (2012: 6.3%).

No property, plant and equipment are pledged as security for loans and borrowings as at 31 December 2013, 31 December 2012.

Determination of recoverable amount of property plant and equipment

As at 31 December 2013 and as at 31 December 2012 management of the Group identified impairment indicators for the Company's main cash-generating unit and performed an impairment test. The majority of the CGU's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2013 and 2012 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

The following key assumptions were used by management in determining the recoverable amount of cash-generating unit as at 31 December 2012:

- cash flows were projected based on actual operating results for 2012 and the Group's business plan for 2013. Cash flows for the period 2014-2022 were projected as follows:
  - transmission tariffs for the period from 2013 to 2017 were estimated using a limitation of tariffs growth rate of 10.0% in accordance with the level of growth set by the Federal Tariff Service as per Executive order of the Government of the Russian Federation No. 1178 as of 29 December 2011;
  - post 2017 transmission tariffs were estimated based on RAB methodology in accordance with Executive order by FST No. 228-e dated 30 March 2012. As per RAB regulated gross revenue should cover all operating expenses (excluding depreciation), tax payments, payback of invested capital and required fair return on the invested capital;
  - forecasted transmission volumes were determined based on the Group's annual business plan for 2013 and were fixed for the forecasted period;
  - operating costs were assumed to increase in line with consumer price index. For tariff setting purposes under RAB regulation optimisation of operating costs by 1.0% was assumed for each projected period.
- the cash flow forecasts were discounted to their present value at the nominal weighted average after tax cost of capital of 12.42%;
- terminal growth rate of the net cash flows was expected at the level of 3.2% in the post-forecasted period.

As at 31 December 2012 as a result of impairment testing the Group recognised impairment losses of RUB 2,957,435 thousand on property, plant and equipment.

An increase of 1.0% in the post-tax discount rate used would have caused the recognition of impairment losses of RUB 6,391,660 thousand. A decrease of 1% in the post-tax discount rate used would have not caused any impairment losses.

(in thousands of Russian Roubles, unless otherwise stated)

An increase of 1.0% in annual revenue would have caused the recognition of impairment losses of RUB 326,373 thousand. A decrease of 1% in annual revenue would have caused the recognition of impairment losses of RUB 5,587,974 thousand.

An increase of 1.0% in annual operating expenses would have caused the recognition of impairment losses of RUB 5,223,409 thousand. A decrease of 1.0% in annual operating expenses would have caused the recognition of impairment losses of RUB 692,220 thousand.

If the transmission volume of electricity would have been increased by 4.6% for the forecast period compared to the planned transmission volume of electricity in the business plan for 2013 the recoverable amount of property, plant and equipment of this CGU would be equal to their book value.

If distribution tariffs would have been increased by 17.5% for the first forecast period compared to the planned distribution tariffs in the business plan for 2013 the recoverable amount of property, plant and equipment for this CGU would be equal to its book value.

The following key assumptions were used by management in determining the recoverable amount of cash-generating unit as at 31 December 2013:

- cash flows were projected based on actual operating results for 2013 and the Company's business plan for 2014. Cash flows for the period 2014-2022 were projected as follows:
    - transmission tariffs were estimated using a limitation of tariffs growth rate of 4.5% for 2014 in accordance with the level of tariff growth for distribution grid companies set by the Government of Russian Federation. For the period from 2015 until 2022 management has used the tariff's growth level of 4.7% in accordance with forecasted conditions, which are used in the business plan for JSC Russian Grids;
    - forecasted transmission volumes were determined based on the Group's annual business plan for 2014-2018 years. Since 2019 the transmission volumes were determined considering the annual growth rate of 2.0% in accordance with expectations of the Group's management;
    - operating costs were assumed to increase in line with consumer price index. For tariff setting purposes under RAB regulation optimisation of operating costs by 3.0% was assumed for each projected period.
- the cash flow forecasts were discounted to their present value at the nominal weighted average after tax cost of capital of 11.32%;
- terminal growth rate of the net cash flows was expected at the level of 2.4% in the post-forecasted period.

As at 31 December 2013 as a result of impairment testing the impairment losses were not identified.

Leased plant and machinery

The Group leases production equipment and transport under a number of finance lease agreements. At as 31 December 2013 all assets were purchased by the Group.

The net book value of leased property, plant and equipment accounted for as part of the Group's property, plant and equipment was as follows:

	31 December 2013	31 December 2012
Cost of leased assets	-	852,454
Accumulated depreciation	-	(581,168)
Net book value	-	**271,286**

(in thousands of Russian Roubles, unless otherwise stated)

13 INTANGIBLE ASSETS

	Software	Certificates and licenses	Total
Cost			
Balance as at 1 January 2012	219,110	21,441	240,551
Additions	45,202	925	46,127
Disposals	-	(21,380)	(21,380)
Balance as at 31 December 2012	**264,312**	**986**	**265,298**
Balance as at 1 January 2013	264,312	986	265,298
Additions	41,185	4,454	45,639
Disposals	-	-	-
Balance as at 31 December 2013	**305,497**	**5,440**	**310,937**
Amortisation			
Balance as at 1 January 2012	(2,861)	(21,441)	(24,302)
Charge for the year	(4,966)	(105)	(5,071)
Disposals	-	21,380	21,380
Balance as at 31 December 2012	**(7,827)**	**(166)**	**(7,993)**
Balance as at 1 January 2013	(7,827)	(166)	(7,993)
Charge for the year	(21,145)	(949)	(22,094)
Disposals	-	-	-
Balance as at 31 December 2013	**(28,972)**	**(1,115)**	**(30,087)**
Carrying amounts			
As at 1 January 2012	**216,249**	**-**	**216,249**
As at 31 December 2012	**256,485**	**820**	**257,305**
As at 31 December 2013	**276,525**	**4,325**	**280,850**

14 INVESTMENTS AND FINANCIAL ASSETS

	31 December 2013	31 December 2012
Financial assets related to employee benefit fund	150,367	154,798
Other non-current assets	1	1
	150,368	**154,799**

Financial assets related to the employee benefit fund 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 80% contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

For more detailed information concerning the Group's exposure to credit risks to investments and financial assets refer to Note 26.

(in thousands of Russian Roubles, unless otherwise stated)

15 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Property, plant and equipment	138,641	312,169	-	-	138,641	312,169
Inventories	14,508	15,390	-	-	14,508	15,390
Trade and other receivables	304,564	221,598	-	-	304,564	221,598
Finance lease liability	-	3,111	-	-	-	3,111
Loans and borrowings	-	-	-	(336)	-	(336)
Provisions	217,170	329,191	-	-	217,170	329,191
Employee benefits	85,473	29,853	-	-	85,473	29,853
Trade and other payables	14,172	98,660	-	-	14,172	98,660
Tax loss carry-forwards	439,222	566,941	-	-	439,222	566,941
Tax assets/(liabilities)	**1,213,750**	**1,576,913**	**-**	**(336)**	**1,213,750**	**1,576,577**
Set off of tax	-	(336)	-	336	-	-
Net tax assets	**1,213,750**	**1,576,577**	**-**	**-**	**1,213,750**	**1,576,577**

The tax losses expire in 2019-2022 years. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised because management believes that it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Movements in temporary differences during the year

	1 January 2013	Recognised in profit or loss	Recognised in other comprehensive loss	31 December 2013
Property, plant and equipment	312,169	(173,528)	-	138,641
Inventories	15,390	(882)	-	14,508
Trade and other receivables	221,598	82,966	-	304,564
Finance lease liability	3,111	(3,111)	-	-
Loans and borrowings	(336)	336	-	-
Provisions	329,191	(112,021)	-	217,170
Employee benefits	29,853	2,080	53,540	85,473
Trade and other payables	98,660	(84,488)	-	14,172
Tax loss carry-forwards	566,941	(127,719)	-	439,222
Net deferred tax assets	**1,576,577**	**(416,367)**	**53,540**	**1,213,750**

	1 January 2012	Recognised in profit or loss	Recognised in other comprehensive loss	31 December 2012
Property, plant and equipment	(199,858)	512,027	-	312,169
Inventories	9,980	5,410	-	15,390
Trade and other receivables	165,909	55,689	-	221,598
Finance lease liability	15,734	(12,623)	-	3,111
Loans and borrowings	(1,604)	1,268	-	(336)
Provisions	300,654	28,537	-	329,191
Employee benefits	16,286	6,703	6,864	29,853
Trade and other payables	76,826	21,834	-	98,660
Tax loss carry-forwards	454,967	111,974	-	566,941
Net deferred tax assets	**838,894**	**730,819**	**6,864**	**1,576,577**

(in thousands of Russian Roubles, unless otherwise stated)

16 INVENTORIES

	31 December 2013	31 December 2012
Raw materials	1,085,698	770,182
Spare parts	281,978	256,638
Allowance for impairment of inventories	(7,257)	(4,840)
	1,360,419	**1,021,980**

As at 31 December 2013 and 31 December 2012 no inventories were pledged under the bank loan agreements.

17 TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Non-current		
Trade receivables	88	-
Other receivables	3,232	2,921
	3,320	**2,921**
VAT recoverable	5,798	5,746
Prepayments	8,762	-
	17,880	**8,667**
Current		
Trade receivables	4,606,067	968,308
Trade receivables impairment allowance	*(648,142)*	*(725,467)*
Trade receivables, net	**3,957,925**	**242,841**
Other receivables	484,970	304,700
Other receivables impairment allowance	*(247,511)*	*(204,769)*
Other receivables, net	**237,459**	**99,931**
	4,195,384	**342,772**
Prepayments	107,715	2,458,585
Prepayments impairment allowance	*(57,774)*	*(24,675)*
Prepayments, net	**49,941**	**2,433,910**
VAT recoverable	105,607	39,644
VAT on advances received	382,413	762,114
VAT on prepayments for property plant and equipment	275,232	212,187
VAT prepaid	810,283	339,437
Other taxes prepaid	44,128	76,597
	5,862,988	**4,206,661**

The Group's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 26.

18 CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Cash at bank and in hand	12,624,179	4,297,609
Cash equivalents	225	698
	12,624,404	**4,298,307**

As at 31 December 2013 cash and cash equivalents include balances in the amount of RUB 11,089,748 thousand (31 December 2012: RUB 3,299,000 thousand), which represent minimum required balances on the accounts opened with the banks in order to get additional interest income. The requirement to maintain minimum level of cash balances does not restrict the Company's ability to use cash at any time. As at 31 December 2013, majority of cash and cash equivalents are held with Russian state owned banks.

All cash and cash equivalents are denominated in RUB.

(in thousands of Russian Roubles, unless otherwise stated)

19 EQUITY

Share capital

Number of shares	Ordinary shares	
	Year ended 31 December 2013	**Year ended 31 December 2012**
Par value	RUB 100	RUB 100
In issue at 1 January	142,942,830	97,460,933
Issued during the year	139,925,300	45,481,897
In issue at 31 December – fully paid	**282,868,130**	**142,942,830**

Issue of additional shares

On 25 October 2010 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 31,732,913 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 184.92. This share issuance was registered by the Federal Service for Financial Markets on 14 December 2010. During 2010 12,892,289 shares were subscribed and paid by JSC Russian Grids and were in the process of registration as at 1 January 2011. During 2011 312,064 shares were subscribed and paid by JSC Russian Grids and 6,949,343 shares by 3rd parties. The amounts of RUB 726,141 thousand and RUB 616,639 thousand were recognised as share capital and share premium within equity for the year ended 31 December 2011, respectively. The additional shares were issued to raise capital for investment project of Sochi resort development.

On 23 November 2011 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 97,478,760 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 103.44. This share issuance was registered by the Federal Service for Financial Markets on 21 February 2012. During 2012 year 45,460,746 shares were subscribed and paid by JSC Russian Grids and 21,151 shares by 3rd parties. The amounts of RUB 4,548,189 thousand and RUB 156,458 thousand were recognized as share capital and share premium within equity for the year ended 31 December 2012, respectively. The additional shares were issued to raise capital for investment project of Sochi resort development as well as for energy saving and efficiency increase programs and to decrease the Group's loans and borrowings.

On 18 March 2013 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 214,877,270 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 121.82. During the year ended 31 December 2013 139,925,300 shares were subscribed and paid. JSC Russian Grids had purchased 139,922,020 shares and 3,280 shares were purchased by 3rd parties. The amounts of RUB 13,992,530 thousand and RUB 3,053,170 thousand were recognized as share capital and share premium within equity for the year ended 31 December 2013. Increase in Share capital was formally registered as at 17 January 2014. The additional shares were issued to raise capital for investment project of Sochi resort development as well as for energy saving and efficiency increase programs.

Dividends

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

During the reporting periods and up to the date of approval of the consolidated financial statements the Company declared no dividends.

20 LOSS PER SHARE

	Year ended 31 December 2013	**Year ended 31 December 2012**
Weighted average number of ordinary shares for the year ended 31 December (thousand of shares)	216,257	132,008
Loss attributable to the owners of the Company	(636,860)	(3,492,068)
Loss per share - basic and diluted (in RUB)	**(2,94)**	**(26,45)**

(in thousands of Russian Roubles, unless otherwise stated)

21 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risks, refer to Note 26.

	31 December 2013	31 December 2012
Non-current liabilities		
Unsecured bank loans	17,237,000	5,917,000
	17,237,000	**5,917,000**
Current liabilities		
Unsecured bank loans	400,000	10,000,000
Current portion of unsecured long-term borrowings	-	25,584
Unsecured borrowings	2,725	-
	402,725	**10,025,584**

Terms and conditions of outstanding loans and borrowings were as follows:

	Nominal interest rate (fixed),%			Carrying amount	
	31 December 2013	31 December 2012	Year of maturity	31 December 2013	31 December 2012
OJSC Sberbank*	8.80-9.39%	8.50-9.79%	2015-2016	8,600,000	8,600,000
OJSC Gazprombank*	9.45-10.50%	9.60-11.00%	2015-2018	8,637,000	5,916,998
JSC NOTA-Bank	-	10.22-10.52%	2013	-	1,000,000
JSC Rosenergobank	11.30%	11.30%	2014	400,000	400,000
SGI Centre for Energy Efficiency and New Technologies*	Interest free	Interest free	2011-2013	-	25,586
Other	8.25%	-	2013	2,725	-
Total				**17,639,725**	**15,942,584**

*Loans and borrowings from the government - related entities

The carrying amounts of loans and borrowings approximate their fair value.

During 2013 the Group had breached loan covenants of the following loans:

- The Rosenergobank loan of RUB 400,000 thousand related to monthly net credit bank accounts turnover, and
- One of the Sberbank loans of RUB 1,600,000 thousand repayable in 2015 related to the minimum quarterly receipt of revenue on the bank accounts.

As a result, the lenders had received the right to demand earlier repayment of the loans. However, as at 31 December 2013 Management had obtained from the banks waivers and classified the loans in these financial statements in accordance with their contractual maturity.

(in thousands of Russian Roubles, unless otherwise stated)

22 FINANCE LEASE LIABILITIES

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	31 December 2013			31 December 2012		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	-	-	-	17,866	(6,162)	11,704
Between one and five years	-	-	-	8,521	(4,668)	3,853
	-	-	-	**26,387**	**(10,830)**	**15,557**

All leases are denominated in RUB. The Group's obligations under finance lease are secured by the lessors title to the leased assets. The fair value of the finance lease liabilities approximate to their carrying amounts.

The net book value of leased property, plant and equipment is disclosed in Note 12. At as 31 December 2013 all leased assets were purchased by the Group.

23 EMPLOYEE BENEFITS

The Group has defined benefit pension plan which consists of defined post-employment benefits and cover most full-time and retired employees. Defined post-employment benefits consist of several plans providing for lump-sum payments upon retirement, financial support for pensioners, death benefits, jubilee benefits.

Movements in the net liability of the defined benefit obligations are as follows:

The defined benefit obligations recognized in the Consolidated statement of financial position:

	31 December 2013	31 December 2012 (restated)
Present value of defined benefit obligations	577,735	304,064
	577,735	**304,064**

Amounts recognized in expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Current service cost	5,505	23,780
Interest expenses on benefit obligation	21,979	19,623
	27,484	**43,403**

Interest expenses on benefit obligation are recognized in finance costs for year ended 31 December 2013 and for year ended 31 December 2012.

Current service cost is recognized in the «personnel costs» as part of operating expenses for year ended 31 December 2013 and for year ended 31 December 2012.

Amounts recognized in other comprehensive loss of the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
(Gain)/loss arising from demorgaphic assumptions	27,474	-
(Gain)/loss arising from financial assumptions	(36,758)	41,536
(Gain)/loss arising from experience adjustment	276,986	(7,216)
	267,702	**34,320**

(in thousands of Russian Roubles, unless otherwise stated)

Movements in the present value of the Group's employee benefit obligations are as follows:

	Movements in the present value of the Group's employee benefit obligations	
	Year ended 31 December 2013	**Year ended 31 December 2012 (restated)**
As at 1 January	**304,064**	**251,925**
Current service cost	5,505	4,516
Past service cost	-	19,264
Interest on obligation	21,979	19,623
Effect of remeasurement of the defined benefit liability:		
(Gain)/loss arising from demographic assumptions	27,474	-
(Gain)/loss arising from financial assumptions	(36,758)	41,536
(Gain)/loss arising from experience adjustment	276,986	(7,216)
Benefits paid by the plan	(21,515)	(25,584)
As at 31 December	**577,735**	**304,064**

Movements in remeasurement of the defined benefit liability in other comprehensive loss are as follows:

	Year ended 31 December 2013	**Year ended 31 December 2012 (restated)**
Remeasurement as at 1 January	52,834	18,514
Movements of remeasurement	267,702	34,320
Remeasurement as at 31 December	**320,536**	**52,834**

Principal actuarial assumptions:

	31 December 2013	**31 December 2012 (restated)**
Financial assumptions		
Discount rate	8.0%	7.1%
Salary increase	5.0%	5.0%
Inflation rate	5.0%	5.0%
Demographic assumptions		
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	13%	13%

Financial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 6.7 years (2012: 5.3 years).

(in thousands of Russian Roubles, unless otherwise stated)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is presented below:

	Change in assumption	Impact on defined benefit liability
Discount rate	Increase / decrease by 0.5 p. p.	Decrease/ Increase by 3.62%
Future salary increases (nominal)	Increase / decrease by 0.5 p. p.	Increase / decrease by 1.07%
Future pension increases (nominal)	Increase / decrease by 0.5 p. p.	Increase / decrease by 2.71%
Employee turnover	Increase / decrease by 10%	Decrease/ Increase by 1.53%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by 0.72%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows.

	31 December 2013	31 December 2012
Longevity at age 60 for current pensioners		
Males	14	13
Females	20	18
Longevity at age 60 for current members		
Males	19	13
Females	23	18

24 TRADE AND OTHER ACCOUNTS PAYABLE

	31 December 2013	31 December 2012
Non-current		
Trade payables	9,878	1,132
Other payables	3,704	8,353
	13,582	**9,485**
Advances received	577,509	252,875
	591,091	**262,360**
Current		
Trade payables	9,101,815	3,415,037
Payables to employees	434,246	284,769
Other payables	253,309	224,004
	9,789,370	**3,923,810**
Advances received	1,927,350	4,767,393
	11,716,720	**8,691,203**
Taxes payable		
Payments to social funds	105,611	58,070
Property tax	31,209	19,599
Personal income tax	42,209	25,855
Other taxes payable	23,656	3,064
	202,685	**106,588**
	11,919,405	**8,797,791**

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 26.

(in thousands of Russian Roubles, unless otherwise stated)

25 PROVISIONS

	Year ended 31 December 2013	Year ended 31 December 2012
Balance at 1 January	1,645,956	1,503,272
Provisions raised during the year	914,555	206,746
Provisions used during the year	(1,474,661)	(64,062)
Balance at 31 December	**1,085,850**	**1,645,956**

Provisions relate to the legal proceedings against the Group and unsettled disagreements with distribution selling entities regarding compensation of technological losses.

26 FINANCIAL RISK MANAGEMENT

Overview

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

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

The Group does not have any exposure to foreign currency risk as no sales, purchases and borrowings are denominated in a currency other than the functional currency of Group entities, which is the RUB.

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.

The Group's risk management policies deal with identifying and analysing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring 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 internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Revision Committee oversees how management monitors compliance with the Group's internal control procedures.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set by contract and depends on the amount of capacity to be connected.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

(in thousands of Russian Roubles, unless otherwise stated)

	Carrying amount	
	31 December 2013	31 December 2012
Trade and other receivables	4,198,704	345,693
Cash and cash equivalents	12,624,404	4,298,307
Financial assets related to employee benefit fund	150,367	154,798
	16,973,475	**4,798,798**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	31 December 2013	31 December 2012
Electricity transmission customers	4,402,707	683,166
Connection services customers	190,520	274,977
Other sales	12,928	10,165
Less impairment allowance	(648,142)	(725,467)
	3,958,013	**242,841**

Impairment losses

The table below analyses the Group's trade and other receivables into relevant groups based on the due periods:

	31 December 2013		31 December 2012	
	Gross	Impairment	Gross	Impairment
Not past due	2,313,710	(3,872)	389,423	(122,188)
Past due less than 90 days	1,832,055	(33,970)	84,656	(73,491)
Past due 90 – 180 days	52,639	(30,936)	146,230	(107,024)
Past due 180 – 365 days	127,107	(115,914)	186,546	(181,302)
Past due more than 1 year	768,846	(710,961)	469,074	(446,231)
	5,094,357	**(895,653)**	**1,275,929**	**(930,236)**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Balance at 1 January	930,236	693,511
Increase during the year	81,382	462,539
Amounts written off against trade receivables	(38,302)	(138,647)
Decrease due to reversal	(77,663)	(87,167)
Balance at 31 December	**895,653**	**930,236**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The Group incurred losses during the years ending 31 December 2013 and 31 December 2012 in amount of RUB 636,860 thousand and RUB 3,492,068 thousand, respectively. As at 31 December 2012 the Group had a net working capital deficit of RUB 10,949,851 thousand primarily attributable to short-term loans and borrowings.

During 2013 the Group expected to refinance the majority of its short-term loans and borrowings with the same banks and generated positive operating cash flows primarily as a result of increased tariffs for transmission and optimization of costs and working capital.

Management anticipates that settlement of trade and other payables will be met out of operating cash flows. Management believes that there is no significant uncertainty regarding Group's ability to continue as going concern and going concern basis is appropriate for these financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

The contractual maturities of financial liabilities presented including estimated interest payments.

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2013							
Loans and borrowings	17,639,725	22,611,073	2,100,197	4,068,179	12,108,811	373,400	3,960,486
Trade and other payables	9,368,706	9,372,990	9,355,124	13,693	985	705	2 483
Total	**27,008,431**	**31,984,063**	**11,455,321**	**4,081,872**	**12,109,796**	**374,105**	**3,962,969**

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2012							
Loans and borrowings	15,942,584	18,515,291	11,405,118	995,700	2,963,643	3,150,830	-
Finance lease liabilities	15,557	26,387	17,866	4,956	3,565	-	-
Trade and other payables	3,648,526	3,651,918	3,639,041	7,294	1,410	985	3,188
Total	**19,606,667**	**22,193,596**	**15,062,025**	**1,007,950**	**2,968,618**	**3,151,815**	**3,188**

(in thousands of Russian Roubles, unless otherwise stated)

Market risk

Market risk is the risk that changes in market prices, 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 optimizing the return.

Interest rate risk

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair values

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The basis for determining fair value is disclosed in Note 4.

Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their share capital at all times.

Netting or similar agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Trade and other receivables	Trade and other payables
31 December 2013		
Gross amounts	1,753,856	6,536,451
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	**1,753,856**	**6,536,451**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	1,753,856	1,753,856
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	**-**	**4,782,595**

(in thousands of Russian Roubles, unless otherwise stated)

	Trade and other receivables	Trade and other payables
31 December 2012		
Gross amounts	35,185	509,881
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	**35,185**	**509,881**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	35,185	35,185
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	-	**474,696**

27 OPERATING LEASE

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 5 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Non-cancellable operating lease rentals under land lease agreements are payable as follows:

	31 December 2013	31 December 2012
Less than one year	39,712	30,429
Between one year and five years	137,153	92,308
More than five years	1,259,497	819,243
	1,436,362	**941,980**

During the year RUB 76,390 thousand (2012: RUB 74,831 thousand) was recognised in profit or loss in respect of operating leases (including expenses incurred on lease other than land lease).

28 COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2013 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 4,290,061 thousand (31 December 2012: RUB 17,323,494 thousand).

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 generally available. The Group does not have full coverage for its stations 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.

Litigation

The Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the course of business.

As at 31 December 2013 and 2012 the Group was in dispute with distribution selling entities related to purchase of electricity for compensation of technological losses and electricity transmission services. In the opinion of management the probability of negative outcome of the disputes was probable and recognized a provision of RUB 1,085,850 thousand (as 31 December 2012: RUB 1,645,956 thousand).

Taxation contingencies

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

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

Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The 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.

Other contingencies

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on a variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

29 RELATED PARTIES TRANSACTIONS

Control relationship

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel which comprised of General Director, Deputies General Director and Directors of the branches. The Company's parent as at 31 December 2013 and 31 December 2012 was JSC Russian Grids. The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of JSC Russian Grids.

In the normal course of business the Group enters into transactions with other entities under common government control including Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The Group's parent company produces publicly available financial statements.

Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's Parent, its subsidiaries and associate include transactions with JSC Russian Grids, its subsidiaries and associates, and were as follows:

(in thousands of Russian Roubles, unless otherwise stated)

Revenue

	Transaction value for the year ended 31 December		Outstanding balance	
	2013	**2012**	**31 December 2013**	**31 December 2012**
Parent company				
Other	5	-	-	-
Transactions with other JSC Russian Grids' subsidiaries				
Rent	2,807	-	-	-
Other	1,780	3	212,309	271
Allowance for impairment of other receivables	-	-	(168,076)	-
	4,592	3	44,233	271

Expenses

	Transaction value for the year ended 31 December		Outstanding balance	
	2013	**2012**	**31 December 2013**	**31 December 2012**
Parent company				
Managing services	76,485	76,485	-	-
Other	-	-	4,513	4,513
Transactions with other JSC Russian Grids' subsidiaries				
Electricity transmission	2,891,959	-	2,908,361	-
Rent	13,465	11,127	31,489	22,004
Connection services	-	-	-	-
Construction companies	-	-	29,601	-
Other	72,737	1,761	143,777	67,845
	3,054,646	89,373	3,117,741	94,362

Capital transactions with the Company's Parent (JSC Russian Grids) are disclosed in Note 19.

Management remuneration

The Group identifies members of Board of Directors, members of Management Board and top managers of the Company and its subsidiaries as key management personnel.

There are no transactions with key management personnel and close family members except their remuneration in the form of salary and bonuses which were as follows:

	Year ended 31 December 2013		Year ended 31 December 2012	
	Board of Directors	**Other key Management Personnel**	**Board of Directors**	**Other key Management Personnel**
Salaries and bonuses	10,638	69,450	9,185	79,577

Transactions with government-related parties

In the course of its operating activities the Group is also engaged in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs where applicable.

Revenues from government-related entities for the year ended 31 December 2013 constitute 1.1% (for the year ended 31 December 2012: 1.0%) of total Group revenues. The electricity transmission revenue from government - related entities for the year ended 31 December 2013 constitutes 0.6% (for the year ended 31 December 2012: 0.5%) of total Group revenues.

Electricity transmission costs from government-related entities for year ended 31 December 2013 constitutes 10.8% (for the year ended 31 December 2012: 22.6%) of total transmission costs.

Significant loans and borrowings from government-related entities are disclosed in Note 21.

Pricing policies

Related party revenue for electricity transmission is based on the tariffs regulated by the government.