**RAO ENERGY SYSTEM OF EAST GROUP**

**CONSOLIDATED INTERIM CONDENSED**

**FINANCIAL INFORMATION (UNAUDITED),**

**PREPARED IN ACCORDANCE WITH IFRS 34**

**AS AT AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013**

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|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | 30 September 2013 | 31 December 2012(restated) |
| **ASSETS** |  |  |  |
| **Non-current assets** |  |  |  |
| Property, plant and equipment | 6 | 57,138 | 52,364 |
| Investments in associates |  | 917 | 937 |
| Available-for-sale financial assets |  | 393 | 586 |
| Deferred tax assets |  | 561 | 320 |
| Other non-current assets |  | 1,305 | 988 |
| **Total non-current assets** |  | **60,314** | **55,195** |
| **Current assets** |  |  |  |
| Cash and cash equivalents | 7 | 6,209 | 5,781 |
| Accounts receivable and prepayments | 8 | 22,091 | 21,847 |
| Inventories | 9 | 20,858 | 17,670 |
| Other current assets |  | 1,135 | 1,552 |
| **Total current assets** |  | **50,293** | **46,850** |
| Assets of disposal group classified as held for sale | 10 | 29,221 | 28,479 |
| **Total current assets, including assets of disposal group classified as held for sale** |  | **79,514** | **75,329** |
| **TOTAL ASSETS** |  | **139,828** | **130,524** |
| **EQUITY AND LIABILITIES** |  |  |  |
| **Equity** |  |  |  |
| Share capital | 11 | 22,717 | 22,717 |
| Treasury shares |  | (410) | (410) |
| Revaluation reserve |  | 8,489 | 8,518 |
| Retained losses and other reserves |  | (16,195) | (15,698) |
| **Equity attributable to shareholders of parent company** |  | **14,601** | **15,127** |
| Non-controlling interest |  | 8,619 | 8,957 |
| **Total equity** |  | **23,220** | **24,084** |
| **Non-current liabilities** |  |  |  |
| Deferred tax liabilities |  | 2,487 | 2,159 |
| Non-current debt | 13 | 36,996 | 24,488 |
| Other non-current liabilities | 14 | 6,184 | 7,293 |
| **Total non-current liabilities** |  | **45,667** | **33,940** |
| **Current liabilities** |  |  |  |
| Current debt and current portion of non-current debt | 13 | 29,686 | 28,148 |
| Accounts payable and accruals | 15 | 22,173 | 23,187 |
| Current income tax payable |  | 280 | 335 |
| Other taxes payable | 16 | 2,581 | 4,777 |
| **Total current liabilities** |  | **54,720** | **56,447** |
| Liabilities of disposal group classified as held for sale | 10 | 16,221 | 16,053 |
| **Total current liabilities, including liabilities of disposal group classified as held for sale** |  | **70,941** | **72,500** |
| **Total liabilities** |  | **116,608** | **106,440** |
| **TOTAL EQUITY AND LIABILITIES** |  | **139,828** | **130,524** |

General Director S. N. Tolstoguzov

Chief Accountant A. P. Vaynilavichute

16 December 2013

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **Nine months ended 30 September 2013** | **Nine months ended 30 September 2012**  **(restated)** |
| Revenue | 17 | 96,695 | 90,850 |
| Government grants | 18 | 7,226 | 6,620 |
| Expenses | 19 | (100,553) | (101,226) |
| Loss on disposal group remeasurement and impairment of property, plant and equipment | 6,10 | (774) | (5,348) |
| **Operating profit/(loss)** |  | **2,594** | **(9,104)** |
| Finance income | 20 | 419 | 598 |
| Finance expenses | 20 | (4,016) | (3,866) |
| Share of income of associates |  | (17) | (145) |
| **Loss before income tax** |  | **(1,020)** | **(12,517)** |
| Total income tax (expense)/benefit | 12 | (7) | 1,552 |
| **Loss for the period** |  | **(1,027)** | **(10,965)** |
| Attributable to: |  |  |  |
| Shareholders of parent company |  | (607) | (6,296) |
| Non-controlling interest |  | (420) | (4,669) |
| Loss per ordinary and preferred share from profit attributable to the shareholders of parent company – basic and diluted (in Russian Rubles per share) | 21 | (0.0136) | (0.1418) |
| Weighted average number of ordinary shares (in thousands) | 21 | 42,537,972 | 42,335,202 |
| Weighted average number of preference shares (in thousands) | 21 | 2,075,149 | 2,075,149 |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Nine months ended 30 September 2013** | **Nine months ended 30 September 2012**  **(restated)** |
| **Loss for the period** |  | **(1,027)** | **(10,965)** |
| **Other comprehensive income, net of tax:** |  |  |  |
| *Items that will not be reclassified to profit or loss* |  |  |  |
| Revaluation of property, plant and equipment |  | - | (716) |
| Remeasurements of pension benefit obligations |  | 303 | 1,887 |
| **Total items that will not be reclassified to profit or loss** |  | **303** | **1,171** |
| *Items that may be reclassified subsequently to profit or loss* |  |  |  |
| Change in fair value of available-for-sale financial assets |  | (136) | (76) |
| **Total items that may be reclassified subsequently to profit or loss** |  | **(136)** | **(76)** |
| **Total comprehensive loss for the period** |  | **(860)** | **(9,870)** |
| Attributable to: |  |  |  |
| Shareholders of parent company |  | (381) | (5,715) |
| Non-controlling interest |  | (479) | (4,155) |

|  | **Note** | | **Nine months ended 30 September 2013** | | **Nine months ended 30 September 2012**  **(restated)** |
| --- | --- | --- | --- | --- | --- |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** |  | |  | |  |
| **Loss before income tax** |  | | **(1,020)** | | **(12,517)** |
| Depreciation of property, plant and equipment | 19 | | 3,688 | | 3,232 |
| Accrual of impairment loss of property, plant and equipment and assets of disposal group | 6,10 | | 774 | | 5,348 |
| Profit from disposal of property, plant and equipment | 19 | | (54) | | (135) |
| Finance expense, net | 20 | | 3,597 | | 3,268 |
| Accrual of impairment of accounts receivable | 19 | | 373 | | 3,208 |
| Loss from associates |  | | 17 | | 145 |
| Curtailment in pension plan | 19 | | (1,609) | | - |
| Other expenses/(income) |  | | 49 | | (25) |
| **Operating cash flows before working capital changes and income tax paid** |  | | **5,815** | | **2,524** |
| Working capital changes: |  | |  | |  |
| Increase in accounts receivable and prepayments |  | | (556) | | (395) |
| Increase in inventories |  | | (3,844) | | (4,373) |
| (Decrease)/increase in accounts payable and accruals |  | | (803) | | 3,894 |
| Decrease in other taxes payable |  | | (1,940) | | (1,464) |
| Decrease/(increase) in other non-current assets |  | | 17 | | (118) |
| Increase in other non-current liabilities |  | | 233 | | 194 |
| Income tax paid |  | | (184) | | (1,332) |
| **Net cash used in operating activity** |  | | **(1,262)** | | **(1,070)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** |  | |  | |  |
| Purchase of property, plant and equipment |  | | (7,909) | | (12,506) |
| Proceeds from sale of property, plant and equipment |  | | 122 | | 119 |
| Interest received |  | | 278 | | 493 |
| Disposal of cash and cash equivalents due to disposal of subsidiaries |  | | - | | (3) |
| Issue of loans and deposits placed |  | | (3,530) | | (8,722) |
| Proceeds from issued loans and deposits |  | | 4,029 | | 10,759 |
| **Net cash used in investing activity** |  | | **(7,010)** | | **(9,860)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** |  |  | |  | |
| Proceeds from debt |  | 59,185 | | 57,067 | |
| Repayment of debt |  | (45,496) | | (41,136) | |
| Interest paid |  | (4,304) | | (3,750) | |
| Finance lease payments |  | (567) | | (724) | |
| **Net cash generated in financing activity** |  | **8,818** | | **11,457** | |
| **Increase in cash and cash equivalents** |  | **546** | | **527** | |
| **Cash and cash equivalents at the beginning of the period** | **7** | **5,819** | | **4,407** | |
| **Cash and cash equivalents at the end of the period** | **7** | **6,365** | | **4,934** | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Share capital** | **Treasury shares** | **Available-for-sale financial assets** | **Revaluation reserve** | **Revaluation of pension benefit obligations** | **Retained losses** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balance as at 01 January 2012** | **21,558** | **-** | **152** | **10,394** | **-** | **(14,574)** | **17,530** | **11,637** | **29,167** |
| Restatement due to application of IAS 19 revised | **-** | **-** | **-** | **-** | **330** | **167** | **497** | **441** | **938** |
| **Balance as at 01 January 2012 (restated)** | **21,558** | **-** | **152** | **10,394** | **330** | **(14,407)** | **18,027** | **12,078** | **30,105** |
| Loss for the period | - | - | - | - | - | (6,296) | (6,296) | (4,669) | (10,965) |
| *Other comprehensive income* |  |  |  |  |  |  |  |  |  |
| Change in fair value of available-for-sale financial assets | - | - | (41) | - | - | - | (41) | (35) | (76) |
| Impairment of revalued property, plant and equipment | - | - | - | (366) | - | - | (366) | (350) | (716) |
| Remeasurements of pension benefit obligations | - | - | - | - | 988 | - | 988 | 899 | 1,887 |
| Total other comprehensive income | - | - | (41) | (366) | 988 | - | 581 | 514 | 1,095 |
| **Total comprehensive income for the period** | **-** | **-** | **(41)** | **(366)** | **988** | **(6,296)** | **(5,715)** | **(4,155)** | **(9,870)** |
| Shares issue | 1,159 | (410) | - | - | - | - | 749 |  | 749 |
| Transfer of revaluation reserve to retained earnings | - | - | - | (60) | - | 60 | - | - | - |
| Dividends declared | - | - | - | - | - | - | - | (21) | (21) |
| Other changes in non-controlling interest | - | - | - | - | - | - | - | 157 | 157 |
| **Balance as at 30 September 2012 (restated)** | **22,717** | **(410)** | **111** | **9,968** | **1,318** | **(20,643)** | **13,061** | **8,059** | **21,120** |
| **Balance as at 01 January 2013 (restated) (Note 2)** | **22,717** | **(410)** | **82** | **8,518** | **1,150** | **(16,930)** | **15,127** | **8,957** | **24,084** |
| Loss for the period | - | - | - | - | - | (607) | (607) | (420) | (1,027) |
| *Other comprehensive income* |  |  |  |  |  |  |  |  |  |
| Change in fair value of available-for-sale financial assets | - | - | (82) | - | - | - | (82) | (54) | (136) |
| Remeasurements of pension benefit obligations | - | - | - | - | 163 | - | 163 | 140 | 303 |
| Total other comprehensive income | - | - | (82) | - | 163 | - | 81 | 86 | 167 |
| **Total comprehensive income for the period** | **-** | **-** | **(82)** | **-** | **163** | **(607)** | **(526)** | **(334)** | **(860)** |
| Transfer of revaluation reserve to retain earnings | - | - | - | (29) | - | 29 | - | - | - |
| Dividends declared | - | - | - | - | - | - | - | (4) | (4) |
| **Balance as at 30 September 2013** | **22,717** | **(410)** | **-** | **8,489** | **1,313** | **(17,508)** | **14,601** | **8,619** | **23,220** |

# RAO Energy System of East Group and its Operations

The Open Joint Stock Company RAO Energy System of East (hereinafter referred to as “the Company”) was established on 1 July 2008 as a result of the final stage of reorganization of Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as “RAO UES”) through a spin-off in accordance with the decision approved by the Extraordinary General Meeting of Shareholders of RAO UES on 26 October 2007. As a result of the reorganization, the Company became a shareholder of a number of energy companies in the Far East region of Russia and a number of energy retail companies and non-core companies that were transferred to the Company according to the separation balance sheet. The consolidated interim condensed financial information presents the financial performance of the Company and its subsidiaries (together referred to as the “Group” or “RAO Energy System of East Group”). The Group’s principal subsidiaries are presented in Note 3.

The Company was incorporated and is domiciled in the Russian Federation. The Company was set up in accordance with Russian regulations.

In February 2013 Government paid additional share issue of OJSC RusHydro by shares of the Company. As a result as at 30 September 2013 OJSC RusHydro owns 74.91 percent of the Company (as at 31 December 2012 65.75 percent). The ultimate controlling party is the Russian Federation. Related party transactions are disclosed in Note 5.

The shares of the Company are traded on the Moscow Stock Exchange.

The Group’s principal business activities are:

* electricity and heat generation;
* electricity and heat distribution;
* electricity and heat retail;
* electricity wholesale.

The Company’s registered office is located at 46, Leningradskaya str., Khabarovsk, Russia, 680021.

The Group operates in the Far East Federal region, which comprises Republic of Sakha (Yakutiya), Kamchatka territory, Primorye territory, Khabarovsk territory, Amur region, Magadan region, Sakhalin region, Evreiskaya autonomous district and Chukotka autonomous district and also in the Khanty-Mansi and Yamalo-Nenets autonomous districts.

***Relations with the State and current regulation.*** Many consumers of electricity and heat supplied by the Group are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials for the Group (Note 5).

The Government affects the Group’s operations through:

* tariff regulation within wholesale electricity and capacity as well as retail electricity and heat markets;
* ratification of the Group’s investment programs, including volume and sources of their financing, control over their implementation;
* existing antimonopoly regulation.

The Russian Federation directly influences the activities of the Group by regulating the wholesale purchases of electricity via the Federal Tariff Service (hereinafter, “FTS”) and the retail sale of electricity, capacity and heat via executive bodies of constituents of the Russian Federation in charge of state price (tariffs) regulation. The activities of generating and grid companies (except operating within technologically isolated territories of electric power system) are operated by OJSC System Operator of the Unified Energy System (hereinafter, “SO UES”) to maintain the effective operation of the electricity market.

Tariffs on electricity sold by the Group’s energy companies are set by regional regulating authorities based on maximum possible tariffs approved by FTS.

Tariffs on heat sold by the Group’s energy companies to all types of consumers are set by regional regulating authorities of the Russian Federation constituents in charge of state tariffs regulation.

***Operating environment.*** The economy of Russian Federation has some characteristics of an emerging economy. The tax, currency and customs legislation of Russian Federation continues to develop and is subject to varying interpretations (Note 22).

Management determined impairment provisions considering the economic situation and outlook at the end of the reporting period. The Group’s assets are tested for impairment 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 probable those future events are. Future economic situation and regulatory environment can differ from existing expectations of management.

Management is unable to predict all developments in the economic environment which could have an impact on the Group’s operations and consequently what effect, if any, they could have on the financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business.

***Seasonality of business.*** The demand for the Group’s heat and electricity generation and supply depends on weather conditions and the season. Heat and electricity production by the heat generation assets, is significantly higher in autumn and in winter than in spring and in summer. The seasonal nature of heat and electricity generation has a significant influence on the volume of fuel consumed by heat generation assets and electricity purchased by the Group.

***Liquidity risk.*** As at 30 September 2013 current liabilities of the Group exceeded its current assets (excluding assets and liabilities of a disposal group classified as held for sale) by RR 4,427 million (as at 31 December 2012 by RR 9,597 million).

The Group manages the liquidity risk to ensure meeting its obligations under various scenarios covering both normal and more severe market conditions.

The Group maintains its current liquidity position and covers the liquidity shortage through following instruments:

* tariffs for electricity and heat are set on cost plus basis, which allows to cover major expenses of the Group’s entities;
* the Group receives continuing strong support from Government in the form of grants received for compensation of low electricity tariff (Note 19);
* the Group considers the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;

1. Summary of significant accounting policies and new accounting pronouncements

***Statement of compliance.*** This Consolidated Interim Condensed Financial Information has been prepared in accordance with and complies with IAS 34, Interim Financial Reporting and should be read in conjunction with the annual Consolidated Financial Statements as at and for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

This Consolidated Interim Condensed Financial Information is unaudited and does not contain certain information and disclosures required in annual IFRS financial statements. Disclosures duplicating information included in the annual Consolidated Financial Statements as at and for the year ended 31 December 2012 have been omitted or condensed.

***Accounting policy.*** The accounting policies followed in the preparation of this Consolidated Interim Condensed Financial Information are consistent with those applied in the annual Consolidated Financial Statements as at and for the year ended 31 December 2012 except changes described below:

***New standards and interpretations effective since 1 January 2013.***

***IFRS 10, Consolidated financial statements.*** Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date when control ceases.

The impact of the adoption of this standard has not been significant with respect to this Condensed Consolidated Interim Financial Information.

***IFRS 11, Joint arrangements.*** Under IFRS 11 Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.

The impact of the adoption of this standard has not been significant with respect to this Condensed Consolidated Interim Financial Information.

***IFRS 13, Fair value measurement.*** IFRS 13 measurement and disclosure requirements are applicable for the annual period ended 31 December 2013. The Group has included the disclosures required by IAS 34 para 16A(j) in Note 24.

***IAS 19, Employee benefits.*** Group applied the amendments to IAS 19 retrospectively in accordance with the transition provisions of the standard. Amended IAS 19 makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits. The material impacts of IAS 19 (revised) on the Group’s condensed consolidated interim financial information are as follows:

* “Actuarial gains and losses” are renamed “remeasurements” and now are recognized immediately in “other comprehensive income” (OCI) and thus, will no longer be deferred using the corridor approach or recognised in profit or loss;
* Past-services costs are recognized immediately though profit and loss when they occur;
* The annual expense for the funded benefit plan now includes net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This replaces the finance charge and expected return on plan assets.

The resulting impacts on the Group’s consolidated financial statements are presented below:

|  | **31 December 2012** | **Recalculation due to IAS 19 amendments** | **31 December 2012 (restated)** |
| --- | --- | --- | --- |
| Deferred tax assets | 314 | 6 | 320 |
| Assets of disposal group classified as held for sale | 28,954 | (475) | 28,479 |
| **Total effect on assets** |  | **(469)** |  |
| Retained losses and other reserves | (17,098) | 1,400 | (15,698) |
| Non-controlling interest | 7,768 | 1,189 | 8,957 |
| **Total effect on equity** |  | **2,589** |  |
| Deferred tax liabilities | 2,200 | (41) | 2,159 |
| Other non-current liabilities | 9,969 | (2,676) | 7,293 |
| Liabilities of disposal group classified as held for sale | 16,394 | (341) | 16,053 |
| **Total effect on liabilities** |  | **(3,058)** |  |

|  | **Nine months ended 30 September 2012** | **Recalculation due to IAS 19 amendments** | **Nine months ended 30 September 2012 (restated)** |
| --- | --- | --- | --- |
| Expenses | (101 265) | 39 | (101 226) |
| Loss on disposal group remeasurement and impairment of property, plant and equipment | (4 872) | (475) | (5 348) |
| **Operating loss** | **(8 667)** | **(436)** | **(9 104)** |
| Finance cost | (3 877) | 11 | (3 866) |
| Loss before income tax | (12 090) | (426) | (12 517) |
| Total income tax benefit | 1 053 | 499 | 1 552 |
| **Loss for the period** | **(11 037)** | **73** | **(10 965)** |
| Attributable to: |  |  |  |
| Shareholders of parent company | (6 350) | 55 | (6 296) |
| Non-controlling interest | (4 687) | 18 | (4 669) |
| Remeasurements of pension benefit obligations | - | 1 887 | 1 887 |
| **Total comprehensive loss for the period** | **(11 829)** | **1 960** | **(9 870)** |
| Attributable to: |  |  |  |
| Shareholders of parent company | (6 757) | 1 043 | (5 715) |
| Non-controlling interest | (5 072) | 917 | (4 155) |
| Basic and diluted loss per ordinary and preferred share attributable to the owners of the Company (in RR per share) | (0.1430) | 0.0012 | (0.1418) |

The effect of the change in accounting policy on the Consolidated Interim Condensed Statement of Cash Flows was immaterial.

***Other standards and interpretations.***

Certain new standards and interpretations disclosed in Consolidated Financial Statements as at and for the year ended 31 December 2012 are applicable for the annual periods beginning on 1 January 2014 and were not early adopted by the Group.

In addition from April till September 2013 amendments to IAS 36 – Recoverable amount disclosures for non-financial assets and amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting were published. Amendments are effective for the periods beginning after 1 January 2014 and were not early adopted by the Group.

Other new standards, amendments and interpretations effective for the periods beginning after 1 January 2014 and later have no effect on the Consolidated Interim Condensed Financial Information.

***Reclassifications***. Certain reclassifications have been made to prior period data to conform to the current period presentation. These reclassifications are not material.

***Income tax expense.*** Income tax expense is recognised based on the management’s best estimate of the weighted average annual income tax rate expected for the full financial year.

***Critical accounting estimates and judgements.*** The preparation of Consolidated Interim Condensed Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this Consolidated Interim Condensed Financial Information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2012 with the exception of changes in estimates that are required in determining the provision for income taxes (Note 12).

# Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation. The following are the principal subsidiaries as at 30 September 2013 and 31 December 2012:

|  | 30 September 2013 | | 31 December 2012 | |
| --- | --- | --- | --- | --- |
| Name | **Ownership** | **Voting** | **Ownership** | **Voting** |
|  | **%** | **%** | **%** | **%** |
| OJSC DEK | 51.08 | 51.13 | 51.08 | 51.13 |
| OJSC DGK (subsidiary of OJSC DEK) | 51.08 | 100.00 | 51.08 | 100.00 |
| OJSC DRSK (subsidiary of OJSC DEK) | 51.08 | 100.00 | 51.08 | 100.00 |
| **Isolated energy systems:** |  |  |  |  |
| OJSC Kamchatskenergo | 98.74 | 98.74 | 98.74 | 98.74 |
| OJSC Magadanenergo | 49.00 | 64.39 | 49.00 | 64.39 |
| OJSC Yakutskenergo\* | 49.37 | 49.37 | 49.37 | 57.63 |
| OJSC Sakhalinenergo | 55.55 | 55.55 | 55.55 | 55.55 |

\* Control is based on the ability to secure a majority of votes on the shareholders meeting.

**Changes in Group structure**

As at 30 September 2013 due to additional share issue Group’s share in OJSC Sakhalinskaya energy company has decreased to 8.98 percent. OJSC Sakhalinskaya energy company is recognised as associate company to the Group as at 30 September 2013 as the Company has its representative on the board of directors of OJSC Sakhalinskaya energy company, participates in policy-making processes and provides essential technical information related to capital construction activities and operation of generating facilities.

# Segment information

Chief Operating decision maker (hereinafter, “CODM”) of the Group generally analyses information by the groups of operations which are consolidated in the following separate reportable segments:

* Segment 1 - OJSC DEK Group’s segment (including OJSC DGK, OJSC DRSK and OJSC DEK subsidiaries) consists of companies that generate electricity and heat and provide transportation, distribution, construction and repair services in the Far East region.
* Segment 2 - OJSC Kamchatskenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution in the Kamchatka territory.
* Segment 3 - OJSC Magadanenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution services in the Magadan region and Chukotka autonomous district.
* Segment 4 - OJSC Sakhalinenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution in the Sakhalin region.
* Segment 5 - OJSC Yakutskenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution services in the Republic of Sakha (Yakutiya).

Included in Segment 1 is OJSC DRSK that was classified as a disposal group (Note 10).

The Group also includes entities supporting Group's operations which are not considered as separate segments by CODM. These entities render financial, managerial, repair and maintenance and other (such as educational, recreation, etc.) services to the Group and external parties.

The segments’s operational results assesses with EBITDA, which provided as operating profit (loss) excluding depreciation of property, plant and equipment and intangible assets, impairment of property, plant and equipment, impairment of accounts receivable, loss on disposal of property, plant and equipment and curtailment in pension plan. This procedure definition of EBITDA may differ from the procedure definition used by other companies.CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group’s subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

Segment information also contains capital expenditures and the value of debts, as these indicators are analyzed by the chief operating decision maker. Intersegment balances of are excluded.

Transactions between the operating segments are made on normal commercial terms and conditions. Sales between segments are carried out at arm’s length.

Segment information for the nine months ended 30 September 2013 and 30 September 2012 and as at 30 September 2013 and 31 December 2012 is presented below:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Nine months ended**  **30 September 2013** | **Segment 1** | **Segment 2** | **Segment 3** | **Segment 4** | **Segment 5** | **Other** | **Total segments** | **Unallocated adjustments and intercompany operations** | **TOTAL** |
| **Revenue** | **106,571** | **7,264** | **7,491** | **5,351** | **22,120** | **2,718** | **151,515** | **(54,820)** | **96,695** |
| including: |  |  |  |  |  |  |  |  |  |
| from external companies: | 60,625 | 7,188 | 7,141 | 5,301 | 15,121 | 1,319 | 96,695 | - | **96,695** |
| *sales of electricity* | *38,446* | *2,987* | *4,263* | *4,276* | *11,116* | *745* | *61,833* | *-* | ***61,833*** |
| *sales of capacity* | *1,968* | *-* | *-* | *-* | *-* | *-* | *1,968* | *-* | ***1,968*** |
| *heat and hot water sales* | *12,203* | *4,042* | *2,618* | *756* | *2,272* | *-* | *21,891* | *-* | ***21,891*** |
| *other revenue* | *8,008* | *159* | *260* | *269* | *1,733* | *574* | *11,003* | *-* | ***11,003*** |
| from other segments | 45,946 | 76 | 350 | 50 | 6,999 | 1,399 | 54,820 | (54,820) | **-** |
| Government grants | 256 | 2,649 | 1,435 | 533 | 2,160 | 193 | 7,226 |  | **7,226** |
| Expenses  (excluding depreciation and other non-monetary items) | (105,336) | (9,712) | (8,448) | (5,038) | (22,680) | (2,360) | (153,574) | 55,419 | **(98,155)** |
| **EBITDA** | **1,491** | **201** | **478** | **846** | **1,600** | **551** | **5,167** | **599** | **5,766** |
| Depreciation of property, plant and equipment | (1,892) | (107) | (105) | (527) | (778) | (337) | (3,746) | 58 | **(3,688)** |
| Other non-monetary items of OPEX | 926 | (632) | 222 | (27) | 36 | (9) | 516 | - | **516** |
| *including:* |  |  |  |  |  |  |  |  |  |
| *loss on disposal group remeasurement and impairment of property, plant and equipment, net* | *(774)* | *-* | *-* | *-* | *-* | *-* | *(774)* | *-* | ***(774)*** |
| *accrual of impairment for accounts receivable, net* | *125* | *(628)* | *144* | *(41)* | *39* | *(12)* | *(373)* | *-* | ***(373)*** |
| *profit on disposal of property, plant and equipment, net* | *(34)* | *(4)* | *78* | *14* | *(3)* | *3* | *54* | *-* | ***54*** |
| *curtailment in pension plan (Note 14)* | *1,609* | *-* | *-* | *-* | *-* | *-* | *1,609* | *-* | ***1,609*** |
| **Operating profit** | **525** | **(538)** | **595** | **292** | **858** | **205** | **1,937** | **657** | **2,594** |
| Finance income | - | - | - | - | - | - | - | - | **419** |
| Finance expenses | - | - | - | - | - | - | - | - | **(4,016)** |
| Share of income of associates | - | - | - | - | - | - | - | - | **(17)** |
| **Loss before income tax** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,020)** |
| Total income tax expense | - | - | - | - | - | - | - | - | **(7)** |
| **Loss for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,027)** |
| **Capital expenditure** | **2,700** | **215** | **660** | **1,171** | **2,912** | **1,325** | **8,983** | **-** | **8,983** |
| **31 September 2013** |  |  |  |  |  |  |  |  |  |
| **Non-current and current debt** | **(42,407)** | **(4,800)** | **(1,240)** | **(4,400)** | **(9,936)** | **(3,899)** | **(66,682)** | **-** | **(66,682)** |
|  |  |  |  |  |  |  |  |  |  |
| **Nine months ended**  **30 September 2012** | **Segment 1** | **Segment 2** | **Segment 3** | **Segment 4** | **Segment 5** | **Other** | **Total segments** | **Unallocated adjustments and intercompany operations** | **TOTAL** |
| **Revenue** | **103,181** | **7,230** | **6,571** | **6,264** | **19,694** | **2,686** | **145,626** | **(54,776)** | **90,850** |
| including: |  |  |  |  |  |  |  |  |  |
| from external companies: | 56,978 | 7,086 | 6,204 | 5,286 | 13,781 | 1,515 | 90,850 | - | **90,850** |
| *sales of electricity* | *38,395* | *2,877* | *3,711* | *3,862* | *10,269* | *852* | *59,966* | *-* | ***59,966*** |
| *sales of capacity* | *951* | *-* | *-* | *-* | *-* | *-* | *951* | *-* | ***951*** |
| *heat and hot water sales* | *11,414* | *4,073* | *2,388* | *1,210* | *1,863* | *-* | *20,948* | *-* | ***20,948*** |
| *other revenue* | *6,218* | *136* | *105* | *214* | *1,649* | *663* | *8,985* | *-* | ***8,985*** |
| from other segments | 46,203 | 144 | 367 | 978 | 5,913 | 1,171 | 54,776 | (54,776) | **-** |
| Government grants | 141 | 2,562 | 841 | 834 | 2,027 | 215 | 6,620 | - | **6,620** |
| Expenses  (excluding depreciation and other non-monetary items) | (103,335) | (9,911) | (7,679) | (6,253) | (19,888) | (2,676) | (149,742) | 54,821 | **(94,921)** |
| **EBITDA** | **(13)** | **(119)** | **(267)** | **845** | **1,833** | **225** | **2,504** | **45** | **2,549** |
| Depreciation of property, plant and equipment | (1,781) | (39) | (96) | (353) | (883) | (101) | (3,253) | 21 | **(3,232)** |
| Other non-monetary items of OPEX | (6,198) | (1,701) | (314) | (33) | (332) | (30) | (8,608) | 187 | **(8,421)** |
| *including:* |  |  |  |  |  |  |  |  |  |
| *loss on disposal group remeasurement and impairment of property, plant and equipment, net* | *(4,080)* | *(617)* | *(329)* | *-* | *(227)* | *(95)* | *(5,348)* |  | ***(5,348)*** |
| *accrual of impairment for accounts receivable, net* | *(2,205)* | *(1,111)* | *9* | *(38)* | *(43)* | *(7)* | *(3,395)* | *187* | ***(3,208)*** |
| *profit on disposal of property, plant and equipment, net* | *87* | *27* | *6* | *5* | *(62)* | *72* | *135* | *-* | ***135*** |
| **Operating loss** | **(7,992)** | **(1,859)** | **(677)** | **459** | **618** | **94** | **(9,357)** | **253** | **(9,104)** |
| Finance income | - | - | - | - | - | - | - | - | **598** |
| Finance expenses | - | - | - | - | - | - | - | - | **(3,866)** |
| Share of income of associates | - | - | - | - | - | - | - | - | **(145)** |
| **Loss before income tax** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(12,517)** |
| Total income tax benefit | - | - | - | - | - | - | - | - | **1,552** |
| **Loss for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(10,965)** |
| **Capital expenditure** | **3,298** | **562** | **350** | **1,375** | **2,601** | **3,295** | **11,481** | **-** | **11,481** |
| **31 December 2012** |  |  |  |  |  |  |  |  |  |
| **Non-current and current debt** | **(33,246)** | **(4,304)** | **(1,160)** | **(3,823)** | **(9,586)** | **(517)** | **(52,636)** | **-** | **(52,636)** |

# Related party transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions, as described by IAS 24, *Related Parties Disclosure*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

**Government-related entities.** In the normal course of business the Group enters into transactions with the entities controlled by the Government. The Group had transactions during the nine months ended 30 September 2013 and 30 September 2012 and balances outstanding as at 30 September 2013 and 31 December 2012 with the following government-related banks: OJSC Sberbank of Russia, OJSC Gazprombank, OJSC Bank of Moscow etc. (Note 13). Loans are provided at commercial terms.

The Group sells electricity, capacity and heat to government-related entities. Prices for such electricity and capacity sales are based on tariffs set by FTS and Regional Energy Commissions. The Group’s sales to government-related entities comprised approximately 35 percent of total sales for the nine months ended 30 September 2013 (for the nine months ended 30 September 2012: approximately 31 percent). The Group’s purchases from government-related entities comprised approximately 28 percent of total expenses on purchased for the nine months ended 30 September 2013 (for the nine months ended 30 September 2012: approximately 23 percent).

**Transactions with Key management of the Group.** Compensation and bonuses are paid to the members of the Management Board of the Company and the major subsidiaries for their services in full time management positions. The compensation is made up of a contractual salary and performance bonus depending on the results of the work for the period based on key performance indicators. The key performance indicators are approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors of the Company and the major subsidiaries are paid for attending Board meetings.

Major part of compensation for Key management personnel is generally short-term excluding future payments under pension plans with defined benefits. Defined benefit payments to Key management of the Group are calculated based on the same terms as for the other employees.

Short-term remuneration paid to the key management of the Group for the Nine months ended 30 September 2013 was RR 428 million (for the Nine months ended 30 September 2012: RR 398 million).

**Parent company and entities under common control.** In the normal course of business the Group enters into transactions with the OJSC RusHydro and entities under common control.

At 30 September 2013 and at 31 December 2012 the outstanding balances with entities controlled by OJSC RusHydro were as follows:

|  |  |  |
| --- | --- | --- |
|  | **30 September 2013** | **31 December 2012** |
| Trade and other receivables | 32 | 35 |
| Trade and other payables | 1,268 | 1,005 |
| Current debt and current portion of non-current debt | 1,048 | 58 |
| Non-current debt | 7,000 | 8,000 |

The income and expense items with entities controlled by OJSC RusHydro:

|  |  |  |
| --- | --- | --- |
|  | **Nine months ended**  **30 September 2013** | **Nine months ended**  **30 September 2012** |
| Other revenue | 264 | 124 |
| Expenses | 5,851 | 4,889 |
| Finance expenses | 612 | - |

The above balances include the following amounts of transactions and balances with parent company OJSC RusHydro:

|  |  |  |
| --- | --- | --- |
|  | **30 September 2013** | **31 December 2012** |
| Trade and other receivables | - | 3 |
| Trade and other payables | 806 | 564 |
| Current debt and current portion of non-current debt | 1,048 | 58 |
| Non-current debt | 7,000 | 8,000 |

The income and expense items with parent company OJSC RusHydro:

|  |  |  |
| --- | --- | --- |
|  | **Nine months ended**  **30 September 2013** | **Nine months ended**  **30 September 2012** |
| Other revenue | 4 | 3 |
| Expenses | 4 482 | 3 717 |
| Finance expenses | 612 | - |

**Associates**.

At 30 September 2013 and at 31 December 2012 the outstanding balances with associates were as follows:

|  |  |  |
| --- | --- | --- |
|  | **30 September 2013** | **31 December 2012** |
| Trade and other receivables | 77 | 89 |
| Trade and other payables | 1 | - |

The income and expense items with associates:

|  |  |  |
| --- | --- | --- |
|  | **Nine months ended**  **30 September 2013** | **Nine months ended**  **30 September 2012** |
| Revenue | 1,512 | 512 |
| Expenses | 13 | - |

# Property, plant and equipment

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Cost** | **Production buildings** | **Facilities** | **Machinery and equipment** | **Construction in progress** | **Other** | **Total** |
| **Opening balance as at 1 January 2013** | **21,263** | **29,128** | **30,787** | **11,095** | **5,274** | **97,547** |
| Additions | 38 | 62 | 225 | 8,162 | 496 | **8,983** |
| Transfers | 269 | 1,047 | 1,453 | (2,802) | 33 | **-** |
| Disposals | (302) | (21) | (58) | (148) | (169) | **(698)** |
| **Closing balance as at**  **30 September 2013** | **21,268** | **30,216** | **32,407** | **16,307** | **5,634** | **105,832** |
| **Accumulated depreciation (including impairment)** | | |  |  |  |  |
| **Opening balance as at 1 January 2013** | **(9,135)** | **(15,579)** | **(15,942)** | **(2,619)** | **(1,908)** | **(45,183)** |
| Depreciation charge | (607) | (982) | (1,653) | - | (552) | **(3,794)** |
| Transfers | (21) | (100) | (84) | 197 | 8 | **-** |
| Disposals | 112 | 20 | 46 | 14 | 91 | **283** |
| **Closing balance as at**  **30 September 2013** | **(9,651)** | **(16,641)** | **(17,633)** | **(2,408)** | **(2,361)** | **(48,694)** |
| **Net book value as at**  **30 September 2013** | **11,617** | **13,575** | **14,774** | **13,899** | **3,273** | **57,138** |
| **Net book value as at 1 January 2013** | **12,128** | **13,549** | **14,845** | **8,476** | **3,366** | **52,364** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Opening balance as at 1 January 2012** | **21,198** | **27,778** | **24,307** | **10,326** | **4,602** | **88,211** |
| Impairment of revaluated property plant and equipment | (256) | (149) | (489) | - | (1) | **(895)** |
| Additions | 16 | 202 | 998 | 10,098 | 167 | **11,481** |
| Transfers | 524 | 1,344 | 3,390 | (5,399) | 141 | **-** |
| Disposals | (35) | (212) | (196) | (184) | (236) | **(863)** |
| **Closing balance as at**  **30 September 2012** | **21,447** | **28,963** | **28,010** | **14,841** | **4,673** | **97,934** |
| **Accumulated depreciation (including impairment)** | | |  |  |  |  |
| **Opening balance as at 1 January 2012** | **(8,186)** | **(12,842)** | **(11,705)** | **(3,257)** | **(2,550)** | **(38,540)** |
| Impairment charge | (584) | (719) | (750) | (563) | (112) | **(2,728)** |
| Reversal of impairment through profit or loss | 23 | 355 | 17 | 42 | 11 | **448** |
| Depreciation charge | (411) | (841) | (1,746) | - | (346) | **(3,344)** |
| Transfers | (120) | (169) | (457) | 784 | (38) | **-** |
| Disposals | 19 | 22 | 150 | 31 | 188 | **410** |
| **Closing balance as at**  **30 September 2012** | **(9,259)** | **(14,194)** | **(14,491)** | **(2,963)** | **(2,847)** | **(43,754)** |
| **Net book value as at**  **30 September 2012** | **12,188** | **14,769** | **13,519** | **11,878** | **1,826** | **54,180** |
| **Net book value as at 1 January 2012** | **13,012** | **14,936** | **12,602** | **7,069** | **2,052** | **49,671** |

The Group leases 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 30 September 2013 the net book value of leased equipment was RR 1,751 million (31 December 2012: RR 1,067 million). The leased equipment is pledged as a security for the lease obligation.

# Cash and cash equivalents

|  |  |  |
| --- | --- | --- |
|  | **30 September 2013** | **31 December 2012** |
| Cash at bank | 3,230 | 2,769 |
| Cash equivalents | 2,964 | 3,003 |
| Cash in hand | 15 | 9 |
| **Total cash and cash equivalents** | **6 209** | **5,781** |

Cash equivalents held as at 30 September 2013 and 31 December 2012 comprised short-term bank deposits with original maturities of three months or less that are subject to an insignificant risk of changes in value.

As at 30 September 2013 the line Cash and cash equivalents in the Consolidated Interim Condensed Statement of Cash Flows included RR 156 million of cash and cash equivalents held by disposal group classified as held for sale (31 December 2012: RR 38 million).

# Accounts receivable and prepayments

|  | **30 September 2013** | **31 December 2012** |
| --- | --- | --- |
| Trade receivables  (Net of provision for impairment of accounts receivable of RR 7.007 million as at  30 September 2013 and RR 6,297 million as at 31 December 2012) | 14,533 | 15,058 |
| Advances to suppliers and prepayments  (Net of provision for impairment of accounts receivable of RR 131 million as at  30 September 2013 and RR 119 million as at 31 December 2012) | 3,777 | 3,549 |
| Value added tax recoverable | 2,052 | 1,781 |
| Income tax receivables | 580 | 415 |
| Other receivables  (Net of provision for impairment of accounts receivable of RR 588 million as at  30 September 2013 and RR 1,044 million as at 31 December 2012) | 1,149 | 1,044 |
| **Total accounts receivable and prepayments** | **22,091** | **21,847** |

The Group does not hold any accounts receivable pledged as collateral.

# Inventories

|  | **30 September 2013** | **31 December 2012** |
| --- | --- | --- |
| Fuel | 14,950 | 12,430 |
| Materials and supplies | 4,412 | 3,857 |
| Spare parts | 1,059 | 1,041 |
| Other materials | 503 | 412 |
| **Total inventories, gross** | **20,924** | **17,740** |
| Provision for inventory obsolescence | (66) | (70) |
| **Total inventories** | **20,858** | **17,670** |

# Assets and liabilities of a disposal group classified as held for sale

The resolution of the Russian Government No. 1174-p dated 07 July 2011 stipulated integration of grid assets of OJSC DRSK (Group’s company) into OJSC FGC UES. The decree of the Russian President No. 1567 dated 22 November 2012 defined the structure of grid system – the foundation of unified holding company OJSC Russian Grids, with control over OJSC FGC UES. In connection with the creation unified holding company OJSC Russian Grids in 2013 the integration of OJSC DRSK into OJSC FGC UES was slowed, however, as at 30 September 2013 probability of OJSC DRSK shares transfer to OJSC FGC UES is still assessed as high, the Group continues classifying the equity investments in OJSC DRSK as assets of disposal group held for sale.

Assets and liabilities of disposal group were remeasured to the lower of carrying amount and fair value less cost to sell. As result of subsequent remeasurement impairment loss in RR 774 million was recognised for nine months ended 30 September 2013 (RR 3,068 million for nine months ended 30 September 2012) and disclosed within line Loss on disposal group remeasurement and impairment of property, plant and equipment of Consolidated Interim Condensed Income Statement.

# Equity

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Number of issued and fully paid shares (in thousands)** | **In thousands of Russian Rubles** | | |
| **Ordinary shares** | **Preference shares** | **Total share capital** |
| As at 31 December 2012 | 45,433,972 | 21,679,411 | 1,037,575 | 22,716,986 |
| As at 30 September 2013 | 45,433,972 | 21,679,411 | 1,037,575 | 22,716,986 |

Company was established on 1 July 2008 and as at 30 September 2013 and as at 31 December 2012 all Company’s shares were fully paid (Note 1).

Nominal value per each share equal 0.5 RR for ordinary share and 0.5 RR for preference share.

**Ordinary shares and preference shares.** The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders meetings of the Company.

Holders of preference shares are entitled to receive annual dividends. Preference shares are entitled to a minimum annual dividend of 10 percent of net statutory profit of the Company divided by number of shares which constitute 25 percent from equity of the Company on the date of state registration of the Company as a legal entity.

The amount of dividends paid on each preference share may not be less than the amount of dividends paid on each ordinary share. If the preferred dividends are not paid or are paid not in full, then the preference shares give their holders the right to vote on all matters within the competence of the general meeting of shareholders, since the meeting following the annual meeting, which, irrespective of the reasons it was decided not to pay dividends or decided on partial payment of preferred dividends. Such a voice is terminated with the first payment of dividends on such shares in full.

**Dividends**. In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with RSA. For the nine months ended 30 September 2013 the Company had retained loss of RR 6,142 million under RSA, (for the nine months ended 30 September 2012 such loss equalled RR 752 million). Dividends were not declared and paid.

# Income tax

Income tax expense is recognised based on the management’s best estimate of the weighted average annual income tax rate expected for the full financial year. The tax effect of the exceptional or one-off items has not been included in the estimation of the weighted average annual income tax rate. The estimated average annual effective income tax rate used for the nine months ended 30 September 2013 was 21 percent (for the nine months ended 30 September 2012: 18 percent).

|  |  |  |
| --- | --- | --- |
|  | **Nine months ended 30 September 2013** | **Nine months ended  30 September 2012** |
| Current income tax expense | (8) | (94) |
| Deferred income tax benefit | 1 | 1,646 |
| **Total income tax (expense)/benefit** | **(7)** | **1,552** |

# Current and non-current debt

*Non-current debt*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Year of maturity** | **30 September 2013** | **31 December 2012** |
| OJSC Sberbank of Russia | 2013-2016 | 13,827 | 14,553 |
| OJSC Bank of Moscow | 2013-2015 | 8,517 | 7,717 |
| OJSC RusHydro | 2014-2021 | 8,000 | 8,000 |
| OJSC Gasprombank | 2013-2016 | 5,120 | 3,494 |
| OJSC AKB Rosbank | 2013-2015 | 3,745 | 6,132 |
| EBRD | 2015-2024 | 3,349 | - |
| OJSC Asian-Pacific Bank | 2013-2015 | 474 | 274 |
| ОJSC NOMOS-BANK | 2013-2015 | 360 | 380 |
| Unsecured bonds issued (OJSC Yakutskenergo) | - | - | 3,002 |
| Other | 2013-2018 | 710 | 2,027 |
| Finance lease liabilities |  | 1,912 | 1,448 |
| **Total** |  | **46,014** | **47,027** |
| Less current portion of loans and borrowings |  | (8,336) | (21,775) |
| Less current finance lease liabilities |  | (682) | (764) |
| **Total Non-current borrowings** |  | **36,996** | **24,488** |

*Current debt*

|  | **30 September 2013** | **31 December 2012** |
| --- | --- | --- |
| OJSC Sberbank of Russia | 9,492 | 2,616 |
| OJSC AKB Rosbank | 4,449 | 1,920 |
| OJSC Gasprombank | 4,602 | 210 |
| ОJSC VTB Bank | 1,270 | - |
| OJSC Bank of Moscow | 340 | - |
| ОJSC Nomos-Regiobank | - | 219 |
| Other | 515 | 644 |
| Current portion of loans and borrowings | 8,336 | 21,775 |
| Current finance lease liabilities | 682 | 764 |
| **Total current borrowings and current**  **part of non-current borrowings** | **29,686** | **28,148** |

Currency of all non-current and current borrowings is Russian Rubles.

As at 31 December 2012 some of the Group’s credit contracts were subject to covenant clauses, whereby the Group was required to meet certain key performance indicators. The Group did not fulfil some of the requirements. The balances on such credit contracts as at 30 September 2013 and 31 December 2012 are not material. Before the 30 September 2013 and 31 December 2012 management received a covenant waiver from the bank confirming absence of intention to request early repayment of loans. As at 30 September 2013 Group fulfil all requirements of the Group’s credit contracts.

|  |  |  |
| --- | --- | --- |
| *Non-current debt maturity (excluding finance lease liabilities)* | **30 September 2013** | **31 December 2012** |
| Between one and two years | 13,216 | 5,909 |
| Between two and three years | 13,966 | 11,390 |
| Between three and four years | 1,434 | 1,291 |
| Between four and five years | 1,425 | 1,022 |
| After five years | 5,724 | 4,192 |
| **Total** | **35,766** | **23,804** |

**Finance lease liabilities.** Minimum lease payments under finance leases and their present values are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Due in 1 year** | **Due between 2 and 5 years** | **Due after 5 years** | **Total** |
| **Minimum lease payments at 30 September 2013** | **704** | **1,480** | **-** | **2,184** |
| Less future interest charges | (22) | (250) | - | (272) |
| **Present value of minimum lease payments at 30 September 2013** | **682** | **1,230** | **-** | **1,912** |
| **Minimum lease payments at 31 December 2012** | **843** | **821** | **-** | **1,664** |
| Less future interest charges | (79) | (137) | - | (216) |
| **Present value of minimum lease payments at 31 December 2012** | **764** | **684** | **-** | **1,448** |

# Other non-current liabilities

|  |  |  |
| --- | --- | --- |
|  | **30 September 2013** | **31 December 2012** |
| Pension benefit obligations | 4,417 | 5,884 |
| Reserve for ash dump | 617 | 618 |
| Other non-current liabilities | 1,150 | 791 |
| **Total other non-current liabilities** | **6,184** | **7,293** |

Other non-current liabilities include non-current advances received under the contracts of technological connection to the grids, in the amount of RR 858 million as at 30 September 2013 and RR 475 million as at 31 December 2012.

On 29 March 2013, OJSC DGK decided to cancel the defined benefit pension plan. The pension liability of cancelled plan was RR 2,458 million. As a consequence of defined benefit pension plan cancellation was the RR 315 million growth of one time retirement payments liabilities and the RR 534 million growth of periodical retirement payments liabilities. These payments were included in collective agreement and were alternatives for defined benefit pension plan. As a result the Group recognized RR 1,609 million curtailment gain for Nine months ended 30 September 2013 (Note 19).

# Accounts payable and accruals

|  |  |  |
| --- | --- | --- |
|  | **30 September 2013** | **31 December 2012** |
| Trade payables | 11,215 | 11,443 |
| Advances received | 5,138 | 6,161 |
| Settlements with personnel | 3,726 | 4,157 |
| Dividends payable | 74 | 19 |
| Other accounts payable | 2,020 | 1,407 |
| **Total accounts payable and accruals** | **22,173** | **23,187** |

All accounts payable nominated in Russian Rubles.

Payables to suppliers of property, plant and equipment of RR 1,290 million (31 December 2012: RR 1,065 million) included in current accounts payable.

# Other taxes payable

|  |  |  |
| --- | --- | --- |
|  | **30 September 2013** | **31 December 2012** |
| Social contribution | 1,143 | 1,109 |
| Value added tax | 782 | 2,766 |
| Property tax | 373 | 331 |
| Other taxes | 283 | 571 |
| **Total other taxes payable** | **2,581** | **4,777** |

# Revenue

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Nine months ended  30 September 2013** | **Nine months ended  30 September 2012** | |
|
| Sales of electricity and capacity | 63,801 | 60,917 |
| Heat and hot water sales | 21,891 | 20,948 |
| Other revenue | 11,003 | 8,985 |
| **Total revenue** | **96,695** | **90,850** |

Other revenue mainly includes revenue from transportation of electricity and heat, repair and construction services, technological connection, resale of goods, rentals and communication services.

# Government grants

In accordance with Federal government law No. 371 dated 30 November 2011 About Federal budget for 2012-2014 and subdivisions of the Russian Federation decrees some subsidiaries are entitled to government subsidies. These government subsidies appropriated for disposition of territory cross-subsidization for the electricity tariffs, compensation of the difference between approved economically viable electricity and heat tariffs and actual reduced tariffs and for compensation of losses on purchased fuel. During the nine months ended 30 September 2013 the Group received government subsidies in amount of RR 7,226 million (for the Nine months ended 30 September 2012 in the amount of RR 6,620 million) in the following subsidised territories: Kamchatka territory, Republic of Sakha (Yakutiya), Magadan region and other Far East regions.

# Expenses

|  |  |  |
| --- | --- | --- |
|  | **Nine months ended  30 September 2013** | **Nine months ended  30 September 2012** |
| Fuel expenses | 31,246 | 32,045 |
| Employee benefit expenses (including payroll taxes and pension benefit expenses) | 29,808 | 27,851 |
| Electricity distribution expenses | 9,345 | 8,909 |
| Purchased electricity and capacity | 7,017 | 6,400 |
| Other materials | 5,739 | 5,137 |
| Depreciation of property, plant and equipment | 3,688 | 3,232 |
| Third parties services, including: |  |  |
| Services of subcontracting companies | 1,982 | 1,270 |
| Purchase and transportation of heat power | 1,948 | 1,853 |
| Repairs and maintenance | 1,546 | 1,877 |
| Other third parties services | 1,495 | 1,308 |
| Rent | 928 | 1,035 |
| Security expenses | 870 | 787 |
| Transportation expenses | 565 | 519 |
| Services of SO-CDU, NP Council Market, CFS | 518 | 476 |
| Consulting, legal and information expenses | 445 | 552 |
| Agency expenses | 384 | 341 |
| Insurance cost | 159 | 163 |
| Taxes other than on income | 1,383 | 1,188 |
| Water usage expenses | 1,276 | 1,263 |
| Accrual of impairment for accounts receivable, net | 373 | 3,208 |
| Social charges | 357 | 426 |
| Profit on disposal of property, plant and equipment, net | (54) | (135) |
| Insurance indemnity | (14) | (91) |
| Curtailment in pension plan (Note 14) | (1,609) | - |
| Other expenses | 1,158 | 1,612 |
| **Total expenses** | **100,553** | **101,226** |

# Finance income, expenses

|  |  |  |
| --- | --- | --- |
|  | **Nine months ended  30 September 2013** | **Nine months ended  30 September 2012** |
| *Finance income* |  |  |
| Interest income | 270 | 502 |
| Foreign exchange gain | 149 | - |
| Income from investments disposal | - | 96 |
| **Finance income** | **419** | **598** |
| *Finance expenses* |  |  |
| Interest expense | (3,592) | (3,210) |
| Finance lease expense | (183) | (145) |
| Expense on discounting | (2) | (48) |
| Foreign exchange loss | - | (92) |
| Other finance expenses | (239) | (371) |
| **Finance expenses** | **(4,016)** | **(3,866)** |

# Earnings per share

|  |  |  |
| --- | --- | --- |
|  | **Nine months ended  30 September 2013** | **Nine months ended  30 September 2012** |
| Weighted average number of ordinary shares, in thousands | 42,537,972 | 42 335 202 |
| Weighted average number of preference shares, in thousands | 2,075,149 | 2,075,149 |
| **Loss attributable to ordinary and preference shareholders, thousand Russian Rubles** | (607,476) | (6,295,549) |
| **Basic and diluted profit/(loss) per share for profit from operations attributable to the owners of the Company (in RR per share)** | (0.0136) | (0.1418) |

# Contingencies and commitments

***Political environment.*** The operations and earnings of the Group’s subsidiaries continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to the environmental protection, in the Russian Federation.

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

***Tax contingencies.*** Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Russian transfer legislation was developed to new transactions from 1 January 2012. New principles are significantly detailed and have more accordance with international principles developed by Organization for Economic Co-operation and Development. The new transfer pricing legislation also provides the possibility for tax authorities to impose additional tax liabilities in respect of all controllable transactions (transactions with interdependent parties and some sort of transactions with independent parties), if transactions do not comply with market conditions.

During nine months ended 30 September 2013 the Group’s subsidiaries had controllable transactions and transactions, which with high probability can be controllable. The Management of the Group implements internal control procedures to apply requirements of transfer pricing legislation.

There is no practice in application of new principles at the moment, consequences of trials with tax authorities of the Group’s transfer pricing cannot be reliably estimated therefore it may be significant to the financial results and operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Management believes that as at 30 September 2013 its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

***Environmental matters.*** The Group’s subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group’s subsidiaries periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. Group accrued assets retirement obligation for ash damps used by the Group as at 30 September 2013 and 31 December 2012 (Note 14).

*Compliance with covenants.* The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default (Note 13). As at 30 September 2013 Group fulfil all requirements of the Group’s credit contracts.

***Social commitments.*** The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

***Capital commitments.*** As at 30 September 2013 future capital expenditures in accordance with the contractual obligations amounted to RR 8,020 million (31 December 2012: RR 7,697 million).

# Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged at arm’s length transaction between knowledgeable willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sales transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

***Financial instruments carried at fair value.*** Available-for-sale financial assets are carried in the Consolidated Statement of Financial Position at their fair value that is measured on the basis of the quoted prices in an active market (Level 1 in the fair value hierarchy).

***Financial assets carried at amortised cost.*** The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values (Note 8).

***Liabilities carried at amortised cost.*** The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Carrying amounts of liabilities at amortised cost approximate fair values.

# Subsequent events

*Changes in legislation.* The changes to the Federal Law “On Electric Power Industry" and article 81 of Federal Law “On Joint Stock Companies” were made on 6 November 2013. According with changes lease of OJSC Federal Grid Company’s grids is prolonged till 1 July 2029 for territorial grid companies in the number of regions of the Russian Federation including the Amur Region and Jewish Autonomous Region where OJSC DRSK operates. This changes to the Federal Law could compensate shortfall in income which has arisen due to withdrawal of some consumers from “the last mile” agreements.