

**OJSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF VOLGA  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013  
AND AUDITORS' REPORT**

## **Contents**

Auditors' Report	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Equity	8
Notes to the Consolidated Financial Statements	9 – 42



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## **Auditors' Report**

To the Shareholders and Board of Directors

OJSC Interregional Distribution Grid Company of Volga

We have audited the accompanying consolidated financial statements of OJSC Interregional Distribution Grid Company of Volga (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: OJSC Interregional Distribution Grid Company of Volga

Registered in the Unified State Register of Legal Entities on 29 June 2007 by Inter-district tax inspectorate No.8 of Saratov region, Registration No. 1076450006280, Certificate series 64 No. 002263079.

42/44 Pervomayskaya street, Saratov, Russia, 410031

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

1 April 2014

Moscow, Russian Federation



**OJSC IDGC of Volga**  
**Consolidated Statement of Financial Position as at 31 December 2013**

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2013	31 December 2012 (restated)	1 January 2012 (restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	41,845,590	37,020,153	31,266,118
Intangible assets	8	146,442	102,925	105,338
Other non-current assets	9	568,213	593,220	603,445
<b>Total non-current assets</b>		<b>42,560,245</b>	<b>37,716,298</b>	<b>31,974,901</b>
<b>Current assets</b>				
Inventories	10	1,184,245	1,081,621	974,903
Income tax receivable		839,796	230,577	1,021,252
Trade and other receivables	11	4,404,890	3,407,321	3,706,673
Prepayments for current assets	12	320,905	325,840	430,870
Cash and cash equivalents	13	1,056,150	2,088,351	2,014,301
Other current assets	14	18,945	17,192	12,996
<b>Total current assets</b>		<b>7,824,931</b>	<b>7,150,902</b>	<b>8,160,995</b>
<b>TOTAL ASSETS</b>		<b>50,385,176</b>	<b>44,867,200</b>	<b>40,135,896</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	15	17,857,780	17,857,780	17,857,780
Reserves		(647,541)	(457,472)	(287,537)
Retained earnings		8,999,909	7,840,117	5,609,469
<b>Total equity</b>		<b>26,210,148</b>	<b>25,240,425</b>	<b>23,179,712</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	25	3,012,993	1,980,839	1,552,618
Employee benefits	16	1,367,080	1,391,342	1,221,828
Loans and borrowings	17	13,900,000	10,718,545	6,921,232
Trade and other payables	18	270,782	384,626	195,754
<b>Total non-current liabilities</b>		<b>18,550,855</b>	<b>14,475,352</b>	<b>9,891,432</b>
<b>Current liabilities</b>				
Loans and borrowings	17	36,626	65,714	86,701
Trade and other payables	18	5,001,742	4,590,377	6,176,332
Provisions		25,746	126,600	440,981
Income tax payable		800	6,960	5,943
Other taxes payable	19	559,259	361,772	354,795
<b>Total current liabilities</b>		<b>5,624,173</b>	<b>5,151,423</b>	<b>7,064,752</b>
<b>Total liabilities</b>		<b>24,175,028</b>	<b>19,626,775</b>	<b>16,956,184</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>50,385,176</b>	<b>44,867,200</b>	<b>40,135,896</b>

These consolidated financial statements were approved by management on 31 March 2014 and were signed on its behalf by:

General Director

Ryabikin V.A

Chief Accountant

Tamlenova I.A

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 42.

**OJSC IDGC of Volga***Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013**(in thousands of Russian Roubles, unless otherwise stated)*

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012 (restated)
Revenue	20	49,201,705	45,908,232
Operating expenses	21	(46,817,609)	(42,134,650)
Other income / (expense), net	23	60,593	(46,617)
<b>Operating profit</b>		<b>2,444,689</b>	<b>3,726,965</b>
Finance income	24	30,149	44,867
Finance costs	24	(774,499)	(473,085)
<b>Profit before income tax</b>		<b>1,700,339</b>	<b>3,298,747</b>
Income tax expense	25	(249,466)	(868,092)
<b>Profit for the year</b>		<b>1,450,873</b>	<b>2,430,655</b>
<b>Items that will never be reclassified to profit or loss</b>			
Remeasurements of defined benefit liability		(237,586)	(212,419)
Related income tax		47,517	42,484
<b>Other comprehensive income, net of income tax</b>		<b>(190,069)</b>	<b>(169,935)</b>
<b>Total comprehensive income for the year</b>		<b>1,260,804</b>	<b>2,260,720</b>
Earnings per share - basic and diluted (in Russian Roubles)	15	0.0081	0.0136

**OJSC IDGC of Volga***Consolidated Statement of Cash Flows for the year ended 31 December 2013**(in thousands of Russian Roubles, unless otherwise stated)*

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
<b>OPERATING ACTIVITIES:</b>			
<b>Profit before income tax</b>		<b>1,700,339</b>	<b>3,298,747</b>
<b>Adjustments for:</b>			
Depreciation and amortisation	7, 8	4,092,233	3,602,343
(Reversal of) / allowance for impairment of accounts receivable		(104,285)	275,951
Reversal of provision for obsolescence		-	(12,102)
Finance costs		774,499	473,085
Finance income		(30,149)	(44,867)
Gain on disposal of property, plant and equipment		(8,076)	(5,058)
Reversal of impairment losses of construction in progress		-	(9,978)
Accounts payable written-off		(9,760)	(12,999)
Other non-cash transactions		26,902	79,399
<b>Operating profit before working capital changes and income tax paid</b>		<b>6,441,703</b>	<b>7,644,521</b>
<b>Working capital changes:</b>			
(Increase) / decrease in trade and other receivables		(893,507)	22,234
Decrease in prepayments		5,158	106,197
Increase in inventories		(49,870)	(94,616)
Increase in other current assets		(1,753)	(4,196)
Decrease in other non-current assets		25,007	10,225
Increase / (decrease) in trade and other payables		96,542	(1,949,232)
Decrease in long-term liabilities		(346,233)	(135,325)
Increase in taxes payable other than income		268,465	6,977
<b>Cash flows from operations before income taxes and interest paid</b>		<b>5,545,512</b>	<b>5,606,785</b>
Income tax paid		143,849	394,305
Interest paid		(897,250)	(518,476)
<b>Net cash flows from operating activities</b>		<b>4,792,111</b>	<b>5,482,614</b>
<b>INVESTING ACTIVITIES:</b>			
Acquisition of property, plant and equipment		(8,596,265)	(8,957,289)
Acquisition of intangible assets		(105,515)	(28,911)
Interest received		30,149	44,418
<b>Net cash flows used in investing activities</b>		<b>(8,671,631)</b>	<b>(8,941,782)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from loans and borrowings		13,800,000	5,850,000
Repayment of loans and borrowings		(10,600,000)	(2,000,000)
Repayment of finance lease liabilities		(65,622)	(116,775)
Dividends paid		(287,059)	(200,007)
<b>Net cash flows from financing activities</b>		<b>2,847,319</b>	<b>3,533,218</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(1,032,201)</b>	<b>74,050</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>2,088,351</b>	<b>2,014,301</b>
<b>Cash and cash equivalents at end of year</b>		<b>1,056,150</b>	<b>2,088,351</b>

**OJSC IDGC of Volga***Consolidated Statement of Changes In Equity for the year ended 31 December 2013**(in thousands of Russian Roubles, unless otherwise stated)*

	<b>Share capital</b>	<b>Reserves</b>	<b>Retained Earnings</b>	<b>Total equity</b>
<b>Balance at 1 January 2012, as previously reported</b>	<b>17,857,780</b>	-	<b>5,607,448</b>	<b>23,465,228</b>
Impact of changes in accounting policy (Note 3)	-	(287,537)	2,021	(285,516)
<b>Balance at 1 January 2012 (restated)</b>	<b>17,857,780</b>	<b>(287,537)</b>	<b>5,609,469</b>	<b>23,179,712</b>
Profit for the year	-		2,430,655	2,430,655
<b>Other comprehensive income</b>				
Revaluation of net liabilities (assets) for defined benefit obligations	-	(212,419)	-	(212,419)
Income tax on other comprehensive income	-	42,484	-	42,484
<b>Total other comprehensive income</b>	-	<b>(169,935)</b>	-	<b>(169,935)</b>
<b>Total comprehensive income</b>	-	<b>(169,935)</b>	<b>2,430,655</b>	<b>2,260,720</b>
Dividends	-		(200,007)	(200,007)
<b>Balance at 31 December 2012 (restated)</b>	<b>17,857,780</b>	<b>(457,472)</b>	<b>7,840,117</b>	<b>25,240,425</b>
<b>Balance at 1 January 2013, as previously reported</b>	<b>17,857,780</b>	-	<b>7,781,696</b>	<b>25,639,476</b>
Impact of changes in accounting policy (Note 3)	-	(457,472)	58,421	(399,051)
<b>Balance at 1 January 2013 (restated)</b>	<b>17,857,780</b>	<b>(457,472)</b>	<b>7,840,117</b>	<b>25,240,425</b>
Profit for the year	-		1,450,873	1,450,873
<b>Other comprehensive income</b>				
Revaluation of net liabilities (assets) for defined benefit obligations	-	(237,586)	-	(237,586)
Income tax on other comprehensive income	-	47,517	-	47,517
<b>Total other comprehensive income</b>	-	<b>(190,069)</b>	-	<b>(190,069)</b>
<b>Total comprehensive income</b>	-	<b>(190,069)</b>	<b>1,450,873</b>	<b>1,260,804</b>
Dividends	-	-	(291,081)	(291,081)
<b>Balance at 31 December 2013</b>	<b>17,857,780</b>	<b>(647,541)</b>	<b>8,999,909</b>	<b>26,210,148</b>

## OJSC IDGC of Volga

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

### Note 1. Background

#### (a) The Group and its operations

Open Joint-Stock Company “Interregional Distribution Grid Company of Volga” (hereafter, the “Company” or OJSC IDGC of Volga) and its subsidiaries (together referred to as the “Group”) comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 29 June 2007 based on Resolution no. 191p of 22 June 2007 and pursuant to the Board of Directors’ decision (board of directors’ meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO “United Energy Systems of Russia” (hereafter, “RAO UES”).

The Company’s registered office is 42/44 Pervomayskaya Street, Saratov, Russian Federation, 410031.

The Group’s principal activity is the transmission and distribution of electricity and the connection of customers to the electricity grid. In 2013 the Group made sales of electricity and power.

The Group’s significant subsidiaries are:

Name	% owned		
	31 December 2013	31 December 2012	1 January 2012
OJSC Chuvashskaya avtotransportnaya kompaniya	99.99	99.99	99.99
OJSC Sanatoriy Solnechny	99.99	99.99	99.99
OJSC Sotsialnaya Sfera-M	100	100	100
OJSC Energoservis Volgi	100	100	100

As at 31 December 2013, the Government of the Russian Federation owned 85.31% shares of JSC Russian Grids (formerly JSC “IDGC Holding”) (at 31 December 2012 – 54.52%), which in turn owned 67.63% of the Company. JSC “IDGC Holding” was renamed JSC “Russian Grids” following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding.

The Government of the Russian Federation influences the Group’s activities through setting power transmission and distribution tariffs.

#### (b) Russian Business environment.

The Group’s operations are primarily 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.

### Note 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”).

#### (b) Basis of measurement

The Consolidated Financial Statements are prepared on the historical cost basis except:

- Financial investments classified as available-for-sale are stated at fair value;
- Property, plant and equipment were revalued to determine deemed cost as part of the adoption of IFRSs as at 1 January 2006.

**(c) Functional and presentation currency**

The national currency of the Russian Federation is the Russian rouble (“RUB”), which is the functional currency for Company and its subsidiaries and the currency in which these Consolidated Financial Statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

**(d) Use of judgments, estimates and assumptions**

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

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

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

Note 11 – Trade and other receivables;

Note 16 – Employee benefits.

**(e) Changes in presentation**

**(i) Reclassification of comparatives**

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

**Note 3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in the Financial statements, and 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 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) Acquisitions from entities under common control**

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the acquired entities. The components of equity are added to the same components within Group entity, except that any share capital of the acquired entities is recognized as part of share premium. Any cash or other contribution paid for the acquisition is recognized directly in equity.

**(iii) Investments in associates (equity accounted investees)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method. The consolidated financial statements include the Group’s share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an associate, the carrying amount of that interest (including any non-current

investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**(iv) *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 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) *Foreign currency***

**(i) *Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

**(c) *Financial instruments***

**(i) *Non-derivative financial instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits 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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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 assets: loans and receivables and available-for-sale financial assets.

*Loans and receivables*

Loans and 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. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances with original maturities of three months or less.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(h)(i)) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)(i)), are recognised in other comprehensive income and

presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

**(ii) Non-derivative financial liabilities**

The Group initially recognises debt securities issued on the date that they are originated. All other 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 Group 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 and trade and other payables.

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.

**(d) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is 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 of assets 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.

Gains and losses 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 income" 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 costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is calculated based on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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. Depreciation commences in the month following the acquisition or, in respect of internally constructed assets, in the month following the month an asset is completed and ready for use. Land is not depreciated.

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

<b>Type of property, plant and equipment</b>	<b>Useful lives (in years)</b>
Buildings	15-50
Transmission networks	5-20
Equipment for electricity transformation	5-20
Other	1-30

**(e) Intangible assets**

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

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. The estimated useful lives for the current and comparative periods are 3 to 10 years.

**(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.

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognised on the Group's statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

**(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, 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 against receivables. 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, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, impairment losses on equity investments are not reversed through profit or loss. Any subsequent recovery in the fair value of impaired available-for-sale equity investments is recognised in other comprehensive income.

**(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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated 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. 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 assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. 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 units and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. 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.

**(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 any unrecognised past services are 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.

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

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

**(iii) Other non-current employee benefits**

The Group's net obligation in respect of long term employee benefits other than pension plans is 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. 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 using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

**(iv) 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 distribution and sales of electricity**

Revenue from distribution and sales of electricity is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for distribution and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

**(ii) Connection services**

Revenue from connection services represents a non-refundable fee 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 for connection to the power network is recognised either at the full amount at the moment of actual connection of the customer to the network or by reference to the stage of completion.

**(iii) Other services**

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) Government subsidies**

Government subsidies that compensate the Group for low electricity tariffs are recognised in profit or loss in the same periods in which the respective revenue is earned.

**(m) 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

**(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.

**(n) Finance income and costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, discount on financial instruments, and foreign currency gains. 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, foreign currency losses, 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.

**(o) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, in which case it is recognised in equity.

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

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. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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. 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.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible 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.

**(p) Earnings per share**

The Group presents basic 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.

**(q) Segment reporting**

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 segment’s 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 financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the Financial Statements (see note 6).

**(r) 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 11 Joint arrangements, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. The nature and the effect of these changes are disclosed below.

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 or the interim consolidated condensed financial statements of the Group.

The nature and the impact of each new standard / amendment is 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.

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

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

*(in thousands of Russian Roubles, unless otherwise stated)*

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 are recognised in other comprehensive income. Previously the Group applied the corridor method.

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

**1 January 2012**

	<b>As previously reported</b>	<b>Effect of changes in accounting policies</b>	<b>As restated</b>
Employee benefits	864,933	356,895	1,221,828
Deferred tax liabilities	1,623,997	(71,379)	1,552,618
<b>Total liabilities</b>	<b>16,670,668</b>	<b>285,516</b>	<b>16,956,184</b>
Reserves	-	(287,537)	(287,537)
Retained earnings	5,607,448	2,021	5,609,469
<b>Total equity</b>	<b>23,465,228</b>	<b>(285,516)</b>	<b>23,179,712</b>

**31 December 2012**

	<b>As previously reported</b>	<b>Effect of changes in accounting policies</b>	<b>As restated</b>
Employee benefits	892,527	498,815	1,391,342
Deferred tax liabilities	2,080,603	(99,764)	1,980,839
<b>Total liabilities</b>	<b>19,227,724</b>	<b>399,051</b>	<b>19,626,775</b>
Reserves	-	(457,472)	(457,472)
Retained earnings	7,781,696	58,421	7,840,117
<b>Total equity</b>	<b>25,639,476</b>	<b>(399,051)</b>	<b>25,240,425</b>

The application of the revised standard had the following effect on the comprehensive income of the Group for the year ended 31 December 2012:

	<b>As previously reported</b>	<b>Effect of changes in accounting policies</b>	<b>As restated</b>
Operating expenses	(42,302,462)	167,812	(42,134,650)
Other expense	(41,275)	(5,342)	(46,617)
<b>Operating profit</b>	<b>3,564,495</b>	<b>162,470</b>	<b>3,726,965</b>
Finance income	44,418	449	44,867
Finance costs	(380,665)	(92,420)	(473,085)
<b>Profit before income tax</b>	<b>3,228,248</b>	<b>70,499</b>	<b>3,298,747</b>
Income tax expense	(853,993)	(14,099)	(868,092)
<b>Profit for the year</b>	<b>2,374,255</b>	<b>56,400</b>	<b>2,430,655</b>
<b>Other comprehensive income</b>			
Revaluation of net liabilities for defined benefit obligations	-	(212,419)	(212,419)
Income tax on other comprehensive income	-	42,484	42,484
<b>Total other comprehensive income</b>	<b>-</b>	<b>(169,935)</b>	<b>(169,935)</b>
<b>Total comprehensive income</b>	<b>2,374,255</b>	<b>(113,535)</b>	<b>2,260,720</b>

## **IFRS 10 Consolidated Financial Statements and IAS 27 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**

IFRS 13 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.

The Group has not early adopted the Standards, amendments to Standards and Interpretations that were issued but not yet adopted.

## **Offsetting of financial assets and financial liabilities**

The amendments to IFRS 7 did not have significant impact on the Group's disclosures thus the Group has not expanded its disclosures about the offsetting of financial assets and financial liabilities.

### **(s) New Standards and Interpretations not yet adopted**

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

The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- 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 regarding general accounting hedges, was published in November 2013. 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.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 July 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

#### **Note 4. Determination of fair value**

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 / or 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.

##### **(a) Investments in equity and debt securities**

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

##### **(b) Trade and other receivables**

The fair value of 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. This fair value is determined for disclosure purposes.

**(c) 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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**Note 5. Financial risk management**

**(a) Overview**

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

- credit risk
- liquidity risk
- market risk.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

**(b) 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 cash and cash equivalents, receivables from customers and investment securities.

**(i) 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.

Prepayments for connection services are routinely included in the customer service contracts.

The customer base for electricity transmission services for each of the Group's entities is limited to several distribution companies and a small number of large manufacturing enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments.

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. The main component of this allowance is a specific provision that relates to individually significant exposures.

**(ii) Cash and cash equivalents**

The Group attempts to minimise the credit risk exposure for current and deposit accounts with banks by placing temporarily available funds only with the banks that are lenders to the Group.

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due.

**(d) Market risk**

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

**(i) Currency risk**

The Group does not have any significant exposure to currency risk on sales, purchases and the borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Group, which is Russian roubles.

**(ii) Interest rate risk**

The Group's interest rate risk arises from short-term and long-term borrowings. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The majority of interest rates on current and non-current borrowings are fixed. The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates.

**(e) 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 level of dividends to ordinary shareholders. 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.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**Note 6. Operating segments**

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of the Company) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to the Management Board the following reporting segments were identified:

- Transmission Segments – Mordovia region, Chuvashia region, Orenburg region, Penza region, Samara region, Saratov region, Ulianovsk region – branches of IDGC Volga;
- Other Segments – other Group companies.

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8 requirements.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for financial statements prepared under IFRS. The 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.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

**OJSC IDGC of Volga**
*Notes to the Consolidated Financial Statements for the year ended 31 December 2013*
*(in thousands of Russian Roubles, unless otherwise stated)*
**(i) Information about reportable segments for the year ended 31 December 2013**

	Transmission							Other	Total
	Saratov region	Orenburg region	Samara region	Penza region	Ulianovsk region	Chuvashia region	Mordovia region		
<b>Revenue:</b>									
Electricity transmission	9,681,206	9,169,059	10,438,670	2,021,082	3,532,695	2,972,098	2,153,383	-	39,968,193
Connection to the electricity network	83,046	52,931	234,470	18,491	41,336	40,386	56,706	-	527,366
Electricity sales	-	-	-	8,406,316	-	-	-	-	8,406,316
Other revenue	77,763	132,657	18,342	18,002	7,686	13,575	10,186	9,887	288,098
<b>Total revenue from external customers</b>	<b>9,842,015</b>	<b>9,354,647</b>	<b>10,691,482</b>	<b>10,463,891</b>	<b>3,581,717</b>	<b>3,026,059</b>	<b>2,220,275</b>	<b>9,887</b>	<b>49,189,973</b>
Inter-segment revenue	-	-	-	-	-	-	-	128,819	<b>128,819</b>
<b>Total revenue</b>	<b>9,842,015</b>	<b>9,354,647</b>	<b>10,691,482</b>	<b>10,463,891</b>	<b>3,581,717</b>	<b>3,026,059</b>	<b>2,220,275</b>	<b>138,706</b>	<b>49,318,792</b>
<b>Segment operating profit/(loss)</b>	(33,692)	113,387	828,765	296,654	73,175	(213,627)	(117,877)	1,606	948,391
<b>Segment finance income</b>	2,794	3,314	2,519	1,820	997	1,056	964	954	14,418
<b>Segment finance costs</b>	(239,003)	(13,302)	(152,271)	(75,729)	(1,604)	(61,761)	(133,198)	-	(676,868)
<b>Segment profit/(loss) before income tax</b>	<b>(269,901)</b>	<b>103,399</b>	<b>679,013</b>	<b>222,745</b>	<b>72,568</b>	<b>(274,332)</b>	<b>(250,111)</b>	<b>2,560</b>	<b>285,941</b>
<b>Segment depreciation and amortisation</b>	1,221,781	1,190,809	1,192,477	535,236	256,230	312,102	326,490	18,196	5,053,321
<b>Segment assets</b>	<b>17,571,278</b>	<b>12,123,738</b>	<b>16,494,808</b>	<b>5,637,549</b>	<b>4,297,295</b>	<b>4,052,524</b>	<b>3,260,387</b>	<b>234,695</b>	<b>63,672,274</b>
<i>Including property, plant and equipment</i>	16,038,279	10,907,031	14,819,662	4,498,811	3,715,727	3,488,239	2,720,534	108,151	56,296,434
<b>Segment liabilities</b>	4,994,941	3,276,329	4,160,757	2,532,189	496,808	1,393,105	2,463,968	34,829	19,352,926
<b>Capital expenditures</b>	<b>1,358,485</b>	<b>2,369,343</b>	<b>2,507,564</b>	<b>883,103</b>	<b>466,838</b>	<b>443,437</b>	<b>620,966</b>	<b>18,554</b>	<b>8,668,290</b>

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

**(ii) Information about reportable segments for the year ended 31 December 2012**

	Transmission							Other	Total
	Saratov region	Orenburg region	Samara region	Penza region	Ulianovsk region	Chuvashia region	Mordovia region		
<b>Revenue:</b>									
Electricity transmission	9,156,185	12,207,921	9,796,751	5,127,007	3,634,122	3,216,927	1,985,222	-	45,124,135
Connection to the electricity network	52,457	78,810	42,017	14,687	154,485	31,369	42,448	-	416,273
Other revenue	16,975	123,346	20,708	30,436	5,178	12,500	13,674	122,297	345,114
<b>Total revenue from external customers</b>	<b>9,225,617</b>	<b>12,410,077</b>	<b>9,859,476</b>	<b>5,172,130</b>	<b>3,793,785</b>	<b>3,260,796</b>	<b>2,041,344</b>	<b>122,297</b>	<b>45,885,522</b>
Inter-segment revenue	-	357	-	-	-	-	-	199,806	200,163
<b>Total revenue</b>	<b>9,225,617</b>	<b>12,410,434</b>	<b>9,859,476</b>	<b>5,172,130</b>	<b>3,793,785</b>	<b>3,260,796</b>	<b>2,041,344</b>	<b>322,103</b>	<b>46,085,685</b>
<b>Segment operating profit/(loss)</b>	460,924	735,228	903,005	(349,581)	781,945	191,061	(158,093)	33,997	2,598,486
<b>Segment finance income</b>	9,187	10,652	8,686	5,426	3,233	3,411	3,276	549	44,420
<b>Segment finance costs</b>	(189,996)	(8,089)	(112,864)	(23,413)	(13,604)	(36,932)	(92,661)	-	(477,559)
<b>Segment profit/(loss) before income tax</b>	<b>280,115</b>	<b>737,791</b>	<b>798,827</b>	<b>(367,568)</b>	<b>771,574</b>	<b>157,540</b>	<b>(247,478)</b>	<b>34,546</b>	<b>2,165,347</b>
<b>Segment depreciation and amortisation</b>	1,062,472	1,028,181	1,167,164	441,560	212,952	253,501	281,826	18,258	4,465,914
<b>Segment assets</b>	<b>17,659,712</b>	<b>10,572,165</b>	<b>15,123,751</b>	<b>4,806,082</b>	<b>4,271,776</b>	<b>4,067,878</b>	<b>3,241,753</b>	<b>262,959</b>	<b>60,006,076</b>
<i>Including property, plant and equipment</i>	15,902,605	9,713,861	13,523,401	4,173,550	3,521,860	3,378,543	2,425,895	106,847	52,746,562
<b>Segment liabilities</b>	4,814,147	1,826,675	3,340,833	1,881,226	608,441	1,096,554	2,222,008	64,261	15,854,145
<b>Capital expenditures</b>	<b>2,084,858</b>	<b>2,332,845</b>	<b>1,994,140</b>	<b>1,086,869</b>	<b>596,227</b>	<b>614,166</b>	<b>491,180</b>	<b>17,653</b>	<b>9,217,938</b>

(iii) **Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items**

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements is presented in the tables below.

Reconciliation of revenues:

	Year ended 31 December 2013	Year ended 31 December 2012
<b>Total revenue for reportable segments</b>	<b>49,318,792</b>	<b>46,085,685</b>
Inter-segment revenue elimination	(128,819)	(200,163)
Other adjustments	11,732	22,710
<b>Revenue per Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>49,201,705</b>	<b>45,908,232</b>

Reconciliation of profit before income tax:

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
<b>Total profit before income tax for reportable segments</b>	<b>285,941</b>	<b>2,165,347</b>
Adjustment for property, plant and equipment	1,042,451	1,100,678
Adjustment on intangible assets	73,862	(35,594)
Adjustment for finance lease	43,590	(39,576)
Retirement benefit obligations recognition	254,739	23,303
Other adjustments	(244)	84,589
<b>Profit before tax per Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>1,700,339</b>	<b>3,298,747</b>

Reconciliation of depreciation and amortisation:

	Year ended 31 December 2013	Year ended 31 December 2012
<b>Total depreciation and amortization for reportable segments</b>	<b>5,053,321</b>	<b>4,465,914</b>
Adjustment for depreciation of property, plant and equipment	(1,005,886)	(873,436)
Adjustment for amortization of intangible assets	40,902	10,249
Other adjustments	3,896	(384)
<b>Depreciation and amortisation per Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>4,092,233</b>	<b>3,602,343</b>

Reconciliation of total assets:

	31 December 2013	31 December 2012 (restated)
<b>Total assets for reportable segments</b>	<b>63,672,274</b>	<b>60,006,076</b>
Unallocated assets	1,881,303	1,075,107
Recognition of assets related to employee benefits	505,005	512,114
Adjustment for net book value of property, plant and equipment	(15,162,924)	(16,205,377)
Elimination of investments in subsidiaries	(101,529)	(101,529)
Provision for obsolescence of inventories	-	-
Discounting of financial assets	(2,076)	(2,707)
Adjustment for deferred tax asset	(327,591)	(188,915)
Inter-segment balances	(42,964)	(88,553)
Other adjustments	(36,322)	(139,016)
<b>Total assets per Consolidated Statement of Financial Position</b>	<b>50,385,176</b>	<b>44,867,200</b>

**OJSC IDGC of Volga***Notes to the Consolidated Financial Statements for the year ended 31 December 2013**(in thousands of Russian Roubles, unless otherwise stated)*

Reconciliation of property, plant and equipment:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Total property, plant and equipment for reportable segments</b>	<b>56,296,434</b>	<b>52,746,562</b>
Unallocated property, plant and equipment	162,564	183,302
Advances for acquisition of property, plant and equipment	389,675	223,872
Adjustment for net book value of property, plant and equipment	(15,162,924)	(16,205,377)
Other adjustments	159,841	71,794
<b>Property, plant and equipment per Consolidated Statement of Financial Position</b>	<b>41,845,590</b>	<b>37,020,153</b>

Reconciliation of total liabilities:

	<b>31 December 2013</b>	<b>31 December 2012</b> <b>(restated)</b>
<b>Total liabilities of reportable segments</b>	<b>19,352,926</b>	<b>15,854,145</b>
Unallocated deferred income tax due to differed accounting principles for deferred tax calculation	3,012,993	1,980,839
Commitment to long-term employee benefits	1,367,080	1,391,342
Liabilities for short-term employee benefits are not allocated by segment, and adjustment of obligations in accordance with IFRS	298,578	253,179
Charges for litigation, not allocated to segments	25,746	56,914
Finance lease liabilities	16,795	31,322
Intersegment balances	(42,964)	(88,553)
Other adjustments	143,874	147,587
<b>Total liabilities per Consolidated Statement of Financial Position</b>	<b>24,175,028</b>	<b>19,626,775</b>

Reconciliation of capital expenditures:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Total capital expenditures of reportable segments</b>	<b>8,668,290</b>	<b>9,217,938</b>
Borrowing cost adjustment	697	132,893
Unallocated capital expenditures	21,536	45,870
Advances for acquisition of property, plant and equipment	163,754	10,893
Other adjustments	72,976	(18,626)
<b>Total capital expenditures per Consolidated Statement of Financial Position</b>	<b>8,927,253</b>	<b>9,388,968</b>

The Group performs its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

For the years ended 31 December 2013 and 31 December 2012 the group had two major customers - distribution companies in two regions of the Russian Federation - with individual turnovers over 10% of total Group revenues. Revenues from these customers are reported by the transmission segments operating in Samara and Saratov region. Total amounts of revenues for these major customers for the year ended 31 December 2013 were RUB 8,548,021 thousand in Samara (2012: RUB 6,735,380 thousand); RUB 7,352,206 thousand in Saratov (2012: RUB 5,907,904 thousand).

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

**Note 7. Property, plant and equipment**

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
<b>Cost</b>						
Balance as at 1 January 2012	9,800,944	17,716,635	9,333,030	2,260,049	6,375,182	45,485,840
Additions	59,140	27,013	62,973	8,317,981	921,861	9,388,968
Transfers	1,395,795	2,202,861	2,133,505	(7,751,793)	2,019,632	-
Disposals	(33,384)	(30,920)	(15,375)	(17,242)	(43,640)	(140,561)
<b>Balance as at 31 December 2012</b>	<b>11,222,495</b>	<b>19,915,589</b>	<b>11,514,133</b>	<b>2,808,995</b>	<b>9,273,035</b>	<b>54,734,247</b>
Balance as at 1 January 2013	11,222,495	19,915,589	11,514,133	2,808,995	9,273,035	54,734,247
Additions	37,139	8,040	26,799	8,328,343	526,932	8,927,253
Transfers	2,128,571	2,691,918	1,829,703	(8,332,939)	1,682,747	-
Disposals	(7,900)	(29,966)	(8,147)	(40,882)	(62,744)	(149,639)
<b>Balance as at 31 December 2013</b>	<b>13,380,305</b>	<b>22,585,581</b>	<b>13,362,488</b>	<b>2,763,517</b>	<b>11,419,970</b>	<b>63,511,861</b>
<b>Accumulated depreciation</b>						
Balance as at 1 January 2012	(2,142,603)	(7,208,485)	(2,332,125)	-	(2,536,509)	(14,219,722)
Depreciation for the year	(573,099)	(1,502,156)	(608,342)	-	(887,422)	(3,571,019)
Disposals	10,441	20,573	4,681	-	40,952	76,647
<b>Balance as at 31 December 2012</b>	<b>(2,705,261)</b>	<b>(8,690,068)</b>	<b>(2,935,786)</b>	<b>-</b>	<b>(3,382,979)</b>	<b>(17,714,094)</b>
Balance as at 1 January 2013	(2,705,261)	(8,690,068)	(2,935,786)	-	(3,382,979)	(17,714,094)
Depreciation for the year	(663,092)	(1,293,880)	(730,046)	-	(1,343,223)	(4,030,241)
Disposals	4,239	13,636	3,629	-	56,560	78,064
<b>Balance as at 31 December 2013</b>	<b>(3,364,114)</b>	<b>(9,970,312)</b>	<b>(3,662,203)</b>	<b>-</b>	<b>(4,669,642)</b>	<b>(21,666,271)</b>
<b>Net book value</b>						
At 1 January 2012	7,658,341	10,508,150	7,000,905	2,260,049	3,838,673	31,266,118
At 31 December 2012	8,517,234	11,225,521	8,578,347	2,808,995	5,890,056	37,020,153
At 31 December 2013	10,016,191	12,615,269	9,700,285	2,763,517	6,750,328	41,845,590

As at 31 December 2013 construction in progress includes prepayments for property, plant and equipment of RUB 387,626 thousand (as at 31 December 2012: RUB 223,872 thousand).

As at 31 December 2013 construction in progress includes construction materials of RUB 161,892 thousand (as at 31 December 2012: RUB 71,792 thousand).

Borrowing costs totalling RUB 225,125 thousand with a capitalisation rate of 8.23%-8.66% during 2013 (during 2012: RUB 180,912 thousand with a capitalization rate of 7.64%-8.14%) were included in the cost of property, plant and equipment and represent interest on loans.

**Leased plant and machinery**

The Group leases production and transport equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price.

As at 31 December 2013, 31 December 2012 and 1 January 2012 the net book value of leased property, plant and equipment was as follows:

	31 December 2013	31 December 2012	1 January 2012
Cost	233,689	607,407	939,471
Accumulated depreciation	(57,866)	(189,408)	(217,159)
<b>Net book value</b>	<b>175,823</b>	<b>417,999</b>	<b>722,312</b>

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

**Note 8. Intangible assets**

	Patents and licenses	Computer software	Total
<b>Cost</b>			
Balance as at 1 January 2012	-	250,031	250,031
Additions	266	28,645	28,911
Disposals	-	(2,618)	(2,618)
Balance as at 31 December 2012	<b>266</b>	<b>276,058</b>	<b>276,324</b>
Balance as at 1 January 2013	<b>266</b>	<b>276,058</b>	<b>276,324</b>
Additions	80	105,435	105,515
Disposals	(12)	(75,862)	(75,874)
Balance as at 31 December 2013	<b>334</b>	<b>305,631</b>	<b>305,965</b>
<b>Accumulated amortisation</b>			
Balance as at 1 January 2012	-	(144,693)	(144,693)
Amortisation for the year	(73)	(31,251)	(31,324)
Disposals	-	2,618	2,618
Balance as at 31 December 2012	<b>(73)</b>	<b>(173,326)</b>	<b>(173,399)</b>
Balance as at 1 January 2013	<b>(73)</b>	<b>(173,326)</b>	<b>(173,399)</b>
Amortisation for the year	(63)	(61,929)	(61,992)
Disposals	6	75,862	75,868
Balance as at 31 December 2013	<b>(130)</b>	<b>(159,393)</b>	<b>(159,523)</b>
<b>Net book value</b>			
At 1 January 2012	-	105,338	105,338
At 31 December 2012	<b>193</b>	<b>102,732</b>	<b>102,925</b>
At 31 December 2013	<b>204</b>	<b>146,238</b>	<b>146,442</b>

Intangible assets include capitalised SAP/R3 implementation expenses and other computer software.

**Note 9. Other non-current assets**

	31 December 2013	31 December 2012
Financial assets related to the employee benefit fund (available-for-sale)	505,005	512,114
Trade receivables	3,783	7,601
Other receivables	59,339	73,324
Available-for-sale investments	86	181
<b>Total</b>	<b>568,213</b>	<b>593,220</b>

Financial assets related to the employee benefit fund relate to the Group contributions accumulated in “solidary” and employees’ individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

The Group’s exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in note 30.

**Note 10. Inventories**

	31 December 2013	31 December 2012
Raw materials and supplies	811,890	733,639
Spare parts	339,042	311,705
Other inventories	33,453	36,417
Provision for obsolescence	(140)	(140)
<b>Total</b>	<b>1,184,245</b>	<b>1,081,621</b>

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

*(in thousands of Russian Roubles, unless otherwise stated)***Note 11. Trade and other receivables**

	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>1 January 2012</b>
Trade receivables	4,854,907	3,998,695	4,081,257
Taxes receivable	84,179	5,519	7,130
Other receivables	337,032	231,171	371,010
VAT receivable	3,728	159,836	20,599
Less: Allowance for impairment of trade receivables	(794,824)	(931,927)	(740,208)
Less: Allowance for impairment of other receivables	(80,132)	(55,973)	(33,115)
<b>Total</b>	<b>4,404,890</b>	<b>3,407,321</b>	<b>3,706,673</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 30.

**Note 12. Prepayments for current assets**

	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>1 January 2012</b>
Prepayments	321,545	326,709	437,217
Less: Allowance for impairment of prepayments	(640)	(869)	(6,347)
<b>Total</b>	<b>320,905</b>	<b>325,840</b>	<b>430,870</b>

**Note 13. Cash and cash equivalents**

	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>1 January 2012</b>
Cash at bank and in hand	1,030,623	2,074,851	2,004,901
Cash equivalents	25,527	13,500	9,400
<b>Total</b>	<b>1,056,150</b>	<b>2,088,351</b>	<b>2,014,301</b>

All cash and cash equivalents are denominated in Russian Roubles. Cash equivalents represent deposits with original maturities of three month or less.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

**Note 14. Other current assets**

As at 31 December 2013, 31 December 2012 and 1 January 2012 other current assets represented balances of prepayments for insurance.

**Note 15. Equity***Share capital*

	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>1 January 2012</b>
Number of ordinary shares authorised, issued and fully paid	178,577,801,146	178,577,801,146	178,577,801,146
Par value (in RUB)	0.1	0.1	0.1
<b>Total share capital (in RUB)</b>	<b>17,857,780,115</b>	<b>17,857,780,115</b>	<b>17,857,780,115</b>

*Dividends paid and declared*

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

**OJSC IDGC of Volga***Notes to the Consolidated Financial Statements for the year ended 31 December 2013**(in thousands of Russian Roubles, unless otherwise stated)*

Accounting Principles. As at 31 December 2013 the Company had retained earnings, including the profit for the current year, of RUB 5,948,849 thousand (2012: RUB 6,211,963 thousand).

In June 2013 General Meeting of Shareholders of the Company declared dividends in the amount of RUB 0.00163 per ordinary share. Total dividends amounted to RUB 291,081 thousand (2012: RUB 200,007 thousand). As at 31 December 2013 dividends were paid out. The Group neither declared nor paid dividends for 2011.

**Earnings per share**

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2012</b>
Weighted average number of ordinary shares issued	178,577,801,146	178,577,801,146
Profit attributable to the shareholders	1,450,873	2,430,655
Weighted average earnings per ordinary share – basic (in RUB)	0.0081	0.0136

**Note 16. Employee benefits**

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan (Non-Government Pension Fund of the Electric Power Industry and Non-Government Pension Fund “Professionalniy”); and
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners.

The table below summarises the amounts of defined benefit obligations recognised in the Financial Statements as at 31 December 2013, 31 December 2012 and 1 January 2012.

The amounts recognised in the Consolidated Statement of Financial Position are as follows:

	<b>31 December 2013</b>	<b>31 December 2012 (restated)</b>	<b>1 January 2012 (restated)</b>
Present value of defined benefit obligation	1,172,058	1,269,164	1,129,765
Present value of other long-term employee benefit obligation	195,022	122,178	92,063
	<b>1,367,080</b>	<b>1,391,342</b>	<b>1,221,828</b>

The amounts recognized in profit or loss in the Statement of Profit or Loss and Other Comprehensive Income are as follows:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2012 (restated)</b>
Service cost	(204,415)	31,334
Remeasurements on present value of other long-term employee benefit obligation	29,546	(7,669)
Interest expense	84,290	92,393
	<b>(90,579)</b>	<b>116,058</b>

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

*(in thousands of Russian Roubles, unless otherwise stated)*

The amounts recognized in other comprehensive income in the Statement of Profit or Loss and Other Comprehensive Income are as follows:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2012 (restated)</b>
Loss from change in demographic assumptions	248,823	98,821
(Gain) / loss from change in financial assumptions	(95,680)	86,229
Experience loss	84,443	27,369
	<b>237,586</b>	<b>212,419</b>

Movements in the remeasurements of defined benefit liability recognized in other comprehensive income during the reporting period

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2012 (restated)</b>
At 1 January	571,840	359,421
Movement in the remeasurements	237,586	212,419
<b>At 31 December</b>	<b>809,426</b>	<b>571,840</b>

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

	<b>Present value of defined benefit obligation</b>	<b>Present value of other long-term employee benefit obligation</b>	<b>Total</b>
At 1 January 2012 (restated)	1,129,765	92,063	1,221,828
Current service cost	60,466	13,423	73,889
Past service cost	(68,580)	26,025	(42,555)
Interest expense	82,221	10,172	92,393
Remeasurements:			
Loss / (gain) from change in demographic assumptions	98,821	(609)	98,212
Loss / (gain) from change in financial assumptions	86,229	(2,214)	84,015
Experience loss / (gain)	27,369	(4,846)	22,523
Contributions	(147,127)	(11,836)	(158,963)
<b>At 31 December 2012 (restated)</b>	<b>1,269,164</b>	<b>122,178</b>	<b>1,391,342</b>
At 1 January 2013	1,269,164	122,178	1,391,342
Current service cost	45,683	15,706	61,389
Past service cost	(290,750)	24,946	(265,804)
Interest expense	72,729	11,561	84,290
Remeasurements:			
Loss from change in demographic assumptions	248,823	32,352	281,175
Gain from change in financial assumptions	(95,680)	(113)	(95,793)
Experience loss / (gain)	84,443	(2,693)	81,750
Contributions	(162,354)	(8,915)	(171,269)
<b>At 31 December 2013</b>	<b>1,172,058</b>	<b>195,022</b>	<b>1,367,080</b>

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

Principal actuarial assumptions are as follows:

**Financial actuarial assumptions**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Discount rate (nominal)	8.00%	7.10%
Future financial support benefit increases	5.00%	5.00%
Future salary increases (nominal)	5.00%	5.00%

**Demographic actuarial assumptions**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Expected retirement age		
Male	61	61
Female	57	57
Employee turnover	7%	7%
Mortality table	2010_adjusted	2002

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

	<b>Change in assumption</b>	<b>Impact on defined benefit liability</b>
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by 3.70%
Future salary increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 2.24%
Future pension increases (nominal)	Increase / decrease by 0.5%	Increase / decrease by 2.43%
Employee turnover	Increase / decrease by 10%	Decrease/ Increase by 2.15%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by 0.63%

**Note 17. Loans and borrowings****Non-current borrowings**

	<b>Effective interest rate, %</b>	<b>Currency</b>	<b>Year of maturity</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Loans and borrowings</b>					
Including:					
OJSC Sberbank	7.0 - 9.7	RUB	2015-2018	13,900,000	10,700,000
Finance lease liability				17,809	70,172
<b>Total non-current debt</b>				<b>13,917,809</b>	<b>10,770,172</b>
Less: Current portion of finance lease liability				(17, 809)	(51,627)
<b>Total</b>				<b>13,900,000</b>	<b>10,718,545</b>

Loans and borrowings represent primarily credit lines.

**Current borrowings**

	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>1 January 2012</b>
Current portion of finance lease liability	17,809	51,627	79,716
Accrued interest payable	18,817	14,087	6,985
<b>Total</b>	<b>36,626</b>	<b>65,714</b>	<b>86,701</b>

All loans and borrowings listed above are bank borrowings with fixed interest rate.

The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 31 December 2013, 31 December 2012 and 1 January 2012 all loans and borrowings were unsecured.

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

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		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	19,889	2,080	17,809	65,290	13,663	51,627
Between one and five years	-	-	-	20,808	2,343	18,465
More than five years	-	-	-	95	15	80
<b>Total</b>	<b>19,889</b>	<b>2,080</b>	<b>17,809</b>	<b>86,193</b>	<b>16,021</b>	<b>70,172</b>

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, interest rate and liquidity risk related to borrowings and finance lease liabilities is disclosed in note 30.

**Note 18. Trade and other payables***Non-current payables*

Non-current liabilities are represented by advances from customers.

*Current payables*

	31 December 2013	31 December 2012	1 January 2012
Trade payables	3,445,871	2,740,904	3,327,344
Payables to employees	712,511	1,191,071	1,730,931
Advances from customers	749,728	554,522	998,949
Other payables	93,632	103,880	119,108
<b>Total</b>	<b>5,001,742</b>	<b>4,590,377</b>	<b>6,176,332</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 30.

**Note 19. Other taxes payable**

	31 December 2013	31 December 2012	1 January 2012
Payments to social funds	173,715	147,141	127,714
Value added tax payable	277,758	88,149	102,585
Property tax payable	17,409	48,072	41,977
Fines and other penalties payable	47	65	10,051
Other taxes payable	90,330	78,345	72,468
<b>Total</b>	<b>559,259</b>	<b>361,772</b>	<b>354,795</b>

**Note 20. Revenue**

	Year ended 31 December 2013	Year ended 31 December 2012
Electricity transmission	39,848,753	45,142,081
Electricity sale	8,406,316	-
Connection services	532,622	431,233
Other revenue	414,014	334,918
<b>Total</b>	<b>49,201,705</b>	<b>45,908,232</b>

Other revenues are comprised of repair, construction, maintenance services, rent services and transport revenue. Revenue from the resale of electricity and capacity includes a part of revenue related to transmission of electricity

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

*(in thousands of Russian Roubles, unless otherwise stated)*

which is sold under power supply contracts. Tariff for sale of electricity under power supply contracts is calculated taking into account transmission fee.

On 31 December 2013 the Group announced OJSC IDGC of Volga's discontinuation of electricity and power sales following the transfer of guaranteeing supplier functions in Penza region to LLC "Energotrading" (Order of the Ministry of Energy of Russian Federation as of 23 December 2013 #910) from 01 January 2014.

**Note 21. Operating expenses**

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Electricity transmission	17,894,367	15,988,170
Purchased electricity	9,998,760	8,906,695
Personnel costs (note 22)	9,366,919	8,417,646
Depreciation and amortisation	4,092,233	3,602,343
Materials	1,936,772	1,814,226
Consulting services	904,372	867,860
Repair and maintenance costs	530,815	512,560
Rent expenses	458,298	374,145
Electricity for own needs	356,825	339,709
Taxes other than income tax	273,799	235,160
Security services	214,592	180,463
Insurance expenses	160,308	121,608
Social expenditures and charity expenses	49,820	57,505
Bank commission	19,543	18,002
(Reversal)/allowance for of impairment of accounts receivable	(104,285)	275,951
Other	664,471	422,607
<b>Total</b>	<b>46,817,609</b>	<b>42,134,650</b>

**Note 22. Personnel costs**

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Wages and salaries	7,417,885	6,533,600
Payment to social funds	2,154,578	1,865,393
Expense in respect of post-employment defined benefit plan	(205,544)	18,653
<b>Total</b>	<b>9,366,919</b>	<b>8,417,646</b>

**Note 23. Other income / (expenses), net**

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Reimbursement (to)/from contractors	94,942	118,809
Accounts payable written-off	9,760	12,999
Gain on the disposal of property, plant and equipment	8,076	5,058
Other expense, net	(52,185)	(183,483)
<b>Total</b>	<b>60,593</b>	<b>(46,617)</b>

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

*(in thousands of Russian Roubles, unless otherwise stated)***Note 24. Finance income and costs**

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
<b>Finance income</b>		
Interest income	29,518	44,867
Effect of discounting of financial instruments	631	-
	<b>30,149</b>	<b>44,867</b>
<b>Finance costs</b>		
Interest expense	(676,171)	(344,667)
Interest expense on defined post-employment benefits	(72,729)	(82,221)
Interest expense on defined other long-term benefits	(11,561)	(10,172)
Interest on finance lease liabilities	(13,943)	(35,898)
Loss on disposal of financial assets	(95)	(27)
Effect of discounting of financial instruments	-	(100)
	<b>(774,499)</b>	<b>(473,085)</b>
<b>Total</b>	<b>(744,350)</b>	<b>(428,218)</b>

**Note 25. Income tax expense**

	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Current income tax expense	2,444	384,382
Under/(over) provided in prior years	(832,649)	13,005
Deferred income tax expense	1,079,671	470,705
<b>Income tax expense</b>	<b>249,466</b>	<b>868,092</b>

The Group's applicable tax rate in the Russian Federation is the income tax rate of 20%.

Reconciliation of effective tax rate:

	Year ended 31 December 2013	%	Year ended 31 December 2012 (restated)	%
<b>Profit before income tax</b>	<b>1,700,339</b>	<b>100</b>	<b>3,298,747</b>	<b>100</b>
Income tax at applicable tax rate	340,068	20	659,749	20
Under/(over) provided in prior years	(832,649)	(49)	13,005	0
Tax effect of change in tax base of property, plant and equipment	598,482	35	-	-
Tax effect of items which are not deductible or taxable for taxation purposes	143,565	8	195,338	6
<b>Total income tax expense</b>	<b>249,466</b>	<b>15</b>	<b>868,092</b>	<b>26</b>

**Deferred tax assets and liabilities**

For the year ended 31 December 2013 deferred tax assets and liabilities are attributable to the following items:

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

	31 December 2013	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2013 (restated)
Accounts payable	62,511	(135,760)	-	198,271
Trade and other receivables	595	(106,320)	-	106,915
Employee benefit obligations	273,257	(52,529)	47,517	278,269
Inventories	-	(3,123)	-	3,123
Tax loss carry-forward	232,034	232,034	-	-
<b>Deferred tax assets</b>	<b>568,397</b>	<b>(65,698)</b>	<b>47,517</b>	<b>586,578</b>
Property, plant and equipment	(3,468,271)	(1,003,277)	-	(2,464,994)
Inventories	(12,136)	(12,136)	-	-
Non-current assets	(100,983)	1,440	-	(102,423)
<b>Deferred tax liabilities</b>	<b>(3,581,390)</b>	<b>(1,013,973)</b>	<b>-</b>	<b>(2,567,417)</b>
<b>Net deferred tax liabilities</b>	<b>(3,012,993)</b>	<b>(1,079,671)</b>	<b>47,517</b>	<b>(1,980,839)</b>

In 2013 the Group recalculated income tax for prior periods (2011-2012) related to the deductibility for tax purposes of certain amounts which were previously capitalized in the tax value of property, plant and equipment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 832,649 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RUB 598,482 thousand.

For the year ended 31 December 2012 deferred tax assets and liabilities are attributable to the following items:

	31 December 2012 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	1 January 2012 (restated)
Accounts payable	198,271	(167,379)	-	365,650
Trade and other receivables	106,915	60,792	-	46,123
Employee benefit obligations	278,269	(8,581)	42,484	244,366
Inventories	3,123	(4,153)	-	7,276
<b>Deferred tax assets</b>	<b>586,578</b>	<b>(119,321)</b>	<b>42,484</b>	<b>663,415</b>
Property, plant and equipment	(2,464,994)	(355,304)	-	(2,109,690)
Non-current assets	(102,423)	3,920	-	(106,343)
<b>Deferred tax liabilities</b>	<b>(2,567,417)</b>	<b>(351,384)</b>	<b>-</b>	<b>(2,216,033)</b>
<b>Net deferred tax liabilities</b>	<b>(1,980,839)</b>	<b>(470,705)</b>	<b>42,484</b>	<b>(1,552,618)</b>

**Note 26. Related parties****(a) Control relationships**

As at 31 December 2013 and 31 December 2012 JSC Russian Grids was the parent company of the Company. The value of transactions and the amounts of outstanding balances with the parent company is disclosed below:

	Transaction value Year ended 31 December 2013	Outstanding balance 31 December 2013	Transaction value Year ended 31 December 2012	Outstanding balance 31 December 2012
<b>Revenue:</b>				
Other sales	-	-	-	-
<b>Operating expenses:</b>				
Consulting services	(211,645)	12,487	(218,440)	12,888

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

*(in thousands of Russian Roubles, unless otherwise stated)*

The party with ultimate control over IDGC of Volga is the Government of the Russian Federation, which holds the majority of the voting rights in JSC Russian Grids.

The majority of the Group's related party transactions are with the subsidiaries of former RAO UES and other state controlled entities.

The Group did not recognize any bad debt allowance in respect of balances with the parent company.

**(b) Transactions with entities under common control of the parent**

Transactions with the Parent's subsidiaries and associates were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
<b>Revenue:</b>		
Rental income	733	-
Other sales	61,446	2,865
<b>Operating expenses:</b>		
Electricity transmission	5,295,020	-
Rent	8,232	-
Repairs, maintenance and installation services	271	-
Other expenses	18,819	9,909

Related party transactions are based on normal market prices.

The Group did not recognize any bad debt allowance in respect of balances with the entities under common control.

**(c) Transactions with other state controlled entities**

In the course of its operating activities the Group is also engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs where applicable, in other cases revenues and purchases are measured at normal market prices. The Group obtains bank loans and borrowings based on market interest rates.

Revenue from state-controlled entities for the year ended 31 December 2013 constitutes 21.6% (2012: 15.1%) of total revenue, including 23.45% (2012: 14.8%) of electricity transmission revenues.

Electricity transmission expenses occurred by operations with state-controlled entities for the year ended 31 December 2013 constitute 21,09% (2012: 44%) of total transmission expenses.

Since 14 June 2013 operations with JSC "FGC UES" were disclosed as operations with fellow subsidiaries due to the fact that on that date the state-owned shares (79.64%) of this entity were handed over from the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) to JSC "Russian Grids". The share of the cost of electricity transmission to state controlled entities decreased.

Interest expense accrued on loans from OJSCB Sberbank constitute 98% (2012: 84%) of total interest accrued.

**(d) Transactions with management and close family members**

There are no transactions or balances with key management and their close family members, except for remuneration in the form of salary and bonuses.

Compensation is paid to members of the Board of Directors and top management for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and performance bonuses depending on results for the period according to Russian statutory financial statements and social security contributions.

Members of the Board of Directors and the top management of the Group received the following remuneration:

	Year ended 31 December 2013		Year ended 31 December 2012	
	Members of Board of Directors	Top management	Members of Board of Directors	Top management
Salaries and bonuses	34,011	93,616	32,745	100,451

## OJSC IDGC of Volga

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

### Note 27. Operating leases

Estimated amount of rent for the assets in accordance with the signed lease agreements are as follows:

	31 December 2013	31 December 2012	1 January 2012
Less than one year	130,984	159,767	314,483
Between one year and five years	313,967	350,049	405,009
After five years	2,857,309	3,128,216	3,395,650
<b>Total</b>	<b>3,302,260</b>	<b>3,638,032</b>	<b>4,115,142</b>

The property received by the Group on the rights of operating leases involves land plots owned by the local authorities.

The land plots leased by the Group are the territories on which power lines, equipment for electricity transformation and other assets are located. Lease payments are reviewed regularly to reflect market rentals. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated. The rent paid to the landlord of the land is increased to market rent at regular intervals, and the Group does not participate in the value of the land, it was determined that substantially all the risks and rewards of the land are with the landlord. As such, the Group determined that the leases are operating leases.

During the year ended 31 December 2013 RUB 458,298 thousand (2012: RUB 374,145 thousand) was recognised in profit or loss in respect of operating lease payments.

The Group leased out administrative buildings and other equipment under operating leases. Lease payments are determined by lease agreements and are as follows:

	31 December 2013	31 December 2012	1 January 2012
Less than one year	21,049	76,106	41,894
Between one year and five years	62,300	225,384	89,199
After five years	188,542	400,214	855,029
<b>Total</b>	<b>271,891</b>	<b>701,704</b>	<b>986,122</b>

Lease payments are reviewed regularly to reflect market rentals. The main part of the contracts for the lease of buildings is for 49 years.

### Note 28. Commitments

#### Capital commitments

As at 31 December 2013 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUB 2,467,774 thousand (as at 31 December 2012: RUB 824,159 thousand; as at 1 January 2012: RUB 616,725 thousand).

### Note 29. Contingencies

#### Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its property, plant and equipment, 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 is a party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group's financial position and operating results.

***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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

***Environmental matters***

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Company management periodically evaluates its 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 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.

**Note 30. Financial instruments****(a) Fair value hierarchy**

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

**OJSC IDGC of Volga**

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

*(in thousands of Russian Roubles, unless otherwise stated)*

	31 December 2013	31 December 2012	1 January 2012
Level 1	505,091	512,295	531,926
Level 2	-	-	-
Level 3	-	-	-
<b>Total</b>	<b>505,091</b>	<b>512,295</b>	<b>531,926</b>

The financial instruments of the Group carried at fair value represent available-for-sale investments.

**(b) Credit risk**

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is represented in the table below:

	31 December 2013	31 December 2012	1 January 2012
Cash and cash equivalents	1,056,150	2,088,351	2,014,301
Trade and other receivables (net of allowance for impairment)	4,147,376	3,172,147	3,544,597
Financial assets related to employee benefit fund	505,005	512,114	531,716
Other non-current assets (net of allowance for impairment)	86	181	210
<b>Total</b>	<b>5,708,617</b>	<b>5,772,793</b>	<b>6,090,824</b>

The Group's three most significant customers, regional distribution entities in Saratov region, Samara Region and Orenburg region, account for RUB 1,439,886 thousand of trade receivables carrying amount at 31 December 2013 (31 December 2012: three customers RUB 1,225,601 thousand).

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

	31 December 2013	31 December 2012	1 January 2012
Electricity transmission	3,770,803	3,687,980	3,665,095
Electricity sales	726,662	-	-
Sale of heat own customers	185,751	-	-
Connection services	18,763	18,480	25,825
Other sales	156,711	299,836	408,647
Less: Allowance for impairment of accounts receivable	(794,824)	(931,927)	(740,208)
<b>Total</b>	<b>4,063,866</b>	<b>3,074,369</b>	<b>3,359,359</b>

The aging of trade and other receivables at the reporting date was:

	31 December 2013		31 December 2012		1 January 2012	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	3,526,701	(3,816)	3,195,777	(335,899)	3,219,351	(7,037)
Past due not more 3 months	436,231	(33,263)	211,847	(16,934)	231,319	(31,465)
Past due more than 3 months and not more than 6 months	109,283	(25,427)	95,706	(20,171)	61,479	(11,704)
Past due more than 6 months and not more than 1 year	357,060	(224,312)	43,046	(30,421)	103,606	(63,856)
Past due more than one year	593,057	(588,138)	613,671	(584,475)	702,165	(659,261)
<b>Total</b>	<b>5,022,332</b>	<b>(874,956)</b>	<b>4,160,047</b>	<b>(987,900)</b>	<b>4,317,920</b>	<b>(773,323)</b>

## OJSC IDGC of Volga

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

(in thousands of Russian Roubles, unless otherwise stated)

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

	For the year ended 31 December 2013	For the year ended 31 December 2012	For the year ended 1 January 2012
<b>Balance at 1 January</b>	<b>987,900</b>	<b>773,323</b>	<b>1,531,971</b>
Charge of additional allowance for doubtful debtors	127,066	989,254	468,112
Reversal of the allowance for doubtful debtors	(231,351)	(713,303)	(567,875)
Accounts receivable written off through allowance for bad debts	(8,659)	(61,374)	(658,885)
<b>Balance at 31 December</b>	<b>874,956</b>	<b>987,900</b>	<b>773,323</b>

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

### (c) 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 analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements:

As at 31 December 2013:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<b>Financial liabilities</b>							
Unsecured loans and borrowings	13,918,817	17,708,866	579,598	570,075	3,822,719	12,736,474	-
Finance lease liabilities	17,809	19,889	14,163	5,726	-	-	-
Trade and other payables	3,529,461	3,561,551	3,558,351	3,200	-	-	-
<b>Total</b>	<b>17,466,087</b>	<b>21,290,306</b>	<b>4,152,112</b>	<b>579,001</b>	<b>3,822,719</b>	<b>12,736,474</b>	<b>-</b>

As at 31 December 2012:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<b>Financial liabilities</b>							
Unsecured loans and borrowings	10,714,087	12,679,158	467,551	460,980	4,959,503	6,791,124	-
Finance lease liabilities	70,172	86,193	39,924	25,366	20,119	689	95
Trade and other payables	2,844,784	2,844,784	2,836,452	8,332	-	-	-
<b>Total</b>	<b>13,629,043</b>	<b>15,610,135</b>	<b>3,343,927</b>	<b>494,678</b>	<b>4,979,622</b>	<b>6,791,813</b>	<b>95</b>

As at 1 January 2012:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<b>Financial liabilities</b>							
Unsecured loans and borrowings	6,856,985	8,367,647	258,278	261,116	1,410,157	6,438,096	-
Finance lease liabilities	150,948	202,867	61,722	53,893	66,349	20,673	230
Trade and other payables	3,446,452	3,453,437	3,017,561	435,876	-	-	-
<b>Total</b>	<b>10,454,385</b>	<b>12,023,951</b>	<b>3,337,561</b>	<b>750,885</b>	<b>1,476,506</b>	<b>6,458,769</b>	<b>230</b>

**(d) Foreign exchange risk**

The Group primarily operates within the Russian Federation. The majority of the Group's operations are denominated in RUB.

**(e) Interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

**(f) Fair values 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.

**(g) 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.

For the Group the debt-to-equity ratio at the end of the reporting and comparative periods was as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>1 January 2012</b>
Total liabilities	24,175,028	19,626,775	16,956,184
Equity	26,210,148	25,240,425	23,179,712
<b>Debt-to-equity ratio</b>	<b>92%</b>	<b>78%</b>	<b>73%</b>

For the year ended 31 December 2013 and for the year ended 31 December 2012 earnings before interest income/expense, tax, depreciation and amortization (EBITDA) were equal to the following:

	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2012</b>
EBITDA	6,536,922	7,329,308

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

No Group's entity is subject to externally imposed capital requirements.

**(h) Fair values**

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