Joint Stock Company
Territorial Generating Company №1
and its subsidiaries

International Financial Reporting Standards
Brief Intermediate Consolidated Financial
Statements for NINE MONTHS ended
30 September 2013
(not audited)

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JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2013
(in thousands of Russian Roubles)

	Notes	30 September 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	6	129 146 985	129 056 534
Investment property		99 891	105 596
Intangible assets		369 052	383 036
Investments in associates	7	454 880	450 900
Deferred income tax assets		254 359	535 692
Other non-current assets	8	139 359	114 899
Total non-current assets		**130 464 526**	**130 646 657**
Current assets			
Cash and cash equivalents	9	272 336	719 975
Short-term investments	10	8 537	8 264
Trade and other receivables	12	13 146 759	13 854 113
Current income tax prepayments		165 223	94 439
Inventories	13	2 962 937	2 585 733
		16 555 792	**17 262 524**
Non-current assets held for sale	11	42 745	26 705
Total current assets		**16 598 537**	**17 289 229**
TOTAL ASSETS		**147 063 063**	**147 935 886**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	38 543 414	38 543 414
Share premium	14	22 913 678	22 913 678
Merger reserve	14	(6 086 949)	(6 086 949)
Other reserves	1	(1 209 011)	(1 209 011)
Retained earnings		32 240 319	28 699 167
Equity attributable to the Company's owners		**86 401 451**	**82 860 299**
Non-controlling interest		8 116 200	7 909 081
TOTAL EQUITY		**94 517 651**	**90 769 380**
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		11 004 778	10 094 780
Long-term borrowings	15	21 177 536	26 159 467
Other non-current liabilities	16	78 129	74 769
Post-employment benefits obligations		931 831	914 600
Total non-current liabilities		**33 192 274**	**37 243 616**
Current liabilities			
Short-term borrowings	17	12 035 134	10 586 306
Trade and other payables	18	6 656 131	8 427 495
Current income tax payable		-	1 319
Other taxes payable	19	661 873	907 770
Total current liabilities		**19 353 138**	**19 922 890**
TOTAL LIABILITIES		**52 545 412**	**57 166 506**
TOTAL EQUITY AND LIABILITIES		**147 063 063**	**147 935 886**

Approved for issue and signed on 25 November 2013.

General Director A.N. Filippov

Chief Accountant R.V. Stanishevskaya

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR NINE MONTHS ENDED 30 SEPTEMBER 2013
(in thousands of Russian Roubles)

	Notes	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Revenue			
Sales of electricity		31 356 702	26 161 919
Sales of heat		17 219 942	15 772 192
Other sales	20	351 409	618 112
Total revenue		**48 928 053**	**42 552 223**
Operating expenses	21	(42 272 141)	(37 684 162)
Other operating income	22	594 795	1 325 409
Total operating expenses		**(41 677 346)**	**(36 358 753)**
Operating profit		**7 250 707**	**6 193 470**
Finance income	23	58 883	62 431
Finance costs	23	(1 899 781)	(1 354 367)
Finance costs, net		**(1 840 898)**	**(1 291 936)**
Profit before income tax		**5 409 809**	**4 901 534**
Income tax expense		(1 192 060)	(1 517 888)
Profit		**4 217 749**	**3 383 646**
Other comprehensive income before tax		-	-
Total comprehensive income		**4 217 749**	**3 383 646**
Profit is attributable to:			
Owners of the Company		4 010 630	3 235 272
Non-controlling interests		207 119	148 374
Profit		**4 217 749**	**3 383 646**
Total comprehensive income is attributable to:			
Owners of the Company		4 010 630	3 235 272
Non-controlling interests		207 119	148 374
Total comprehensive income		**4 217 749**	**3 383 646**

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR NINE MONTHS ENDED 30 SEPTEMBER 2013
(in thousands of Russian Roubles)

	Attributable to owners of the Company								
	Share capital	Treasury shares	Share premium	Merger reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**22 926 052**	**77 087 184**	**7 619 391**	**84 706 575**
Comprehensive income									
Profit	-	-	-	-	-	5 960 980	**5 960 980**	280 910	**6 241 890**
Other comprehensive income									
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	5 960 980	**5 960 980**	280 910	**6 241 890**
Transactions with owners									
Property, plant and equipment as a contribution in a subsidiary's share capital (Note 1)	-	-	-	-	-	-	-	8 780	**8 780**
Dividends	-	-	-	-	-	(187 865)	**(187 865)**	-	**(187 865)**
Total transactions with owners	-	-	-	-	-	**(187 865)**	**(187 865)**	**8 780**	**(179 085)**
Balance at 31 December 2012	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**28 699 167**	**82 860 299**	**7 909 081**	**90 769 380**
Comprehensive income									
Profit/(loss)	-	-	-	-	-	4 010 630	**4 010 630**	207 119	**4 217 749**
Other comprehensive income									
Income tax on other comprehensive income	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	4 010 630	**4 010 630**	207 119	**4 217 749**
Transactions with owners									
Dividends	-	-	-	-	-	(469 478)	**(469 478)**	-	**(469 478)**
Total transactions with owners	-	-	-	-	-	**(469 478)**	**(469 478)**	-	**(469 478)**
Balance at 30 September 2013	**38 543 414**	**-**	**22 913 678**	**(6 086 949)**	**(1 209 011)**	**32 240 319**	**86 401 451**	**8 116 200**	**94 517 651**

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Cash flows from operating activities		
Profit before income tax	5 409 809	4 901 534
Adjustments to non-cash items	6 523 989	5 032 468
Operating cash flows before working capital changes	**11 933 798**	**9 934 002**
Capital changes	(1 125 871)	305 632
Cash generated from operations	**10 807 927**	**10 239 634**
Income taxes paid and Interest paid	(2 280 897)	(2 473 733)
Net cash from operating activities	**8 527 030**	**7 765 901**
Net cash used in investing activities	**(4 838 945)**	**(8 112 419)**
Net cash from financing activities	**(4 135 724)**	**1 156 584**
Cash and cash equivalents at the beginning of the period	**719 975**	**375 545**
Cash and cash equivalents at the end of the period	**272 336**	**1 185 611**

Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for six months ended 30 September 2013 for Open Joint-Stock Company (OJSC) Territorial Generating Company № 1 (hereinafter "TGC-1", or the "Company") and its subsidiaries (the "Group").

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

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

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

On 1 April 2011 OJSC St Petersburg Heating Grid realised an additional share issue. These shares were purchased by JSC TGC-1 and state-controlled entity GUP TEC SPB. As a result of the transaction JSC TGC-1's share in OJSC St Petersburg Heating Grid decreased from 100.00% to 75.00%. GUP TEC SPB's share totaled 25.00%.

GUP TEC SPB obtained rights for dividends and voting rights before 31 December 2011.

On 24 February 2012, OJSC St Petersburg Heating Grid's share capital registration was finalised.

GUP TEC SPB made a contribution of property, plant and equipment and construction in progress of fair value RUB 7 685 635 thousand in OJSC St Petersburg Heating Grid's share capital. The result of this transaction was recorded in equity as other reserves.

On a date of contribution (1 April 2011) the non-controlling interest was calculated as 25.00% of the net assets of OJSC St Petersburg Heating Grid.

	% of ownership		
Subsidiary	As at 30 September 2013	As at 31 December 2012	Immediate parent
JSC Murmanskaya TPP	90.34	90.34	JSC TGC-1
OJSC St Petersburg Heating Grid	75.00	75.00	JSC TGC-1 (75.00%) GUP TEC SPB (25.00%)

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

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

Note 2. Operating environment of the Group

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

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

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

Government relations and current regulation

As at 30 September 2013 and 31 December 2012 the Group was controlled by the Gazprom Group (51.75% stake) via its subsidiary Gazprom Energoholding LLC. The Group's other significant shareholder as at 30 September 2013 and 31 December 2012 was Fortum Power and Heat Oy (25.66% stake). The Gazprom Group is controlled by the government of the Russian Federation, which was the Group's ultimate controlling party as at 30 September 2013 and 31 December 2012.

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

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

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

The government's economic, social and other policies could have a material effect on Group operations.

Financial condition

As at 30 September 2013, the Group's current liabilities exceeded its current assets by RUB 2 754 601 thousand (as at 31 December 2012 the Group's current liabilities exceeded its current assets by RUB 2 633 661 thousand).

Going concern

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

Note 3. Summary of Significant Accounting Polices

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to determine the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Presentation currency

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

Note 3. Summary of Significant Accounting Polices (continued)

Foreign currency translation.

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

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

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

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

At 30 September 2013, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 32.3451 (31 December 2012: USD 1 = RUB 30.3727), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 43.6497 (31 December 2012: EUR 1 = RUB 40.2286).

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as a share of the financial result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately; and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of the financial result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Disposals of subsidiaries

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

Note 3. Summary of Significant Accounting Polices (continued)

Classification of financial assets

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

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

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

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

Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives; and (b) other financial liabilities. The Group does not have liabilities held for trading. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments

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

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

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

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Property, plant and equipment (continued)

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

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

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

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

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

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

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

Investment property

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

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

Operating lease

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

Note 3. Summary of Significant Accounting Polices (continued)

Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Intangible assets

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use. Amortisation is included in operating expenses (refer to Note 21).

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

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

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Note 3. Summary of Significant Accounting Polices (continued)

Income taxes (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

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

Inventories

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

Trade and other receivables

Accounts receivable are recorded inclusive of VAT. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and liquidity of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

Note 3. Summary of Significant Accounting Polices (continued)

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after more than one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents

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

Non-current assets classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Share capital

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

Note 3. Summary of Significant Accounting Polices (continued)

Merger reserve

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

Other reserves

Difference between the carrying value of the net assets merged into the Group as a result of contribution in OJSC St Petersburg Heating Grid's share capital, and the nominal value of the shares issued is recorded in equity, as other reserves (refer to Note 1).

Dividends

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

Value added tax

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

Trade and other payables

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

Borrowings

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

Borrowing costs

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

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining acquiring a qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. The commencement date for capitalisation is when the Group (i) incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Note 3. Summary of Significant Accounting Polices (continued)

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Revenue recognition

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

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

Mutual cancellations

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

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

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

Pension and post-employment benefits

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

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

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

Note 3. Summary of Significant Accounting Polices (continued)

Pension and post-employment benefits (continued)

Defined benefit plans determine the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service cost. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligations are charged or credited to the profit and loss over the employees' expected average remaining working lives.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Environmental liabilities

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

Earnings per share

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

Offsetting

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

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The primary activity of the Group is production of electric and heat power and capacity. The Group generates its revenues from the generation of electricity, capacity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity, capacity and heat production does not allow for the segregation of the electricity, capacity and heat segments (refer to Note 32).

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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for impairment of property, plant and equipment

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

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed.

Useful lives of property, plant and equipment

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

Recoverability of accounts receivable

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

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

Note 5. Adoption of New or Revised Standards and Interpretations

There are no new standards and interpretations adopted in Russian Federation and effective for the Group from 1 January 2012 but International Accounting Standards Board (IASB) adopted the following new standards and interpretations:

"Disclosures Transfers of Financial Assets" - Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities.

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

Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

Certain new standards and interpretations, adopted in Russian Federation, have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The new standard has no significant impact on consolidated financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures.

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

When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The new standard has no significant impact on consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The Group expects the amended standard to affect the presentation of its consolidated financial statements, but have no impact on the measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures—Offsetting Financial Assets and Financial Liabilities, Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on the measurement and recognition of financial instruments.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.

IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8.

IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period.

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

Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

Moreover IASB has issued other new standards and interpretations not yet adopted in Russia:

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows; and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss.
- This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing for adopting it.

Offsetting Financial Assets and Financial Liabilities, Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing for adopting it.

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

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

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

Note 6. Property, Plant and Equipment

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

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2012	**22 963 755**	**16 871 063**	**54 462 504**	**41 586 103**	**14 115 102**	**34 844 560**	**184 843 087**
Additions	-	-	7 548	269 157	4 906 775	103 192	5 286 672
Transfers	93 064	2 237	172 800	2 405 755	(3 204 953)	531 097	-
Disposals	(3 145)	(86 821)	(50 803)	(445 084)	(36 832)	(12 062)	(634 747)
Reclassification to non-current assets held for sale	(1 570)	-	-	-	-	(49 047)	(50 617)
Balance as at 30 September 2013	**23 052 104**	**16 786 479**	**54 592 049**	**43 815 931**	**15 780 092**	**35 417 740**	**189 444 395**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2012	**(6 500 760)**	**(7 553 883)**	**(14 329 655)**	**(17 062 483)**	**(20 664)**	**(10 319 108)**	**(55 786 553)**
Charge for the year	(443 207)	(210 809)	(1 616 514)	(984 543)	-	(1 641 247)	(4 896 320)
Disposals	775	54 107	43 946	249 327	-	8 607	356 762
Reclassification to non-current assets held for sale	344	-	-	-	-	28 357	28 701
Balance as at 30 September 2013	**(6 942 848)**	**(7 710 585)**	**(15 902 223)**	**(17 797 699)**	**(20 664)**	**(11 923 391)**	**(60 297 410)**
Net book value as at 31 December 2012	**16 462 995**	**9 317 180**	**40 132 849**	**24 523 620**	**14 094 438**	**24 525 452**	**129 056 534**
Net book value as at 30 September 2013	**16 109 256**	**9 075 894**	**38 689 826**	**26 018 232**	**15 759 428**	**23 494 349**	**129 146 985**

Note 6. Property, Plant and Equipment (continued)

Cost	Production buildings	Hydrotechnical buildings	Generating equipment	Heating networks	Construction in progress	Other	Total
Balance as at 31 December 2011	**20 732 850**	**16 662 713**	**44 967 657**	**39 247 988**	**24 378 957**	**26 085 853**	**172 076 018**
Effect of reclassifications	(791)	-	-	791	-	-	-
Balance as at 31 December 2011	**20 732 059**	**16 662 713**	**44 967 657**	**39 248 779**	**24 378 957**	**26 085 853**	**172 076 018**
Additions	16 408	-	1 529	27 816	8 373 591	183 974	8 603 318
Transfers	95 753	3 775	905 257	1 142 381	(4 489 256)	2 342 090	-
Disposals	(22 597)	(11 749)	(114 519)	(169 913)	20 430	(170 371)	(468 719)
Reclassification to non-current assets held for sale	-	-	-	-	-	(27 951)	(27 951)
Balance as at 30 September 2012	**20 821 623**	**16 654 739**	**45 759 924**	**40 249 063**	**28 283 722**	**28 413 595**	**180 182 666**
Accumulated depreciation (including impairment)							
Balance as at 31 December 2011	**(6 034 928)**	**(7 236 078)**	**(11 842 365)**	**(16 305 040)**	**(59 316)**	**(9 942 342)**	**(51 420 069)**
Charge for the year	(468 648)	(206 077)	(1 289 802)	(904 881)	-	(1 120 093)	(3 989 501)
Disposals	21 195	10 529	82 203	132 349	-	53 212	299 488
Reclassification to non-current assets held for sale	-	-	-	-	-	5 319	5 319
Balance as at 30 September 2012	**(6 482 381)**	**(7 431 626)**	**(13 049 964)**	**(17 077 572)**	**(59 316)**	**(11 003 904)**	**(55 104 763)**
Net book value as at 31 December 2011	**14 697 131**	**9 426 635**	**33 125 292**	**22 943 739**	**24 319 641**	**16 143 511**	**120 655 949**
Net book value as at 30 September 2012	**14 339 242**	**9 223 113**	**32 709 960**	**23 171 491**	**28 224 406**	**17 409 691**	**125 077 903**

Note 6. Property, Plant and Equipment (continued)

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

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

As at 30 September 2013 the advances given to contractors, which amounted to RUB 1 688 019 thousand, net of VAT (as at 31 December 2012: RUB 1 824 972 thousand), are recognised within the construction in progress balance. The respective input VAT is recognised within accounts receivable and prepayments (refer to Note 12).

As at 30 September 2013 and 31 December 2012 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using a 9% capitalization rate for three months ended 30 September 2013 is RUB 473 125 thousand (8% capitalization rate for the year ended 31 December 2012: RUB 981 301 thousand).

Included in other property, plant and equipment are assets held under finance leases with a carrying value of RUB 82 479 thousand (as at 31 December 2012: RUB 96 130 thousand).

Note 7. Investments in Associates

	30 September 2013	31 December 2012
Investments in LLC TGC Service	2 712	2 600
Investments in JSC HHC	452 168	448 300
Total investments	**454 880**	**450 900**

As at 30 September 2013 and 31 December 2012 the ownership interest in JSC HHC was 50%. Management of the Group believes that there is a significant influence over JSC HHC as taking into account its current Board of Directors composition there is no joint control over the entity. Therefore, the investment in JSC HHC was accounted as investment in associate.

Note 8. Other Non-Current Assets

	30 September 2013	31 December 2012
Long-term receivables (interest free)	122 380	92 889
Loan issued	16 979	15 041
Promissory notes	-	6 969
Total financial receivables	**139 359**	**114 899**
Total other non-current assets	**139 359**	**114 899**

Note 9. Cash and Cash Equivalents

	30 September 2013	31 December 2012
Cash in bank and in hand in RUB	167 411	668 874
Foreign currency accounts in Euro	104 725	51 101
Liquid securities	200	-
Total cash and cash equivalents	**272 336**	**719 975**

Note 10. Short-term Investments

	30 September 2013	31 December 2012
Loan issued	8 537	8 164
Promissory notes	-	100
Total short-term investments	**8 537**	**8 264**

Note 11. Non-current Assets Held for Sale

As at 30 September 2013 the property, plant and equipment with a total net book value amounting to RUB 42 745 thousand were classified as assets held for sale (30 September 2012: RUB 27 249 thousand). Movements of non-current assets held for sale for current and prior periods were as follows:

31 December 2012	Sale	Classification as assets held for sale	30 September 2013
26 705	5 877	21 917	42 745

31 December 2011	Sale	Classification as assets held for sale	30 September 2012
50 512	45 895	22 632	27 249

Note 12. Trade and other receivables

	30 September 2013	31 December 2012
Trade receivables, net of provision for impairment of RUB 1 506 075 (31 December 2012: RUB 1 774 328)	12 012 048	12 782 984
Other receivables, net of provision for impairment of RUB 0 (31 December 2012: RUB 0)	337 335	219 834
Total financial receivables	**12 349 383**	**13 002 818**
Value-added tax receivables	731 732	750 693
Advances to suppliers	63 367	96 939
Other taxes receivable	2 277	3 663
Total trade and other receivables	**13 146 759**	**13 854 113**

Note 13. Inventories

	30 September 2013	31 December 2012
Fuel	2 049 518	1 808 324
Spare parts	349 590	295 469
Raw materials and other supplies	563 829	481 940
Total inventories	**2 962 937**	**2 585 733**

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 5 430 thousand (31 December 2012: RUB 5 430 thousand).

Note 14. Share capital

Share capital

The Group's share capital as at 30 September 2013 and as at 31 December 2012 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

Share premium

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

Merger reserve

As at 30 September 2013 and as at 31 December 2012 the merger reserve amounted to RUB 6 086 949 thousand.

Dividends

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company's statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution.

Note 15. Long-term Borrowings

	Currency	Contractual interest rate	Maturity	30 September 2013	31 December 2012
Long-term bonds (01)	RUB	6-7.6%	2014	774 640	409 918
Long-term bonds (02)	RUB	7.25%	2014	128 029	2 894 187
Long-term bonds (03)	RUB	8.1%	2021	2 043 060	2 002 500
Long-term bonds (04)	RUB	8.1%	2022	2 015 540	2 052 500
Gazprom Energoholding	RUB	8.5%	2015	2 013 973	2 002 322
NORDIC Investment Bank	Euro	EURIBOR + 3%	2014-2019	1 431 413	283 446
Nordic Environment Finance Corporation	Euro	EURIBOR + 2%	2015	32 769	50 658
Alfabank	Euro	EURIBOR + 3.5%	2014	11 913	10 980
TransCreditBank	RUB	9.2%	2013	-	7 054 546
VTB	RUB	7.4-9.2%	2014-2016	8 594 049	4 010 287
Sberbank RF	RUB	7.2-9.45%	2015-2016	5 216 872	8 506 940
Unicreditbank	RUB	8.65-8.8%	2014-2015	4 603 380	2 494 983
Unicreditbank	Euro	EURIBOR + 2.8%	2014	960 601	885 310
Alfabank	RUB	8.9-9.3%	2015	1 542 122	1 001 524
MTS Bank	RUB	6.7%	2013	-	600 659
VBRR	RUB	9.1%	2015	189 815	-
AKB ROSBANK	RUB	7.72-9.1%	2014-2015	1 854 637	1 505 451
Bank Saint-Petersburg	RUB	7.2%	2014	-	100 000
				31 412 813	**35 866 211**
Less: current portion					
Long-term bonds (01)	RUB	6-7.6%	2014	(774 640)	(9 267)
Long-term bonds (02)	RUB	7.25%	2014	(128 029)	(2 894 187)
Long-term bonds (03)	RUB	8.1%	2014	(43 060)	(2 500)
Long-term bonds (04)	RUB	8.1%	2014	(15 540)	(52 500)
Gazprom Energoholding	RUB	8.5%	2014	(13 973)	(2 322)
NORDIC Investment Bank	Euro	EURIBOR + 3%	2014	(323 382)	(190 610)
Nordic Environment Finance Corporation	Euro	EURIBOR + 2%	2014	(21 857)	(20 487)
VTB	RUB	7.4-9.2%	2014	(2 620 931)	(10 287)
AKB ROSBANK	RUB	7.72-9.1%	2013-2014	(677 637)	(855 651)
Alfabank	RUB	8.9-9.3%	2014	(142 122)	(1 524)
Unicreditbank	RUB	8.65-8.8%	2014	(13 380)	(4 983)
Unicreditbank	Euro	EURIBOR + 2.8%	2014	(960 601)	(281)
Alfabank	Euro	EURIBOR + 3.5%	2014	(11 913)	-
TransCreditBank	RUB	9.2%	2013	-	(54 546)
Sberbank RF	RUB	7.2-9.45%	2013-2014	(4 483 490)	(5 006 940)
MTS Bank	RUB	6.7%	2013	-	(600 659)
VBRR	RUB	9.1%	2014	(4 722)	-
Total long-term bank borrowings and bonds issued				**21 177 536**	**26 159 467**

Compliance with covenants

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

The most significant and most important of these being:

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

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment.

Note 16. Other Non-Current Liabilities

	30 September 2013	31 December 2012
Long-term accounts payable	78 129	74 769
Total other non-current liabilities	**78 129**	**74 769**

Note 17. Short-Term Borrowings

	30 September 2013	31 December 2012
Finance lease liabilities (current portion)	1 035	25 330
Bank borrowings and bonds issued	12 034 099	10 560 976
Total short-term borrowings	**12 035 134**	**10 586 306**

Name of lender	Currency	Contractual interest rate	30 September 2013	31 December 2012
VTB	RUB	12.55%	534 709	617 566
Gazprombank	RUB	11.6-12%	500 805	236 666
N.E.F. Saint-Petersburg	RUB	0.1%	30 239	-
Alfabank	RUB	7.72%	31 294	-
MDM Bank	RUB	7-7.05%	701 775	-
Current portion of long-term borrowings:				
Long-term bonds issued	*RUB*	6-7.6%	774 640	9 267
Long-term bonds issued	*RUB*	7.25%	128 029	2 894 187
Long-term bonds issued	*RUB*	8.1%	43 060	2 500
Long-term bonds issued	*RUB*	8.1%	15 540	52 500
Gazprom Energoholding	RUB	8.5%	13 973	2 322
Nordic Environment Finance Corporation	Euro	ЕВРИБОР+2%	21 857	20 487
NORDIC Investment Bank	Euro	ЕВРИБОР+3%	323 382	190 610
VTB	RUB	7.4-9.2%	2 620 931	10 287
AKB ROSBANK	RUB	7.72-9.1%	677 637	855 651
Alfabank	RUB	8.9-9.3%	142 122	1 524
Unicreditbank	RUB	8.65-8.8%	13 380	4 983
Unicreditbank	Euro	ЕВРИБОР+ 2.8%	960 601	281
Alfabank	Euro	ЕВРИБОР+ 3.5%	11 913	-
TransCreditBank	RUB	9.2%	-	54 546
Sberbank RF	RUB	7.2-9.45%	4 483 490	5 006 940
MTS Bank	RUB	6.7%	-	600 659
VBRR	RUB	9.1%	4 722	-
Total bank borrowings and bonds issued			**12 034 099**	**10 560 976**

Note 18. Trade and other payables

	30 September 2013	31 December 2012
Trade accounts payable	1 955 746	3 920 819
Accounts payable for capital construction	2 255 484	2 524 663
Accrued liabilities and other payables	517 819	232 475
Total financial payables	**4 729 049**	**6 677 957**
Advances from customers	1 550 049	1 122 818
Current employee benefits	377 033	626 720
Total trade and other payables	**6 656 131**	**8 427 495**

Note 19. Other Taxes Payable

	30 September 2013	31 December 2012
VAT payable	297 988	561 617
Property tax	199 349	175 937
Employee taxes	100 559	94 001
Personal Income Tax	40 892	55 403
Water usage tax	12 049	14 635
Other taxes	11 036	6 177
Total taxes payable	**661 873**	**907 770**

As at 30 September 2013 and as at 31 December 2012 the Group had no past due tax liabilities.

Note 20. Other Sales

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Connection of customers to heating network	103 824	275 539
Installation of heating meters	19 098	132 887
Maintenance of electrical facilities	32 603	51 283
Revenue from transit of rail cars	48 081	42 534
Handling of heating oil	26 021	17 454
Other	121 782	98 415
Total other sales	**351 409**	**618 112**

Note 21. Operating Expenses

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Fuel	20 189 182	18 134 927
Employee benefits	5 043 273	4 878 758
Electricity, capacity and heat purchases	3 984 321	3 574 597
Depreciation of property, plant and equipment	4 896 320	3 989 501
Repairs and maintenance	1 859 477	1 812 334
Water usage expenses	1 655 945	1 526 434
Taxes other than income tax	897 673	509 241
Fees of electricity market operators	607 469	526 683
Provision/(release) for impairment of accounts receivable	(247 114)	(258 429)
Other materials	506 777	461 306
Heat distribution	359 325	360 172
Operating lease expenses	258 528	191 454
Insurance cost	190 634	177 010
Amortisation of intangible assets	94 062	98 422
Amortisation of investment property	5 347	-
(Gain)/Loss on disposal of property, plant and equipment	189 741	(86 510)
Security expenses	320 457	295 008
IT services	233 265	225 789
Telecommunication expenses	169 065	167 474
Services of acceptance of payments	180 315	155 651
Other operating expenses	878 079	944 340
Total operating expenses	**42 272 141**	**37 684 162**

Employee benefits are generally presented by wages and salaries.

Note 22. Other Operating Income

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
(Gain)/Loss on disposal of other assets	11 233	556 803
Fines and penalties	174 769	268 266
Insurance	729	111 172
Operating lease income	108 005	106 612
Income from donated property, plant and equipment	242 372	74 766
(Gain)/Loss on disposal of subsidiary	-	96 057
Other operating income	57 687	111 733
Total other operating income	**594 795**	**1 325 409**

Note 23. Finance Income and Finance Costs

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Interest income	37 687	12 367
Exchange differences (net)	-	21 943
Effect of discounting of financial instruments	21 196	28 121
Finance income	**58 883**	**62 431**
Interest expense	(1 686 733)	(1 320 028)
Effect of discounting of financial instruments	(19 270)	(34 339)
Exchange differences (net)	(193 778)	-
Finance costs	**(1 899 781)**	**(1 354 367)**

Note 24. Events after the Reporting Period

During the period between reporting date and signing date, the Group received long-term loans of RUB 1 014 360 thousand and short-term loans of RUB 7 817 090 thousand.

On 28 October 2013 the Group received a loan of RUB 5 400 000 thousand from JSC Gazprom, with the interest rate of 8 %, maturing on 28 October 2016.

During the period between reporting date and signing date, the Group repaid borrowings of RUB 14 893 565 thousand.

In October 2013 JSC Murmanskaya TPP received a grant for the compensation of income in relation to providing heating services per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 54 808 thousand.