Auditor's report on consolidated financial statements of Open Joint-Stock Company "Interregional grid Distribution Company of the South" for 2014

April 2015

Consolidated financial statements of Open Joint-Stock Company "Interregional grid Distribution Company of the South"

Contents

Independent auditor's report

To the shareholders and Board of Directors of Open Joint-Stock Company "Interregional grid distribution company of the South"

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "Interregional grid distribution company of the South" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December of 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of Open Joint-Stock Company "Interregional grid distribution company of the South" is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for system of internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Reasons to express qualified opinion

As of 31 December 2013 the accounts receivable reported in balance sheet line “Trade and other receivables” there is doubtful accounts receivable of particular contractors in the total amount of 2 785 million rubles, in respect of which it is probably that the debt will not be repaid completely and within the contractual deadlines.

The Company did not make allowance for doubtful accounts in respect of this receivables, which does not comply with requirements of IFRS clause 70 “Financial Instruments: Recognition and Measurement”, if there exists an objective evidence of impairment of financial asset, then the Company shall define the sum of impairment loss. Consequently, the indicator of code “Trade and other accounts payable” as of 31 December 2013 was overstated, indicator of code “Operating expenses” of the consolidated financial report for 2013 was understated, indicator of code "Operating expenses" in the consolidated financial report for 2014 was overstated by 2 785 million rubles.

Qualified opinion

We believe that except influence of facts on accounting (financial) statements, specified in paragraph "Reasons to express qualified opinion", the accounting (financial) statements truly depicts in all material respects the financial state of Open joint stock company Interregional distribution grid company of the South as of 31 December 2014, results of its business activity and cash flow in 2014 in accordance with International Financial Reporting Standards.

Other information

Audit of accounting (financial) report of Open-Joint Stock Company "Interregional grid distribution company of South" and its affiliates for 2013 was carried out by other auditor that issued auditor's report on 15 April 2014 with modified opinion in respect of the fact that as of 31 December 2013 the accounts receivable reported in balance sheet line "Trade and other reivables" contained receivables from particular contractors in respect of which the Company did not make allowance for doubtful accounts.

Audit of accounting (financial) report of Open-Joint Stock Company "Interregional grid distribution company of South" for 2012 was carried out by other auditor that issued auditor's report on 12 April 2013 with modified opinion that he had not attended the physical count of inventory as at 31 December 2010 of total amount of 809 701 thousand rubles because he was appointed as auditor after that date.

A.B. Kalmykova

Partner

Ernst & Young LLC

1 April 2015

Details of the audited entity

Name: Open Joint-Stock Company "Interregional grid Distribution Company of the South". Record made in the State Register of Legal Entities on 28 June of 2007, State

Registration Number 1076164009096.

Address: 49, Bolshaya Sadovaya street, Rostov-on-Don, Russia 344002.

Details of the auditor

Name: Ernst & Young LLC

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: Building 1, 77, Sadovnicheskaya naberezhnaya, Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Ernst & Young LLC is a member of self-regulatory organization of auditors Non Profit partnership "Russian Audit Chamber" ("SRO NP APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

"IDGC of the South" JSC Consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2014

(in thousands Russian rubles, unless otherwise defined)

	Note	**Year ended 31 December of 2014**	**Year ended 31 December of 2013 (recount)**
Revenues and state grants	8	29 079 803	27 310 606
Operating expenses	9	(35 558 105)	(25 242 791)
Other operating expenses	9	750 834	299 652
Results of operating activities		(5 727 468)	2 367 467
Financial income	10	47 863	51 156
Financial expenditures	10	(2 276 086)	(1 816 827)
Net financial income		(2 228 223)	(1 765 671)
(Loss) / income before tax		(7 955 691)	601 796
Income tax expense	11	1 172 029	(407 684)
(Loss) / Income for year		(6 783 662)	194 112
Other comprehensive income			

Items that will never be reclassified to profit or loss:			
Revaluation of defined benefit pension plan	22	156 343	(52 886)
Related income tax		(68 812)	10 557
Items that will never be reclassified to profit or loss:			
Net value of the change in fair value of financial assets available for sale		(598)	(4 986)
Related income tax		460	997
		(138)	(3 989)
Other comprehensive income, net of income tax		87 393	(46 298)
Total comprehensive (loss) / income		(6 696 269)	147 814
(Loss) / income accrued to:			
Owners of the Company		(6 783 662)	194 112
Total comprehensive (loss) / income accrued to:			
Owners of the Company		(6 696 269)	147 814
(Loss) / income for share – basic and diluted (in rubles)	20	(0.136)	0.004

This consolidated financial statements were approved and signed on behalf of Company’s managing board on April 1, 2015:

Director General B.B. Ebzeev

Chief accountant G.G. Savin

The consolidated statement of profit and loss and other comprehensive income is to be read in accordance with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 54.

“IDGC of the South” JSC Consolidated statement of financial state as of 31 December 2014 (in thousands Russian rubles, unless otherwise defined)

	Note	31 December	31 December	1 January

		2014	2013 (recounted)	2013 (recounted)
ASSETS				
Non-current assets				
Fixed assets	12	21 686 964	25 442 884	24 895 981
Intangible assets	13	156 852	465 043	534 141
Trade and other receivables	17	101 688	219 916	348 401
Investments in financial and other assets	14	3 300	141 017	62 855
Deferred tax assets	15	1 482 182	20 180	7 294
Total non-current assets		**23 430 986**	**26 289 040**	**25 848 672**
Current assets				
Inventories	16	675 624	1 007 264	999 399
Income tax receivable		237 318	162 482	371 096
Trade and other receivables	17	8 985 057	10 480 536	6 041 044
Cash and cash equivalents	18	735 435	1 189 727	1 749 396
Total current assets		**10 633 434**	**12 840 009**	**9 160 935**
TOTAL ASSETS		**34 064 420**	**39 128 049**	**35 009 607**
EQUITY AND LIABILITIES				
Equity				
Share capital	19	4 981 110	4 981 110	4 981 110
Capital reserves		(186 648)	(274 041)	(227 743)
Unallocated (loss)/profit		(6 883 087)	(92 451)	(286 563)
Total capital		**(2 088 625)**	**4 614 618**	**4 466 804**
Long-term liabilities				
Credits and loans	21	19 744 299	13 241 321	16 500 000
Trade and other receivables	23	80 891	70 909	91 436
Liabilities on employee benefits	22	72 139	205 867	504 656
Finance lease liability		-	-	7 334
Deferred tax liabilities	15	-	668	1 056
Total long-term liabilities		**19 897 329**	**13 518 765**	**17 104 482**
Short-term liabilities				
Credits and loans	21	5 123 128	10 338 397	5 808 565
Trade and other receivables	23	9 417 231	9 952 692	7 246 061
Finance lease liability		-	-	6 652
Reserves	24	1 713 750	704 577	376 927
Deferred tax liabilities		1 607	-	116
Total short-term liabilities		**16 255 716**	**20 995 666**	**13 438 321**
TOTAL LIABILITIES		**36 153 045**	**34 514 431**	**30 542 803**
TOTAL EQUITY AND LIABILITIES		**34 064 420**	**39 128 049**	**35 009 607**

“IDGC of the South” JSC Consolidated statement of changes in capital for year ended 31 December 2014 (in thousands Russian rubles, unless otherwise defined)

	Share capital	Revaluation reserve on financial assets for sale	Revaluation reserve on pension plans with fixed payments	Unallocated profit	Total equity
Balance at 1 January 2013	**4 981 110**	**5 196**	**(232 939)**	**(286 563)**	**4 466 804**
Profit for the year	-	-	-	194 112	194 112
Net amount of change of fair value of financial assets for sale	-	(4 986)	-	-	(4 986)
Revaluation reserve on pension plans with fixed payments	-	-	(52 886)	-	(52 886)
Income tax on other total profit	-	997	10 577	-	11 574
Total comprehensive profit for the year	**-**	**(3 989)**	**(42 309)**	**194 112**	**147 814**
Balance at 31 December 2013	**4 981 110**	**1 207**	**(275 248)**	**(92 451)**	**4 614 618**
Balance at 1 January 2014	**4 981 110**	**1 207**	**(275 248)**	**(92 451)**	**4 614 618**
Loss for the year	**-**	**-**	**-**	**(6 783 662)**	**(6 783 662)**
Net amount of change of fair value of financial assets for sale	-	(598)	-	-	(598)
Revaluation reserve on pension plans with fixed payments	-	-	156 343	-	156 343
Income tax on other total profit	-	460	(68 812)	-	(68 352)
Total comprehensive expenses for the year	**-**	**(138)**	**87 531**	**(6 783 662)**	**(6 696 269)**
Transactions with owners recorded directly in equity					
Dividends	-	-	-	(6 974)	(6 974)
Total transactions with owners recorded directly in equity	**-**	**-**	**-**	**(6 974)**	**(6 974)**
Balance at 31 December 2014	**4 981 110**	**1 069**	**(187 717)**	**(6 883 087)**	**(2 088 625)**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 54.

“IDGC of the South” JSC Consolidated statement of cash flows for year ended 31 December 2014 (in thousands Russian rubles, unless otherwise defined)

Operating activities	**Notes**	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Loss / income before tax		(7 955 691)	601 796

Adjustments for:			
Depreciation and amortization	9	2 750 700	2 721 407
Impairment losses on property, plant and equipment	9	5 401 200	563 735
Financial expenditures	10	2 276 086	1 816 827
Financial income	10	(47 863)	(51 156)
Accrual of loss on legal claims	9	1 114 696	413 402
Impairment of fixed assets	9	1 984 033	-
Loss on disposal of property, plant and equipment		123 045	67 099
Loss on disposal of intangible assets		285 682	-
Other non-cash transaction		(34 931)	(35 975)
Cash flows from operating activities before changes in working capital and provisions		5 896 957	6 097 135
Change of accounts receivable and prepaid expenses		(3 820 589)	(4 855 817)
Change in finance assets related to employee benefits fund		141 043	(81 034)
Change in inventories		346 197	(70 219)
Change in trade and other accounts payable		119 320	2 576 028
Change in reserves	24	(105 523)	(85 752)
Change in employee benefit liabilities		5 649	(363 807)
Cash flows from operations before income tax and interest paid		2 583 054	3 216 534
Income tax return		(720 733)	(169 849)
Interest paid		(2 628 590)	(1 971 684)
Net cash flows from operating activities		(766 269)	1 075 001
Investing activities			
Acquisition of property, plant and equipment		(1 454 793)	(2 938 259)
Acquisition of intangible assets		(28 601)	(14 140)
Proceeds from disposal of property, plant and equipment		108 301	9 768
Interest received		43 614	46 326
Net cash flows used in investing activities		(1 331 476)	(2 896 305)
Financing activities			
Proceeds from loans and borrowings		11 307 678	9 929 634
Repayment of loans and borrowings		(9 657 255)	(8 654 058)
Paid dividends		(6 886)	-
Payment of finance lease liabilities		(81)	(13 941)
Net cash flows from financing activities		1 643 456	1 261 635
Net decrease in cash and cash equivalents		(454 292)	(559 669)
Cash and cash equivalents at the beginning of the year	18	1 189 727	1 749 396
Cash and cash equivalents at the end of the year	18	735 435	1 189 727

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 54.

“IDGC of the South” JSC Notes to consolidated financial statements for year ended 31 December 2014 (in thousands Russian rubles, unless otherwise defined)

1. The Group and its operations

General information

Joint Stock Company "Interregional Distribution Grid Company of South" (hereinafter referred to as the "Company" or "IDGC of South" JSC) was set up on 28 June 2007 on the basis of Resolution no. 192 of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES") dated 22 June 2007, The Company's registered office is located at 49, Bolshaya Sadovaya Str., Rostov-on-Don, Russia, 344002.

The Company's postal address is 49, Bolshaya Sadovaya Str., Rostov-on-Don, Russia, 344002.

As part of the reform process, a merger of the Company with the entities listed below was effected on 31 March 2008 in accordance with the Resolution no. 266 of the Board of Directors of RAO UES dated 30 November 2007 and Resolution no. 1795pr/9 of the Board of Administration of RAO UES dated 25 December 2007: JSC "Astrakhanenergo", JSC "Kalmenergo", JSC "Rostovenergo", JSC "Volgogradenergo". The merger was effected through conversion of shares issued by the Company in exchange for shares in the merged entities. As a result of the merger, the above-mentioned entities ceased to exist as separate legal entities and the Company became their legal successor. The subsidiaries of the Company are disclosed in Note 5.

The Company's and its subsidiaries' (together referred to as the "Group") principal activity is the transmission of electricity and the connection of customers to the electricity grids. The Group's business is a national monopoly which is under the pressure and support of the Russian government. The Government of the Russian Federation influences the Group's operations through setting transmission tariffs. The Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred the shares in the Company to JSC Interregional Distribution Grid Company Holding (hereinafter - JSC "Holding IDGC"), a newly formed state- controlled entity.

In order to further the development of the Russian electric grid sector and coordinate work on its management, Russian President signed on 22 November 2012, Decree No. 1567 "On Joint Stock Company “Russian Grids”". Pursuant to the Decree, in accordance with the decision adopted by the Extraordinary General Meeting of Shareholders of IDGC Holding on 23 March 2013, JSC “Interregional Distribution Grid Companies Holding” (also known as IDGC Holding or MRSK Holding) has been formally renamed Joint Stock Company “Russian Grids” (hereinafter - JSC Russian Grids).

As at 31 December 2014 and 31 December 2013, the Government of the Russian Federation owned 85.31% of the shares of JSC “Russian Grids” (previous name – JSC “Holding IDGC”), which in turn owned 51.66% of the Company.

Russian business environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries. In December 2014, the ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate to 17%. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainly regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and in accordance with federal law No. 208-FZ “On consolidated financial report”.

Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments, classified as financial assets available-for-sale and carried at fair value; and fixed assets, which were valued at the carrying amounts reported in the consolidated financial statements on IFRS of "Rosseti", which deemed cost at January 1, 2010 as part of the transition to IFRS.

Functional and presentation currency

The national currency of the Russian Federation is the Russian ruble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand.

Going concern

These consolidated financial statements have been prepared on a going concern basis. As at 31 December 2014 a net working capital deficit of the Group (relating to trade receivables and other accounts payable, short-term borrowings and loans) was counted in the amount of 2 622 282 thousand rubles (as at 31 December of 2013: 8 155 657 thousand rubles).

The Group controls the level of liquidity on a regular basis. Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines (see Note 21). During 2015 the Group plans to obtain long term bank loans amounted to RUB 4 804 700 thousand including on refinancing of short-term part of raised loans and credits.

In order to increase the efficiency of working capital management the Group is focused on an increased collection of trade receivables, including reducing doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables raised in result of operations with regional distribution companies and other buyers. The issues regarding collection of receivables are considered by the Management Board on a quarterly basis.

Management anticipates that any repayments of loans and borrowings and settlement of trade and other payables required will be met out of operating or financial activity.

Therefore, management believes that there is no significant uncertainty regarding Group's ability to continue as going concern.

Use of estimates and judgments

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

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

Information about critical judgments made when applying accounting policies that have the most significant effect on the sums recognized in the consolidated financial statements is included in the Note 25 – provisions for impairment of trade and other receivables.

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

- Note 12 "Determination of recoverable amount of property, plant and equipment";
- Note 22 "Employee benefits";
- Note 24 "Provisions";
- Note 28 "Contingent liabilities".

Changes in presentation and classification of comparative information

As of 31 December 2014 the Group reconsidered the principle of articles grouping and their content related to operating expenses, other operating incomes and financial expenditures because the Group considers that this format is more appropriate and provides users the ability to assess trends in financial information for the purpose of forecasting and economic decision-making.

The following comprehensive figures for year ended 31 December 2013 were reclassified in accordance with information of current year:

Operational expenses:

- expenditure on medical and personal insurance of employees and their families in the amount of 38 969 thousand rubles were reclassified from expenditures on insurance to expenditures on employee benefits (other expenditures for personnel);
- expenses for reconstruction of property under insurance in the amount of 26 741 thousand rubles were reclassified from loss from asset sale to other expenses;
- stationary and postal telegraph expenses in the amount of 16 317 thousand rubles were reclassified from other expenses to other material expenses;
- different production, maintenance and delivery services in the amount of 37 535 thousand rubles were reclassified from other expenses to other production, maintenance and delivery services;
- different outsourced services in the amount of 46 858 thousand rubles were reclassified from other expenses to other outsourced services.

- other income in the amount of 62 615 thousand rubles were reclassified from other operational income to operational expenses, including:
  - incomes in the form of the cost of reserves received from fixed asset retirement in the amount of 14 074 thousand rubles were reclassified from other operational income to expenses from fixed asset retirement;
  - refunding of actual expenses in the amount of 21 600 thousand rubles was reclassified from other operational income to other expenses;
  - reduction of depreciation expense of fixed assets in the amount of 12 693 thousand rubles was reclassified from other operational income to other expenses;
  - expenses related to receiving and servicing of loans in the amount of 19 650 thousand rubles were reclassified from operational expenses (other expenses) to financial expenses (expenditures related to receiving and servicing of loans).

The following comprehensive figures of operational expenses for year ended 31 December 2013 were regrouped in accordance with approach of current year:

- services on technological connection to power grids in the amount of 53 961 thousand rubles are specified within other production, maintenance and delivery services and works;

- state taxes, fee and penalties in the amount of 76 120 thousand rubles are specified in taxes and fees except income tax;
- services on land marking and municipal services in the amount of 168 685 thousand rubles and 40 686 thousand rubles respectively are specified in expenses related to upkeep of property;
- occupational safety and health and expenses on training in the amount of 28 267 thousand rubles and 25 193 thousand rubles respectively are specified in other outsourced services;
- decommissioning of accounts receivable and social expenses and charity in the amount of 58 889 thousand rubles and 26 551 thousand rubles respectively are specified in other expenses;
- expenses on software and maintenance were separated from consulting, legal and auditing services in the amount of 99 188 thousand rubles.

Apart from that, in 2014 the Group had decided to reflect the construbtion materials in non-current assets in accordance with IFRS (IAS) 16.8, as the Company expects to use these materials for more than one reporting period, it was also decided to reflect the VAT on advances paid and VAT to compensation on a net basis in order to improve the qualitative characteristics of financial reporting.

The following comparative figures have been reclassified to conform to the current year:

- construction materials in the amount of 207 462 thousand rubles and 271 717 thousand rubles as at 1 January 2013 and 31 December 2013, respectively, are reclassified from inventory (raw materials) into fixed assets (construction in progress);
- VAT on advances paid in the amount of 193 391 thousand rubles and 9024 thousand rubles as at 1 January 2013 and 31 December 2013, respectively, are reclassified from trade and other payables (other taxes) into trade and other receivables (VAT recoverable).

Below is stated the quantitative information on the impact of the above-mentioned changes on the consolidated financial statements as at 1 January 2013 and 31

December 2013 and for the year ended 31 December 2013.

Consolidated report on financial status at 1 January 2013:

	Specified before	Effect from reclassification	Recounted
Fixed assets	24 688 519	207 462	24 895 981
Total non-current assets	**25 641 210**	**207 462**	**25 848 672**
Reserves	1 206 861	(207 462)	999 399
Trade and other accounts receivable	6 234 435	(193 391)	6 041 044
Total current assets	**9 561 788**	**(400 853)**	**9 160 935**
Total assets	**35 202 998**	**(193 391)**	**35 009 607**
Trade and other loans payable	7 439 452	193 391	7 246 061
Total short-term liabilities	**13 631 712**	**193 391**	**13 438 321**
Total liabilities	**30 736 194**	**193 391**	**30 542 803**
Total equity and liabilities	**35 202 998**	**193 391**	**35 009 607**

Consolidated report in financial status at 31 December of 2013:

	Specified before	Effect from reclassification	Recounted
Fixed assets	25 171 167	217 717	25 442 884
Total non-current assets	**26 017 323**	**271 717**	**26 289 040**
Reserves	1 278 981	(271 717)	1 007 264
Trade and other accounts receivable	10 489 560	(9 024)	10 480 536
Total current assets	**13 120 750**	**(280 741)**	**12 840 009**
Total assets	**39 138 073**	**(9 024)**	**39 129 049**
Trade and other loans payable	9 961 716	9 024	9 952 692
Total short-term liabilities	**21 004 690**	**9 024**	**20 995 666**
Total liabilities	**34 523 455**	**9 024**	**34 514 431**
Total equity and liabilities	**39 138 073**	**9 024**	**39 129 049**

Consolidated report on profit and loss and other total revenue ended at 31 December of 2013;

	Specified before	Effect from reclassification	Recounted
Operating expenses	25 325 056	82 265	25 242 791
Other operating expenses	362 267	(62 615)	299 652
Results of operating activity	**2 347 817**	**19 650**	**2 367 467**
Financial expenses	1 797 177	(19 650)	1 816 827
Net financial expenses	**1 746 021**	**(19 650)**	**1 765 671**

Correction of errors

During the preparation of the consolidated financial statements for the year ended 31

December 2014, the Group had revealed a material misstatement of the carrying value of fixed assets per categories at 31 December 2013, 31 December 2012 and 1 January 2012. The reason for this misstatement is a technical error in an automated categorization of fixed assets at initial recognition in accounting in 2012-2013 (e.g., objects belonging to the category Buildings and constructions were categorized as power lines). On 1 January 2014 the revealed error was corrected by a reclassification between the categories of fixed assets (Note 12). Correction of error as of 31 December 2012 and 1 January 2012 and 2012-2013 is near- impossible, since the retrospective restatement is not technically feasible.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities specified in Appendix 4.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls subsidiaries when Group is exposed to risk connected with flexible income from participation in investment project or entitled to receive such income, and able to use their authorities in relation to this project to influence at the amount of revenue. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(i) Acquisitions from entities under common control

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

(ii) Transactions eliminated on consolidation

When preparing the consolidated financial statements balances and transactions between companies of the Group are subject to mutual exclusion, as well as any unrealised income and expenses arising from transactions between them.

Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets are capital investments, trade and other receivables, bills and cash, and cash equivalents. The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprises the following classes of financial assets: trade and other receivables, promissory notes and cash and cash equivalents.

Cash and cash equivalents

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that were deliberately assigned to the specified category or were not classified in any of the above-mentioned categories. Upon the initial recognition, such assets are evaluated at fair market value plus any directly attributable transaction costs. After the initial recognition, they are evaluated at fair value and changes therein, other than impairment losses (Note 3 (e) (i)) are recognized in other comprehensive income and are presented within the Fair Value Through Other comprehensive Income. At the time of derecognition of the investment or in case of its impairment, the amount of total profit or losses accumulated in other comprehensive income are reclassified to profit or loss for the period.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(a) Share capital

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

(b) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) **Depreciation**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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

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

- buildings 5-100 years;
- transmission networks 4-60 years;
- equipment for electricity transform 5-40 years;
- other assets 1-50 years.

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

(c) Intangible assets

(i) Initial recognition

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

(ii) Subsequent expenditures

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

(iii) Amortisation

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

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

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

- software and licenses 1-15 years;

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

(d) Leased assets

If the Group holds assets under lease agreements, under which the Group takes substantially all the risks and profits related to ownership, then in respect of these assets, such contracts are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Non-productive financial assets

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Losses from impairment of financial assets that are classified as available-for-sale, are recognized by the reclassification in the profit or loss for the period of sum of losses accumulated in the changes of fair value reserve in equity. The cumulative impairment loss excluded from equity and recognized in profit or loss is the aggregate cost of acquisition of the asset minus amortization and the current fair value, any impairment loss previously recognized in profit or loss per period. Changes in the value of allowance for impairment that are due to changes in the temporal value are reflected as a component of interest income.

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of cash-generating unit.

General (corporate) Group's assets do not generate independent cash flows and are used by more than one cash generating unit (CGU). Corporate assets are allocated between the cash generating unit on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU, which was distributed to the appropriate corporate asset.

Impairment losses are recognized in profit or loss. Losses from impairment of CGU are allocated on a pro rata basis to reduction of the carrying value of assets of the corresponding CGU.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Employee benefits

(i) Short-term benefits

In determining the amount of the obligation in respect of short-term employee benefits the discounting is not applied and the corresponding expenditures are considering as the proceeds of employment duties.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Defined distribution plan is plan of payment of remuneration to employees at the end of the employment relationship with them whereunder the company performs defined contribution in separate fund and does not disclaim liabilities (legal or constructive) on payment of supplementary amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(iii) Defined benefits plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. Payments determined in such way are discounted to present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

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

(iv) Other long-term employee benefits

The net value of the Group's obligations in respect of long-term employee benefits, other than payments under the pension plan, is the amount of future benefit that employees have earned for the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the rate of return at the reporting date on government bonds that have maturity dates approximating the terms of repayment of liabilities on the balance sheet date and that are denominated in the same currency, in which it is supposed to pay - related remuneration. Calculations are made using the method of projected conditional unit of accumulation of future payments. Any actuarial profit or loss are recognized in profit or loss for the period in which they arise.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Amount of provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in profit or loss on the basis of documents approving the amounts of transferred electric energy in accordance with signed contracts. The document is drawn up on the basis of monthly summary list electric energy consumption (at physical data). The tariffs for electricity transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

(ii) Services on technological connection to power grid

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. The tariffs for technological connection of customers to power network and approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

(iii) Other services

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

(iv) State subsidies

State subsidies are compensation of cheap electricity tariffs of the Group recognized in profit or loss in the same periods, when relevant income was received.

(j) Other expenses

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

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

(k) Finance income and costs

Finance income comprises interest income (including financial assets available for sale), dividend income, gain on disposal of financial assets available for sale, discounts on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, discount on financial instruments and impairment losses recognised on financial assets other than trade receivables. All costs associated with the borrowing of funds, are recognized in profit or loss using the effective interest method, except for costs relating to qualifying assets, which are included in the value of these assets.

(l) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

• temporary differences arising from the initial recognition of assets and liabilities in the result of a transaction that is not a business combination transaction and that does not influence on accounting or taxable profit or loss;

• temporary differences relating to investments in subsidiaries in the event where the Group is able to control the timing for implementation of the temporary differences and if there is a high probability that the temporary differences will not be implemented in the foreseeable future;

• taxable temporary differences arising from the initial recognition of goodwill.

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

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

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

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. Apart from that, the tax base is determined for each core activity of the Group individually, and therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences only to the extent that it is likely that taxable profit will be available against which they can be implemented. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that realization of the tax benefit is not probable.

(m) Earnings per share

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

(n) Segment reporting

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

Segment results that are reported to the Management Board, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise revenue, assets and liabilities of Company's executive body.

(o) Related parties

The Group discloses the information on the Company's ultimate control party which is the Government of the Russian Federation represented by the Federal Agency for State Property Management.

If between the Group and its related parties carry out transactions, it shall disclose the nature of the related party relationship as well as information on those transactions and outstanding balances, including commitments, necessary for understanding of the potential effect of the transactions on the consolidated financial statements.

Disclosures shall include: the amount of the transactions; the amount of outstanding balances, including commitments, and details of any guarantees given or received; provisions for doubtful debts related to the amount of outstanding balances; and the expenses recognized during the period in respect of bad or doubtful debts due from related parties.

The Group disclosed above mentioned information separately for each of the following categories: the companies with significant influence over the Group; key management personnel; other related parties.

The Group is exempt from the above mentioned requirements on disclosure of information about transactions with entities that are related parties if these related parties are the entities the Government of the Russian Federation has control, joint control or significant influence over. In respect of the transactions with such related parties the nature and amount of each individually significant transaction or for similar transactions that are collectively significant entities.

The Group discloses the following information on transactions with companies affiliated by state:

· a share of revenues from sales to government-related entities of the total Group revenues (the proceeds from the transfer of electricity are disclosed separately);

· a share of electricity transmission expenses for government-related entities of the total Group cost of the electricity transmission;

· significant loans from government-related entities.

Also the Group disclosed the amount of remuneration to the key management personnel and the nature of the remuneration.

(p) New standard and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. The Group has not yet analysed the likely impact of the new standards on its financial position or performance. The Group plans to adopt the following standards and amendments when they come into force:

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on Revenue recognition. IFRS 15 comes into force for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- Amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets, entitled Clarification of Acceptable Methods of Depreciation and Amortization. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate as reflecting the consumption of future economic benefits embodied in the asset. These amendments to IAS 16 and IAS 38 come into force for annual periods beginning on or after 1 January 2016 with earlier application permitted.

- IFRS 9 Financial Instruments was issued in phases and ultimately replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. IFRS 9 comes into force for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures entitled "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The amendments clarify that the transfer (sale) of business from an investor in the associate / joint venture company the investor should recognize the full profit or loss on the transaction, while the profit or loss from the transfer of an asset that does not meet the criteria of business presented in IFRS (IFRS) 3 "Business Combinations", should be recognized, including holdings by an independent investor in an associate / joint venture company. The amendments to IFRS 10 and IAS 28 come into force for annual periods beginning on or after 1 January 2016 with earlier application permitted..
- Amendment to IFRS 11 Joint Arrangements, entitled Accounting for Acquisitions of Interests in Joint Operations. These amendments include clarification of accounting for investments in joint operations, which are a separate business, and require the buyer to use a share of the business combination accounting principles set forth in the IFRS 3. The amendments to IFRS 11 come into force for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard

basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2015. The managing board has not yet analysed the influence of the improvements on its financial position or performance results of the Group.

4. Changes in accounting policies

In 2014 the Group applied several other new standards and amendments for the first time. However, they do not significantly impact the consolidated financial statements:

- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal.
- Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 Financial Instruments: Recognition and Measurement. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.
- Investment Entities – Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements, under which a mandatory consolidation exception for certain qualifying investment entities is introduced according to IFRS 10.
- Interpretation IFRIC 21 “Mandatory changes”. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 Financial Instruments: Presentation. The amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The Group has not the contractual bases concerning the offsetting of financial assets and financial liabilities.
- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

Employee Benefits. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

5. Subsidiaries

Consolidated financial report of the Group as of December 31 of 2014 and December 31 of 2013 includes the Company and its subsidiaries:

Subsidiaries name	Core activity	Interest, %	
		31 December, 2014	31 December, 2013
“Volgogradsetremont” JSC	Repair and maintenance	100	100
“Agricultural enterprise named after Grechko A.A.” JSC	Agriculture	100	100
“Agricultural enterprise Sokolovskoe” JSC	Agriculture	100	100
“Recreation centre Energetik” JSC	Recreational services	100	100
“Energy service company of the South” JSC	Repair and maintenance	100	100

6. Determination of fair values

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

In assessing the fair value of the asset or liability the Group applies as far as possible the visible market data. Estimates of fair value are related to different levels of the fair value hierarchy based on the basic data used in the framework of appropriate evaluation methods:

• Level 1: quoted (unadjusted) prices for identical assets and liabilities in active markets.

• Level 2: basic data, in addition to the listed price used to estimate the Level 1 that are visible either directly (i.e. such as prices) or indirectly (i.e. defined on the basis of prices).

• Level 3: basic data for the asset or liability that are not based on visible market data (unobservable inputs).

If the source data, used to estimate the fair value of the asset or liability, can be attributed to different levels of the fair value hierarchy, the fair value measurement generally refers to the level of the hierarchy, to which correspond the basic data of the lowest level, which are essential for the entire assessment.

The Group recognizes transfers between levels of the fair value hierarchy for the reporting period in which the change occurred.

Further information on the assumptions made in estimating the fair value is contained in Note 25.

7. Operating segments

The Group has four reportable segments representing branches of the Company, as described below. These are the Group's strategic business units. The strategic business units offer similar services representing transmission of electric power and connection services, and are managed separately. For each of the strategic business units, the Management Board, the Group's operating decision making body, reviews internal management reports.

"Others" include operations of the Group's subsidiaries and the Kubanenergo. None of them meets any of the quantitative thresholds for determining reportable segments in 2014 or 2013.

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Management Board.

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

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

Information on reporting segments for year ended 31 December, 2014:

	Electric power transmission					
	Astrakhanenergo	**Volgogradenergo**	**Kalmenergo**	**Rostovenergo**	**Other**	**Total**
Revenue of reporting segment						
Electric energy transmission	4 300 907	9 353 758	689 774	13 664 732	-	**28 009 171**
Technological connection to power grids	243 480	28 871	165 261	266 502	-	**704 114**
Other revenue	24 801	27 562	15 519	57 022	195 129	**320 033**
Revenue from sales between segments	-	334	-	112	21	**467**
Total revenue of reporting segment	**4 569 188**	**9 410 525**	**870 554**	**13 988 368**	**195 171**	**29 033 785**
Operational profit (loss) of reporting segment	**1 059 421**	**1 553 260**	**(231 102)**	**1 639 442**	**(12 506)**	**4 008 515**
Financial income	9 309	8 881	2 332	22 905	337	**43 764**
Financial expenses	(200 524)	(937 077)	(385 734)	(707 616)	(5 303)	**(2 236 254)**
Profit/(loss) of reporting segment before taxation	**39 067**	**(4 593 845)**	**(941 269)**	**(1 121 605)**	**(66 302)**	**(6 683 954)**
Depreciation	(531 422)	(586 122)	(152 837)	(1 570 322)	(10 758)	**(2 851 461)**
Assets of reporting segment	**6 615 015**	**10 069 542**	**3 397 073**	**19 744 127**	**417 198**	**40 242 955**
*including fixed assets	4 904 621	6 530 303	2 457 238	15 856 044	253 334	**30 001 540**
Liabilities of reporting segment	**2 273 604**	**2 567 281**	**301 047**	**5 484 667**	**225 815**	**10 852 414**
Capital commitments	**214 665**	**224 608**	**34 081**	**612 702**	**298**	**1 086 354**

Information on reporting segments for year ended 31 December, 2013:

	Electric power transmission					
	Astrakhanenergo	**Volgogradenergo**	**Kalmenergo**	**Rostovenergo**	**Other**	**Total**
Revenue of reporting segment						
Electric energy transmission	3 912 876	9 271 752	626 971	12 069 999	-	**25 881 598**
Technological connection to power grids	459 420	36 056	626 463	302 537	-	**1 424 476**
Other revenue	20 143	27 507	13 377	40 638	96 062	**197 727**
Revenue from sales between segments	-	669	-	112	2 394	**3 177**

Total revenue of reporting segment	**4 392 439**	**9 335 984**	**1 266 811**	**12 413 286**	**98 458**	**27 506 978**
Operational profit (loss) of reporting segment	**1 130 524**	**2 189 442**	**257 674**	**489 074**	**(12 209)**	**4 054 505**
Financial income	-	-	-	164	537	**701**
Financial expenses	(168 012)	(753 838)	(225 657)	(666 513)	(3 185)	**(1 817 205)**
Profit/(loss) of reporting segment before taxation	**860 133**	**277 278**	**28 222**	**(572 512)**	**(12 183)**	**580 938**
Depreciation	418 450	571 133	142 422	1 554 359	11 876	**2 698 240**
Assets of reporting segment	**6 579 405**	**14 700 590**	**3 454 823**	**19 591 375**	**430 353**	**44 756 546**
*including fixed assets	5 198 168	6 922 483	2 575 008	16 923 812	311 331	**31 930 802**
Liabilities of reporting segment	**2 009 922**	**2 953 850**	**461 827**	**5 030 208**	**166 259**	**10 622 066**
Capital commitments	**1 383 975**	**471 089**	**310 432**	**1 664 955**	**739**	**3 831 190**

Reconciliations of reportable segment data with the data according to IFRS

Reconciliations of reportable segment revenues

	The year ended 31 December 2014	The year ended 31 December 2013
Total revenue of reporting segments	**29 033 785**	**27 506 978**
Intersegment revenue elimination	(467)	(3 177)
Revenue settlement from technological connection to power grids	(4 872)	(395 712)
Revenue settlement from electric energy transmission	-	185 017
Reclassification from other income	3 066	4 101
Other unallocated funds	48 291	13 399
Consolidated revenue	**29 079 803**	**27 310 606**

Reconciliations of profit/(loss) before taxation of reportable segments:

	The year ended 31 December 2014	The year ended 31 December 2013
(Loss)/profit of reportable segments before taxation	**(6 683 954)**	**580 940**
Adjustment on financial lease	18 053	55 850
Adjustment of receivables impairment provision	82 038	707 195
Adjustment of depreciation of fixed assets	205 306	171 076
Depreciation of fixed assets	(1 984 033)	-
Acknowledgement of obligations on employee benefits	(159 735)	434 823

Discounting of financial instruments	(155)	2 057
Revenue settlement from electric energy transmission	517 139	185 017
Revenue settlement from technological connection to power grids	(4 872)	(395 712)
Provision recovery on legal claims	-	(1 131 140)
Other adjustments	6 231	201 266
Other unallocated funds	48 291	(209 576)
Consolidated (loss)/revenue before taxation	**(7 955 691)**	**601 796**

Reconciliations of assets measures of reporting segments:

	The year ended 31 December 2014	**The year ended 31 December 2013**
Total assets of reporting segments	**40 242 955**	**44 756 546**
Exclusion of intersegment assets	(123 959)	(122 389)
Exclusion of investments in subsidiaries	(341 432)	(341 432)
Adjustment of depreciated book value of fixed assets	(8 523 938)	(6 778 549)
Adjustment of receivables impairment provision	140 751	(804 985)
Deferred tax adjustment	1 114 475	(271 789)
Adjustment on financial lease	(946)	(18 999)
Writing off of trade receivables	(184 004)	84 395
Recovery of provision for impairment losses	189 721	125 453
Recognition of assets related to obligations for employee benefits	-	137 120
Other adjustments	(74 792)	62 188
Other unallocated funds	1 625 589	2 301 490
Consolidated total amount of assets	**34 064 420**	**39 129 049**

Reconciliations of liabilities of reporting segments:

	The year ended 31 December 2014	**The year ended 31 December 2013**
Total liabilities of reporting segments	**10 852 414**	**10 622 066**
Exclusion of intersegment liabilities	(123 959)	(122 389)
Acknowledgement of obligations on employee benefits	72 139	205 867
Deferred tax adjustment	(318 893)	(308 441)
Adjustment of advances received for technological connection	-	(4 872)
Other adjustments	(57 256)	(54 230)
Other unallocated funds	25 728 600	24 176 430
Consolidated total amount of liabilities	**36 153 045**	**34 514 431**

Income from transactions with state-affiliated entities represented by all segments of the Group and disclosed in Note 29.

For the year ended 31 December 2014 the Group had three major customers -

distribution companies in three regions of Russian Federation with individual turnover over 10% of the total Group revenues. The total amount of revenues for these major customers for the year ended 31 December 2014 was 3 741 387 thousand rubles (Astrakhanenergo), 2 763 843 thousand rubles (Volgogradenergo) and 8 125 532 thousand rubles (Rostovenergo) (for year ended 31 December 2013: 3 242 042 thousand rubles (Astrakhanenergo), 3 027 259 thousand rubles (Volgogradenergo) and 7 973 051 thousand rubles (Rostovenergo)).

8. Profit and state subsidies

	The year ended 31 December 2014	**The year ended 31 December 2013**
Electric energy transmission	28 009 171	26 066 593
Technological connection to power grids	699 242	1 028 593
Rental payments	57 716	49 530
Repair and maintenance	61 726	21 964
Other profit	250 372	141 520
Total profit	**29 078 227**	**27 308 371**
State subsidies	1 576	2 235
Total	**29 079 803**	**27 310 606**

In 2013 the Group recognized profit from electric energy transmission to distribution companies of total amount 244 161 thousand rubles on disputes of past years settled in favor of Group.

9. Revenues and expenses

(a) Operational expenses

	The year ended 31 December 2014	**The year ended 31 December 2013**
Productive works and services, including	**8 002 766**	**8 116 597**
Electric energy transmission	7 780 957	7 850 381
Repair and maintenance	168 777	168 149
Other productive works and services	53 032	98 067
Expenses for employees benefits	6 548 813	5 412 794
Material expenses, including	**6 490 702**	**6 017 187**
Electric energy to compensate technological losses	5 271 941	4 845 179
Purchased electric and heat power for internal requirements	201 159	181 836
Other material expenses	1 017 602	990 172

Impairment of receivables	5 401 200	563 735
Depreciation	2 750 700	2 721 407
Impairment of fixed assets	1 984 033	-
Other services of third-party contractors, including	**1 211 462**	**810 941**
Expenses for software and maintenance	404 839	99 188
Expenses related to upkeep of property	262 122	209 371
Management consulting	133 098	133 098
Communication services	85 756	82 402
Security	75 997	75 616
Counseling, legal and auditing services	16 754	56 303
Transportation services	8 550	7 466
Other services of third-party contractors	224 346	147 497
Reserves	1 114 696	413 402
Fines, penalties and forfeitures raised to Company for Contract's conditions violation	482 527	173 621
Taxes and charges except income tax	329 630	264 452
Rent	220 135	205 516
Loss from asset sale	123 045	67 099
Business trip expenses	120 131	83 847
Insurance	72 637	73 999
Other expenses	705 628	318 194
	35 558 105	**25 242 791**

(b) Other operational expenses

	The year ended 31 December 2014	**The year ended 31 December 2013**
Penalties and fines	548 764	221 933
Detected non-contractual electric energy consumption	115 010	13 665
Writing-off of trade and notes receivables	37 490	3 039
Donated assets, including excesses	34 590	9 539
Insurance reimbursements	14 980	51 476
	750 834	**299 652**

(c) Expenses for employee benefits

	The year ended 31 December 2014	**The year ended 31 December 2013**
Salary including changing of reserve for bonuses and unutilized vacations	4 808 521	4 283 322
Social fees	1 415 741	1 315 627
Current services cost (Note 22)	9 946	7 438

Past services cost (Note 22)	(562)	(361 937)
Other expenses for employees	315 167	168 344
	6 548 813	**5 412 794**

Average employees number in 2014 (including production and non-production stuff) amounted 13 496 people (in 2013 – 13 680).

Amounts related to transactions with key management personnel are disclosed in Note 29.

10. Financial income and expenditures

	The year ended 31 December 2014	**The year ended 31 December 2013**
Recognized as part of income or expenditure		
Financial income		
Income on bank balances	43 614	46 326
Income on assets related to employee benefits	3 923	2 114
Other financial income	326	2 716
Financial expenditures		
Interest expenses on financial liabilities carried at depreciable amount	(2 194 533)	(1 781 061)
Expenditures related to procurement and servicing of debt funds (Note 21)	(64 100)	(19 650)
Expenditures related to defined benefit pension plans (Note 22)	(16 966)	(12 132)
Other financial expenditures	(487)	(3 984)
	(2 276 086)	**(1 816 827)**
Net financial expenditures recognized as part of profit or loss	**(2 228 223)**	**(1 765 671)**

11. Income tax

	The year ended 31 December 2014	**The year ended 31 December 2013**
Current income tax		
For reporting period	(402 020)	(378 347)
Adjustments for previous years	43 027	(31 037)
	(358 993)	**(409 384)**
Profit/(loss) on deferred income tax		
Origination and reversal of temporary	1 531 022	1 700

differences		
	1 531 022	**1 700**
	1 172 029	**(407 684)**

Reconciliation of effective tax rate:

	Year ended 31 December 2014	%	Year ended 31 December 2013	%
(Loss)/profit before the taxation	**(7 955 691)**	**100**	**601 796**	**100**
Income tax at effective tax rate	1 591 138	(20)	(120 359)	(20)
Effect of taxable loss at lower rate	(5 701)	-	(1 054)	-
Non-deductible expenses	(507 584)	6	(337 511)	(56)
Changes in the recognition of previously unrecognized tax losses	51 149	(1)	82 277	14
Adjustments over provided in prior years	43 027	-	(31 037)	(5)
	1 172 029	**(15)**	**(407 684)**	**(68)**

The Group used tariff tare in amount of 20% which amounts rate of corporate tax for Russian companies. Excluding agricultural subsidiaries with tax rate – 6%.

12. Fixed assets

Cost / Deemed cost	Land plots and Constructions	Transmission networks	Transformer substations	Other	Construction in progress	Total
Balance at 1 January 2013	**3 356 929**	**15 237 792**	**9 325 941**	**6 646 477**	**5 121 498**	**37 688 637**
Additions	163 434	63 926	114 407	211 349	2 725 690	3 278 806
Commissioning	1 035 222	1 119 963	1 923 082	717 729	(4 795 996)	-
Disposals	(3 873)	(50 462)	(20 984)	(64 514)	(52 549)	(192 382)
Balance at 31 December 2013	**4 551 712**	**16 371 219**	**11 342 449**	**5 511 041**	**2 998 643**	**40 775 061**
Reclassification between categories	(1 618 454)	1 577 599	(455 058)	495 913	-	-
Balance at 1 January 2014	**2 933 258**	**17 948 818**	**10 887 388**	**6 006 954**	**2 998 643**	**40 775 061**

Additions	15 870	140 038	90 412	115 723	781 178	1 143 221
Commissioning	75 722	742 410	551 956	218 078	(1 318 166)	-
Disposals	(22 122)	(30 965)	(17 608)	(102 926)	(245 892)	(419 513)
Balance at 31 December 2014	**3 002 728**	**18 530 301**	**11 512 148**	**6 237 829**	**2 215 763**	**41 498 769**
Depreciation						
Balance at 1 January 2013	**(794 803)**	**(6 486 056)**	**(3 311 663)**	**(2 034 215)**	**(165 915)**	**(12 792 656)**
Depreciation for the reporting period	(196 265)	(1 083 749)	(763 942)	(594 213)	-	(2 638 169)
Introduction into fixed assets	(6 454)	(24 721)	(19 513)	(446)	51 134	-
Disposals	2 447	28 030	8 531	59 640	-	98 648
Balance at 31 December 2013	**(995 079)**	**(7 566 496)**	**(4 086 587)**	**(2 569 234)**	**(114 781)**	**(15 332 177)**
Reclassification between categories	213 251	(69 702)	166 383	(309 932)	-	-
Balance at 1 January 2014	**(781 828)**	**(7 636 198)**	**(3 920 204)**	**(2 879 166)**	**(114 781)**	**(15 332 177)**
Accrued for the reporting period	(140 945)	(1 145 092)	(731 293)	(682 260)	-	(2 699 590)
Impairment loss	(240 539)	(945 697)	(773 559)	(13 348)	(10 890)	(1 984 033)
Introduction into fixed assets	(735)	-	(7)	(20)	762	-
Disposals	6 365	25 606	9 261	49 635	113 128	203 995
Balance at 31 December 2014	**(1 157 682)**	**(9 701 381)**	**(5 415 802)**	**(3 525 159)**	**(11 781)**	**(19 811 805)**
Net balance cost						
at 1 January 2013	2 562 122	8 751 736	6 014 278	2 612 262	4 955 583	24 895 981
at 31 December 2013	3 556 633	8 804 723	7 255 859	2 941 807	2 883 862	25 442 884
at 31 December 2014	1 845 046	8 828 920	6 096 346	2 712 670	2 203 982	21 686 946

As of 31 December 2014 construction in progress includes advance payments for property, plant and equipment of 8 911 thousand rubles (as of 31 December 2013: 16 972 thousand rubles) which are stated net of impairment provision of 10 758 thousand rubles (at 31 December 2013 - 28 383 thousand rubles).

As of 31 December 2014 construction in progress includes constructional materials of 222 543 thousand rubles (at 31 December 2013 – 271 718 thousand rubles).

As of 31 December 2014 and 31 December 2013 fixed assets shall not act as pledge for bank loans (Note 21).

Capitalized interest for the year ended 31 December 2014 amounted 71 333 thousand rubles (for year ended 31 December 2013 – 182 872 thousand rubles). Capitalization rate on loans for general purposes for year ended 31 December 2014 amounted 9.50% (for year ended 31 December 2013 – 8.65%).

Leased equipment and transport

The Group leases production equipment and transport under a number of financial lease agreements.

Net balance cost of rented assets in given below:

	31 December 2014	**31 December 2013**
Initial cost	43 950	160 427
Accumulated	(43 950)	(101 200)
Balance cost	-	59 227

For year ended 31 December 2014 the reducing of net assets value of fixed assets accounted within fixed assets of the Group, is related to expiration of the finance lease.

Determination of recoverable amount of property plant and equipment

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2014 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

Cash-generating units are determined by the Group at the basis of geographic location of branches and subsidiaries, and are smallest identifiable groups of assets that generate cash flows without distinction of other assets of Group.

The following key assumptions were used in determining the recoverable amounts of cash-generating unit as of 31 December 2014:

•cash flows were projected based on methodological regulations on testing of electric grid assets for impairment (approved by Order of “Rosseti” JSC No. 558r dd. 17 December 2014) and the prognosis data for the period up to 2019;

•projected cash flows have been identified for 2015-2019 for on the basis of the best estimate of the Group's management on volumes of the transmission of electricity, operating and capital costs, as well as tariffs, approved by regularity bodies for 2015;

•the source of the forecast of electricity transmission tariffs for forecasted period was business plan adjusted and adopted with “Rosseti” JSC (approved by Company’s BoD, Minutes No. 148/2014 dd. 22.12.2014) that was based on tariff models configured with taking into consideration the average annual electricity transmission tariff rise (in accordance with forecast of the social and economic development of Russian Federation for 2015 and planning period 2016-2017);

•tariffs growth rate in 2017-2019 are limited by pace of inflation on forecast of Economic Development Ministry (up to 2030);

•forecast amounts of electric energy transmission for all generating units were specified on the basis of annual approved business plans of the Company for 2015-2019;

•forecast cash flows were discounted to their present value using nominee weighed average capital cost in the amount of 11.16%;

•the growth rate of net cash flows in the post-forecast period amounted to 2.6% for all generating units;

In the results of the impairment test as of 31 December 2014 the Group recognized a loss from impairment of fixed assets in amount of 1 984 033 thousand rubles which is related to fixed assets and construction in progress of operational segment of Kalmenergo (Note 6).

In the results of the impairment test as of 31 December 2013 the Group did not recognize a loss for the reporting period.

As of 31 December 2014 the discount amount of future cash flows exceeds net assets value of relevant fixed assets of the generating units of Astrakhanenergo (1 744 559 thousand rubles) and Rostovenergo (7 169 426 thousand rubles).

Quantitative information on significant unobservable inputs used in assessing value in use, is disclosed below:

Astrakhanenergo

	2015	2016	2017	2018	2019
The growth rate of revenue from electric power transmission to the previous year	2.3%	0.1%	5.4%	6.0%	5.7%
Inflation forecast of Economic Development Ministry	5.5%	4.5%	4%	4.5%	4.0%
Amount of capital investments, thousand rub	78 825	144 837	115 064	150 851	173 676
EBITDA profitability on operating result (without income tax)	14.5%	7.4%	8.0%	10.1%	9.6%
Percentage of lost revenue in monetary form, thousand rubles	125 696	155 106	123 748	-	-

Rostovenergo

	2015	2016	2017	2018	2019
The growth rate of revenue from electric power transmission to the previous year	5.8%	7.7%	3.8%	3.1%	4.8%
Inflation forecast of Economic Development Ministry	5.5%	4.5%	4%	4.5%	4.0%
Amount of capital investments, thousand rub	567 753	689 422	746 691	736 148	727 005
EBITDA profitability on operating result (without income tax)	7.8%	10.2%	11.0%	10.6%	10.3%

The above mentioned estimations are particularly sensitive to the following changes:

Astrakhanenergo

	Change of level of capital investments in forecast and post-forecast period	Change of the ratio of the level of capital investment to the amount of depreciation in forecast and post-forecast period	Change of revenue from electric energy transmission to reference value in every period	Change of nominal weighed average capital cost	Change of level of operational expenses	Change of percentage of lost revenue in monetary form
Change, % Thousand rubles	30% 1 594 942	72% 423 891	10% 3 009 590	1.2% 1 486 070	10% 587 396	(3)% 2 158 953
Change, % Thousand rubles	20% 1 644 813	62% 607 687	5% 2 377 073	0.8% 1 555 999	5% 1 165 978	7% 866 873
Change, % Thousand rubles	10% 1 694 685	52% 791 481	3% 2 124 066	(0.8)% 1 940 624	(5)% 2 323 138	17% (585 174)
Change, % Thousand rubles	(10)% 1 794 430	42% 975 277	(3)% 1 365 049	(1.2)% 2 017 365	(10)% 2 901 720	27% (2 214 873)
Change, % Thousand rubles	(20)% 1 844 302	- -	(5)% 1 112 044	- -	- -	-
Change, % Thousand rubles	(30)% 1 894 175	- -	(10)% 478 609	- -	- -	-

Rostovenergo

Change, % Thousand rubles	30% 6 371 471	52% 4 291 688	10% 11 659 480	1.2% 6 428 261	10% 3 260 358	10% 1 623 416
Change, % Thousand rubles	20% 6 637 456	42% 4 850 105	5% 9 414 453	0.8% 6 628 795	5% 5 214 892	20% (5 194 288)
Change, % Thousand rubles	10% 4 903 441	32% 5 408 521	3% 8 516 444	(0.8)% 7 731 456	(5)% 9 123 961	30% (12 084 983)
Change, % Thousand rubles	(10)% 7 435 411	22% 5 966 936	(3)% 5 822 413	(1.2)% 7 951 411	(10)% 11 078 493	-
Change, % Thousand rubles	(20)% 7 701 395	- -	(5)% 4 924 398	- -	- -	-
Change, % Thousand rubles	(30)% 7 967 380	- -	(10)% 2 678 768	- -	- -	-

13. Intangible assets

	2014	2013
Initial cost		
Balance at 1 January	**1 049 378**	**1 039 477**
Additions	28 601	14 140
Disposals	(585 660)	(4 239)
Balance at 31 December	**492 319**	**1 049 378**
Depreciation		
Balance at 1 January	**(584 335)**	**(505 336)**
Accrued on reporting year	(51 110)	(83 238)
Disposals	299 978	4 239
Balance at 31 December	**(335 467)**	**(584 335)**
Remaining value		
Balance at 1 January	**465 043**	**534 141**
Balance at 31 December	**156 852**	**465 043**

The intangible assets include software and licenses related to software. The amount of intangible asset's amortization is recognized in the operating expenses in the consolidated statement of Profit or Loss and gross income.

As at 31 December 2014 according to results of inventory the balance cost of software has been written off in the amount of 285 682 thousand rubles within operating expenses.

14. Investments in financial and other assets

	31 December 2014	**31 December 2013**
Financial assets for sale	3 300	3 897
Assets related to employee benefits	-	137 120
	3 300	**141 017**

Financial assets for sale are securities with market quotations, represented on fair value (first level in fair value hierarchy).

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

More information on aptitude of Group to credit risk related to investments and financial assets disclosed in Note 25.

15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities related to the following:

	Assets		Liabilities		Net	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Fixed assets	322	718	(196 667)	(657 678)	(196 345)	(656 960)
Trade and other receivables and paid advances	1 174 716	415 055	-	-	1 174 714	415 055
Employee benefits	-	13 749	-	-	-	13 749
Trade and other receivables	146 509	111 853	-	-	146 509	111 853
Reserves	342 750	140 915	–	–	342 750	140 915
Other	14 552	19 991	–	(25 091)	14 552	(5 100)
Tax assets/(liabilities)	1 678 849	702 281	(196 667)	(682 769)	1 482 182	19 512
Set off of tax	(196 667)	(682 101)	196 667	682 101	-	-
Net tax assets	1 482 182	20 180	–	(668)	1 482 182	19 512

Movements in deferred taxes during the year:

	1 January 2013	**Recognised in profit or loss**	**Recognised in other comprehensive loss**	**31 December 2013**	**Recognised in profit or loss**	**Recognised in other comprehensive loss**	**31 December 2014**
Fixed assets	(757 407)	100 447	-	(656 960)	460 615	-	(196 345)
Trade and other receivables and paid advances	630 521	(215 466)	-	415 055	759 661	-	1 174 716
Employee benefits	90 137	(86 965)	10 577	13 749	55 063	(68 812)	-
Trade and other receivables	(42 811)	154 664	-	111 853	34 656	-	146 509
Reserves	77 208	63 707	-	140 915	201 835	-	342 750
Other	8 590	(14 687)	997	(5 100)	19 192	460	14 552
Tax assets/(liabilities)	6 238	1 708	11 574	19 512	1 531 022	(68 352)	1 482 182

As of 31 December 2014 deferred tax assets in the amount of 248 961 thousand rubles (as of 31 December 2013: 176 266 thousand rubles) were not recognized in respect of tax losses for the period 2011-2013 and earlier because receiving of future assessable profit at the expense of which the Group could use these tax benefits is not probable.

16. Inventories

	31 December 2014	31 December 2013
Raw materials	544 557	766 601
Other materials	131 067	240 663
Total	**675 624**	**1 007 264**

As of 31 December 2014 and 31 December 2013 the Group's inventories were not pledged or mark downed.

17. Accounts receivable and paid advances

	31 December 2014	31 December 2013
Non-current receivables		
Trade receivables	6 967	9 458
Trade receivables impairment provision	(1 862)	(7 388)
Other receivables	133	289
Total non-current receivables	**5 238**	**2 359**
Paid advances	96 450	217 557
	101 688	**219 916**
Current receivables		
Trade receivables	15 692 103	12 598 212
Trade receivables impairment provision	(7 856 069)	(2 970 792)
Other receivables	1 204 258	1 306 061
Other receivables impairment provision	(704 074)	(970 072)
Current financial assets	**8 336 218**	**9 963 409**
Paid advances	390 228	84 841
Provision for impairment of paid advances	(3 602)	(4 719)
VAT recoverable	257 032	428 762

Advance tax payment excluding income tax and VAT	5 181	8 243
	8 985 057	**10 480 536**

The Group's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 25.

18. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash at accounts in the banks, related with government	615 152	1 141 723
Cash at accounts in the banks, no related with government, and in hand	120 283	48 004
	735 435	**1 189 727**

All cash and cash equivalents are denominated in rubles.

As at 31 December 2014 cash at accounts in the government-related banks include balances in the amount of 103 920 thousand rubles (at 31 December 2013: 1 032 445 thousand rubles), which represent minimum required balances on the accounts in order to get additional finance income at interest rates of 18% and 3.5% - 4.19% for 31 December 2014 and 31 December 2013, respectively. Requirement to maintain minimum balances on current accounts does not affect the Company's ability to use the funds at any time, however, in case of breaking requirement on minimum required balances no interest income is accrued.

During 2014 the Group carried out the offset of trade and other receivables and loan payables with different contractors for 2 912 570 thousand rubles (in 2013 – 1 583 363 thousand rubles).

19. Equity

Authorised capital

As of 31 December 2014 and 31 December 2013 authorized and released capital stock consists of 49 811 096 064 ordinary shares. Nominal value of each share amounts 0.1 rubles.

Retained earnings and dividends

The Company's accounting report made in accordance with Russian Accounting

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

In accordance with legislation of Russian Federation the amount of accessible for allocating funds of the Company is limited to amount of non-allocated income, specified in accounting report of the Company prepared in accordance with Russian Accounting Standards. At the annual general meeting of shareholders of "IDGC of the South" JSC dd. 25.06.2014 the decision on declaration of dividends in the amount of 6 974 thousand rubles (0.0014 rubles per ordinary share) for year ended 31 December 2013 was adopted.

During the year ended 31 December 2014 the Company paid dividends in the amount of 6 876 thousand rubles. As of 31 December 2014 the payable dividends in the amount of 88 thousand rubles are described in Consolidated statement of financial position of the Company as part of trade and other receivables (as of 31 December 2013: there are no dividends liabilities).

20. Earnings per share

Earnings per share are calculated based on the net profit for the period and the number of ordinary shares which are in circulation. The Company has no potential ordinary shares that have a dilutive effect, accordingly the diluted earnings per share equals basic earnings.

	The year ended 31 December 2014	**The year ended 31 December 2013**
Weighted average number of common shares per year ended 31 December (thousand shares)	48 911 096	49 811 096
(Loss)/profit accrued to Company's owners	(6 783 662)	194 112
(Loss)/profit per share (rubles) – basic and diluted earnings	**(0.136)**	**0.004**

21. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risks, refer to Note 25.

	31 December 2014	31 December 2013
Long-term loans and borrowings		
Uncovered bank loans	22 548 999	16 991 321
Issued unsecured bonds	-	4 557 678
Bills	-	1 661 947
	22 548 999	**23 210 946**
Except Current Maturity of Long-Term Debt and borrowings	(2 804 700)	(9 969 625)
	19 744 299	**13 241 321**
Short-term loans and Current Maturity of Long-Term Debt and Borrowings		
Uncovered bank loans	2 000 000	530
Bills	312 900	-
Interest on bank credits	5 528	-
Interest on issued bonds	-	127 454
Interest on bills	-	240 788
Current Maturity of Long-Term Debt and borrowings	2 804 700	9 969 625
	5 123 128	**10 338 397**

Terms and schedule of loans and borrowings repayment:

Long-term loans and borrowings

	Effective interest rate			**31 December 2014**		**31 December 2013**	
	31 December 2014	**31 December 2013**	**Year of repayment**	**Nominal value**	**Book value**	**Nominal value**	**Book value**
Uncovered bank loans							
"Gazprombank" JSC*	13.80%	-	2017	2 437 000	2 437 000	-	-

“Bank Rossiya” JSC*	12.95%	-	2017	15 000	15 000	-	-
“Sberbank” JSC*	9.69%-14.95%	-	2016-2017	6 855 678	6 855 678	-	-
“Sberbank” JSC*	8.90%	8.83-8.90%	2016	3 887 622	3 887 662	3 887 622	3 887 622
“Sberbank” JSC*	9.98%	9.98%	2015	-	-	404 700	404 700
“Sberbank” JSC*	8.99%-9.77%	8.99%-9.77%	2015-2016	6 548 999	6 548 999	8 948 999	8 948 999
				19 744 299	**19 744 299**	**13 241 321**	**13 241 321**

The Company has limited liabilities related to bank loans.

As of 31 December 2014 and 31 December 2013 the Company complied with all limited liabilities.

Short-terms loans and borrowings and Current Maturity of Long-Term Debt and borrowings

	Effective interest rate			**31 December 2014**		**31 December 2013**	
Creditor	**31 December 2014**	**31 December 2013**	**Year of repayment**	**Nominal value**	**Book value**	**Nominal value**	**Book value**
Uncovered bank loans							
“AKB Novikombank” JSC	11.85%	-	2015	2 000 000	2 000 000	-	-
“YKK” LLC	-	8.25%	2014	-	-	530	530
				2 000 000	**2 000 000**	**530**	**530**
Bill**	Non-interest	-	2014	312 900	312 900	-	-
Interest on bills*				-	-	240 788	240 788
Interest on issued and uncovered bills				-	-	127 454	127 454
Interest on uncovered bank loans				5 528	5 528	-	-
				5 528	**5 528**	**368 242**	**368 242**
Current Maturity of Long-Term Debt and borrowings							
“Sberbank” JSC*	9.50-9.98%	-	2015	**2 804 700**	**2 804 700**	**-**	**-**
“Sberbank” JSC*	-	8.90%	2014	-	-	3 750 000	3 750 000
Issued and uncovered bills	-	8.10%	2014	-	-	4 557 678	4 557 678
Bill**	-	Non-interest	2014	-	-	312 900	312 900
Bill*	-	8.90%	2014	-	-	1 349 047	1 349 047
				2 804 700	**2 804 700**	**9 969 625**	**9 969 625**

					5 123 128	**5 123 128**	**10 338 927**	**10 338 397**

* - bills issued to the company under common control of the parent company of "Rosseti" JSC, and loans obtained from banks, affiliated with the state

** - bills issued to parent company

All loans and borrowings of the Group nominated in Russian rubles.

As of 31 December 2014 the Group has rest of untapped line of credit in "Sberbank of Russia" JSC in amount of 1 544 322 thousand rubles, in "AB Rossiya" JSC - 885 000 thousand rubles, in "SMP Bank" JSC – 300 000 thousand rubles (as of 31 December 2013: in "Sberbank of Russia" JSC – 1 000 thousand rubles).

As of 31 December 2014 and 31 December 2013 there were no bank loans secured by pledge of fixed assets (Note 12).

22. Employee benefits

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

Net values of obligations for plans with adjusted payments are specified below:

	31 December 2014	**31 December 2013**
Liabilities for employees' benefits on post-employment	72 139	205 867
	72 139	**205 867**

In 2013 the programme "Supporting" on servicing of defined benefit pension plans was closed that led to reduction of liabilities on employee benefits.

	Obligations on employee benefits plans withdrawal from work		**Obligations on other long-term plans withdrawal from work**		**Total**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
As of 1 January	**205 867**	**478 906**	**-**	**25 750**	**205 867**	**504 656**
Current service cost	9 946	7 438	-	-	9 946	7 438
Past service cost and sequestrate	(562)	(336 187)	-	(25 750)	(562)	(361 937)
Interest cost	16 966	12 132	-	-	16 966	12 132

The following items affected at (profit)/loss:						
- Change in demographic actuarial assumption	(93 843)	38 747	-	-	(93 843)	38 747
- Change in financial actuarial assumption	(39 244)	3 432	-	-	(39 244)	3 432
- Experience adjustment	(23 256)	10 707	-	-	(23 256)	10 707
Investments in plan	(3 735)	(9 308)	-	-	(3 735)	(9 308)
As of 31 December	**72 139**	**205 867**	**-**	**-**	**72 139**	**205 867**

Expenses/(revenues) recognized as part of profit and loss are specified below:

	For year ended 31 December 2014	**For year ended 31 December 2013**
Service cost	9 384	(354 499)
Interest expenses	16 966	12 132
	26 350	**(342 367)**

(Revenues)/expenses recognized as part of other total revenue are specified below:

	For year ended 31 December 2014	**For year ended 31 December 2013**
(Revenue)/loss from change in demographic actuarial assumption	(93 843)	38 747
(Revenue)/loss from change in financial actuarial assumption	(39 244)	3 432
(Revenue)/loss from experience adjustment	(23 256)	10 707
	(156 343)	**52 886**

Change of amount of revaluation of obligations in other total revenue is specified below:

	For year ended 31 December 2014	**For year ended 31 December 2013**
Balance at 1 January	344 059	291 173
Change	(156 343)	52 886
Balance at 31 December	**187 716**	**344 059**

The calculations used the following principal actuarial assumptions:

Financial assumptions

	For year ended 31 December 2014	**For year ended 31 December 2013**
Discounting rate	12.00%	8.00%
Inflation rate	7.00%	5.00%
Salary increase	7.00%	6.00%

Valuation of financial actuarial assumptions carried out on the basis of market forecasts for the end of reporting period in respect of the period during which the payment should be made under obligations. The weight average duration of the defined benefit plan obligation as at 31 December 2014 is 12 years (as at 31 December 2013: 12.3 years).

Assumptions regarding future mortality are based on published statistics and demographic mortality tables. For estimation the mortality table of Russia for 2011 was used, adjusted according to the statistics of the Group with respect to employees of both sexes to 75% and 40%, respectively; in respect of retired male and female by 45% and 35%, respectively. Current rates of life expectancy, which is calculated taking into account the value of liabilities for defined benefit plans, were as follows:

Demographic assumptions	**For year ended 31 December 2014**	**For year ended 31 December 2013**
Life expectancy of employees retired at 60		
Men	21	21
Women	25	25
Life expectancy		
Life expectancy of current plan participants of 45 years old, on achieving 60		
Men	23	22
Women	23	25

Sensitivity Analyses

The sensitivity of the value of pension obligations to changes in fundamental actuarial assumptions is specified below:

	Change in assumption	Influence on obligations
Discount rate	Increase/decrease at 0.5%	Decrease/increase at 4.76%
Future salary increases	Increase/decrease at 0.5%	Decrease/increase at 1.29%
Future pension increases	Increase/decrease at 0.5%	Decrease/increase at 3.70%
Employee turnover	Increase/decrease at 10%	Decrease/increase at 1.27%

Mortality level	Increase/decrease at 10%	Decrease/increase at 1.01%

The above sensitivity analyses are based on method of change in assumption while holding all other assumptions constant. When calculating the indicators of sensitivity of the current value of obligations to key actuarial assumptions was used method of assessment, similar to the method of assessing of the current value of the obligations (projected unit credit method) recognized in the consolidated statement of financial position.

The amount of payments on plans with specified payments including non-state pension provision of employees amounted 4 033 thousand rubles for 2015.

23. Trade and other loan payable

	31 December 2014	**31 December 2013**
Long-term loan payable		
Advances received	80 891	70 909
	80 891	**70 909**
Short-term loan payable		
Loan payable	6 304 334	7 021 256
Other loan payable	302 359	345 010
Debt to employees	976 369	808 663
Dividends payable	88	-
	7 583 150	**8 174 929**
Advances received	1 058 661	1 224 063
	8 641 811	**9 398 992**
Taxes payable		
Value-added tax	542 721	345 136
Property tax	56 013	45 163
Payments to social funds	122 755	104 583
Individual income tax	49 428	52 926
Other taxes	4 503	5 892
	775 420	**553 700**
	9 417 231	**9 952 692**

The Group’s exposure to liquidity risk related to trade and other payables is disclosed in Note 25.

Payables to employees are represented as follows:

	31 December 2014	**31 December 2013**

Salaries and wages payable	230 872	198 535
Unused vacation provision	223 458	195 685
Annual bonus provision	522 039	414 443
	976 369	**808 663**

24. Provisions

	Year ended 31 December 2014	**Year ended 31 December 2013**
Balance at 1 January	704 577	376 927
Provisions raised during the reporting year	1 262 020	432 605
Changes in estimation for the reporting year	(147 324)	(19 203)
Provisions used during the reporting year	(105 523)	(85 752)
Balance at 31 December	1 713 750	704 577

Provisions relate to the legal proceedings against the Group and unsettled disagreements with distribution selling entities regarding compensation of technological losses. The Group recognizes provision on legal proceedings and unsettled disagreements if the Group considers as probable the outflow of economic resources in consequence of settlement of disputes.

As at 31 December 2014 on unsettled disputes at the amount of 2 067 850 thousand rubles (31 December 2013 – 2 647 931 thousand rubles) the Group did not establish provisions because considers that all disputes would be settled in behalf of the Group.

25. Financial risk management

Overview

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

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

The Group is not exposed to currency risk at implementation of operations on sale, purchasing and procurement of funds because the Group does not implement above mentioned major transactions that denominated in currency other than functional currency of the Company and its subsidiaries - Russian ruble.

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

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

Credit risk

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

Trade and other receivables

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

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

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

Exposure to credit risk

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

	Balance value	
	31 December 2014	31 December 2013
Financial assets		
Trade and other receivables	8 341 456	9 965 768
Cash and cash equivalents	735 435	1 189 727
	9 076 891	**11 155 495**

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

	Balance value	
	31 December 2014	31 December 2013
Electricity transmission customers	7 554 678	9 459 943
Connection services customers	72 546	23 320
Other customers	213 915	146 227
	7 841 139	**9 629 490**

As of 31 December 2014 balance value of trade receivables covering four huge customers of the Group amounted 5 544 694 thousand rubles (as of 31 December 2013 – 7 543 579 thousand rubles).

Impairment losses

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

	31 December 2014		31 December 2013	
	Gross value	Impairment	Gross value	Impairment
Not past due	3 194 509	(9 787)	2 915 873	(23 836)
Past due less than 90 days	2 889 259	(690 485)	2 107 412	(27 262)
Past due 90 - 180 days	1 465 862	(540 026)	1 757 388	(290 056)
Past due 180 - 365 days	2 464 329	(854 162)	1 930 075	(125 855)
Past due more than 1 year	6 889 502	(6 467 545)	5 203 272	(3 481 243)
	16 903 461	**(8 562 005)**	**13 914 020**	**(3 948 252)**

Increasing of overdue trade receivables is mainly explained by delays in payments by distribution company "Volgogradenergosbyt" JSC and the biggest grid company Municipal Unitary Production Facility "Volgograd Interregional Power Networks" and distribution company "Astrakhan energy selling Company" in Astrakhan region.

As of 31 December 2014 total gross value of trade receivables of these contractors amounted 8 717 251 thousand rubles (as of 31 December 2013: 7 628 149 thousand rubles), impairment – 5 267 935 thousand rubles (as of 31 December 2013: 724 350 thousand rubles). Delayed payments are partly related to the presence of unsettled disagreements on the purchase of electricity to compensate technological losses (Note 24). As of 31 December 2013 the Group recognized non-impairment overdue amounts real for recovery, that's why do not accrue provision for impairment. As of 31 December 2014 the reserve was accrued for the most part of debt overdue more than 1 year.

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

	Year ended 31 December 2014	**Year ended 31 December 2013**
Balance at 1 January	693 511	673 938
Accrued	462 539	26 318
Change of estimates	(138 647)	(6 745)
The amount written off decrease in accounts receivable	(87 167)	-
Balance at 31 December	**930 236**	**693 511**

Offsetting financial assets and financial liabilities

The Group can make agreements on purchases and sales with the same counterparty in the normal course of business. The respective amounts of receivables and payables do not always meet the criteria for offsetting in the consolidated report on financial state. This is due to the fact that the Group may not have currently a legal right to offset the recognized amounts, since the right to set-off may be valid only when certain events occur in the future. In particular, in accordance with civil law in Russia, the obligation may be settled by offsetting a similar claim of regress, which are due or are not defined or determined by the moment of demand.

As of 31 December 2014 and on 31 December 2013 the Group has no contractual basis in relation to the offsetting of financial assets and financial liabilities as well as the Group's management does not assume to offset in the future on the basis of additional agreements.

Liquidity risk

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

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

In order to manage liquidity risk, the Group conducted negotiations on opening of a credit line with a number of commercial banks that have a fairly high rating.

The information on contract terms of repayment of non-derivative financial liabilities including estimated amounts of interest charges is specified blow:

	Balance amount	Contractual cash flows	0-1 years	1-2 years	2-3 years
As of 31 December 2014					
Loans and borrowings	24 554 527	28 837 636	7 222 086	13 227 377	8 388 173
Bills	312 900	312 900	312 900	-	-
Trade and other payables	7 583 150	7 553 426	7 550 399	-	3 027
	32 450 577	**36 703 962**	**15 085 385**	**13 227 377**	**8 391 200**

	Balance amount	Contractual cash flows	0-1 years	1-2 years	2-3 years
As of 31 December 2013					
Loans and borrowings	16 991 851	20 170 541	5 152 826	3 980 154	11 037 561
Bonds	4 685 132	5 053 292	5 053 292	-	-
Bills	1 902 735	1 962 434	1 962 434	-	-
Trade and other payables	8 174 929	8 174 929	8 174 929	-	-
	31 754 647	**35 361 196**	**20 343 481**	**3 980 154**	**11 037 561**

Financial assurances are disclosed in Note 28.

Market risk

Market risk is the risk that changes in market prices, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

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

Management does not have a formal policy of determining the risks related to credits and loans accommodated on fixed and variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Fair value sensitivity analysis for fixed rate instruments

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

Fair values

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

The basis for determining fair value is disclosed in Note 6.

The Group estimates assets for sale on fair value (Note 14).

Capital management

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

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

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

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

26. Operating leases

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

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

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

Non-cancellable operating lease rentals are payable as follows:

	31 December 2012	**31 December 2011**
Less than one year	196 221	190 769
Between one and five years	379 472	467 820
More than five years	2 224 935	2 119 191
	2 800 628	**2 777 780**

During the reporting period 220 135 thousand rubles was recognised in the statement of comprehensive income in respect of operating leases (31 December 2013: 205 516 thousand rubles).

27. Capital liabilities

As of 31 December 2014 the amount of future obligations under contracts on purchasing and construction of items of fixed assets amounts 2 333 801 thousand rubles excluding VAT (31 December 2013 – 1 591 592 thousand rubles).

28. Contingencies

Insurance

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

Legal proceedings

The Group was involved in the number of court procedures arising in the course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operation, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Taxation contingencies

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable

Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

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

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Guarantees

As of 31 December 2014 and 31 December 2013 the Company has no guarantees.

29. Related party transactions

As of 31 December 2014 and 31 December 2013 "Rosseti" JSC (before "Holding IDGC" JSC) controlled the Company. The ultimate controlling party is the state represented by Russian Federation Government and owning major share of stock of "Rosseti" JSC.

The Group's party transactions are disclosed below:

Revenue

	Sum of transaction for the year ended 31 December		Balance	
	2014	2013	31 December 2014	31 December 2013
Parent company				
Rent	1 641	-	-	-
Affilaited companies				

Revenue from electric energy transmission	350 351	346 586	2 660	17 192
Rent	25 918	20 123	43 991	32 632
Revenue from other services	29 157	348	98 272	63 211
	407 067	**367 057**	**144 923**	**113 035**

Expenses

	Sum of transaction for the year ended 31 December		Balance	
	2014	**2013**	**31 December 2014**	**31 December 2013**
Parent company				
Managing services	133 098	133 098	7 853	7 853
Technical inspection	23 794	-	2 253	-
Affilaited companies				
Electric energy transmission	5 927 867	2 894 908	3 672 963	3 101 696
Technological connection	479	53 774	-	13 877
Interest on bills	-	93 264	-	-
Purchasing of electric energy to compensate technological losses	146 635	141 031	1 017	-
Rent	6 685	6 410	678	11 145
Other	19 142	17 380	166 850	4 828
	6 257 700	**3 339 865**	**3 851 614**	**3 139 399**

Operations with key management staff

The Company identifies members of Boards of Directors, members of Management Boards and top managers of the Company as key management personnel.

	The year ended 31 December 2014	The year ended 31 December 2013
Salaries and bonuses	85 010	65 088

Amount of bonuses to key management personnel specified in schedule are expenditures of current period for key management personnel recognized as expense for employee benefits (Note 9(c)).

As of 31 December 2014 and 31 December 2013 the Group has no obligations on plans with specified payments to key management personnel.

Transactions with government-related entities

The Group applies exclusion as for disclosure of information on operations by companies that are related parties in accordance with IAS 24 “Related parties” (Note 3(o)).

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

Revenues from government-related entities for the year ended 31 December 2014 constitute 15% (for year ended 31 December 2013: 19%) of total Group revenues, including 14% (for year ended 31 December 2013: 17%) received in the result of electric energy transmission operations.

Electricity transmission costs with government-related entities for year ended 31 December 2014 amounted 5% (for year ended 31 December 2013: 26%) from total cost on electric energy transmission.

Taking into consideration that 14 June 2013 government owned stock of shares (79.64%) “FGC UES” JSC was turned over by Russian Federation represented by Federal Agency for State Property Management (Rosimushestvo) to “Rosseti” JSC, share of expenses for electric energy transmission to government-related entities decreased.

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

30. Events after the reporting period

Subsidiary “Volgogradsetremont” JSC was dissolved on 17 February 2015.