Consolidated financial statements

Joint Stock Company Russian Grids and its subsidiaries

for the year ended 31 December 2014

with independent auditor's report

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Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and Board of Directors of
JSC Russian Grids

We have audited the accompanying consolidated financial statements of Joint Stock Company Russian Grids and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Joint Stock Company Russian Grids and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2013 were audited by another auditor who issued an audit report with an unqualified opinion dated 22 April 2014.

D.E. Lobachev
General director
Ernst & Young LLC

22 April 2015

Details of the audited entity

Name: Joint Stock Company Russian Grids and its subsidiaries
Record made in the State Register of Legal Entities on 1 July 2008, State Registration Number 1087760000019.
Amendments due to renaming are recorded in the State Register of Legal Entities on 4 April 2013, State Registration Number 7137746729542.
Address: Russia, 121353, Moscow, Belovezhskaya street, 4.

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: 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.

(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Revenue	8	759,608	755,806
Operating expenses	10	(759,805)	(912,566)
Other income, net	9	14,309	7,939
Results from operating activities		**14,112**	**(148,821)**
Finance income	12	10,712	9,049
Finance costs	12	(42,863)	(50,618)
Net finance costs		**(32,151)**	**(41,569)**
Share of loss of equity accounted investees (net of income tax)		(10)	(11)
Loss before income tax		**(18,049)**	**(190,401)**
Income tax (expense)/ benefit	13	(6,208)	31,012
Loss for the year		**(24,257)**	**(159,389)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value of available-for-sale financial assets	16	125	(123)
Foreign currency translation differences		650	26
Related income tax	17	(22)	25
Total items that are or may be reclassified subsequently to profit or loss		**753**	**(72)**
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability	24	3,023	(3,879)
Related income tax	17	(499)	752
Total items that will not be reclassified to profit or loss		**2,524**	**(3,127)**
Other comprehensive income/(loss) for the year, net of income tax		**3,277**	**(3,199)**
Total comprehensive loss for the year		**(20,980)**	**(162,588)**
Loss attributable to:			
Owners of the Company		(15,355)	(132,113)
Non-controlling interest		(8,902)	(27,276)
Total comprehensive losses attributable to:			
Owners of the Company		(13,071)	(134,332)
Non-controlling interest		(7,909)	(28,256)
Loss per share			
Basic and diluted loss per ordinary share (in RUB)	22	(0.096)	(0.832)

These consolidated financial statements were approved by management on 22 April 2015 and were signed on its behalf by:

Director General

O.M. Budargin

Director for accounting
and reporting – Chief Accountant

V.V. Shchukin

ОАО «Россети»

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the Consolidated Financial Statements set out on notes 1-32.

(in millions of Russian rubles, unless otherwise stated)

	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,643,586	1,595,862
Intangible assets	15	14,300	16,557
Investments in associates and joint ventures		1,627	1,202
Non-current accounts receivable	19	6,971	7,442
Other investments and financial assets	16	22,952	27,309
Deferred tax assets	17	7,117	9,012
Total non-current assets		**1,696,553**	**1,657,384**
Current assets			
Inventories	18	26,630	23,920
Other investments and financial assets	16	17,908	53,306
Current income tax prepayments		4,636	5,568
Trade and other receivables	19	155,776	143,944
Cash and cash equivalents	20	82,576	61,917
Total current assets		**287,526**	**288,655**
Total assets		**1,984,079**	**1,946,039**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes 1-32 to, and forming part of, the Consolidated Financial Statements.

(in millions of Russian rubles, unless otherwise stated)

	Notes	31 December 2014	31 December 2013
EQUITY AND LIABILITIES			
Equity	21		
Share capital		163,154	163,154
Share premium		212,978	212,978
Treasury shares		(2,725)	(2,819)
Other reserves		(3,981)	(6,265)
Retained earnings		383,554	398,711
Total equity attributable to equity holders of the Company		**752,980**	**765,759**
Non-controlling interest		285,824	295,932
Total equity		**1,038,804**	**1,061,691**
Non-current liabilities			
Loans and borrowings	23	485,409	492,229
Trade and other payables	25	17,851	14,487
Employee benefits	24	25,512	28,971
Deferred tax liabilities	17	34,389	38,715
Total non-current liabilities		**563,161**	**574,402**
Current liabilities			
Loans and borrowings	23	93,227	57,808
Trade and other payables	25	268,469	241,266
Provisions	26	18,871	10,397
Current tax liabilities		1,547	475
Total current liabilities		**382,114**	**309,946**
Total liabilities		**945,275**	**884,348**
Total equity and liabilities		**1,984,079**	**1,946,039**

The Consolidated Statement of Financial Position is to be read in conjunction with the notes 1-32 to, and forming part of, the Consolidated Financial Statements.

(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
OPERATING ACTIVITIES			
Loss for the year		**(24,257)**	**(159,389)**
Adjustments for:			
Depreciation and amortization	10, 14, 15	125,910	115,942
Impairment of property, plant and equipment	14	81,690	239,446
Finance costs	12	42,863	50,618
Finance income	12	(10,712)	(9,049)
Loss on disposal of property, plant and equipment		148	3,245
Share of loss of an associate and a joint venture		10	11
Impairment of accounts receivable and inventory		18,711	19,847
Bad debt write-off		200	430
Non-cash receipt of property, plant and equipment		(4,427)	(2,281)
Non-cash settlement of technological connection agreements		(926)	(613)
Other non-cash transactions		175	1,029
Income tax (expense)/benefit		6,208	(31,012)
Operating profit before changes in working capital		**235,593**	**228,224**
Change in trade and other receivables (before impairment)		(30,019)	(40,577)
Change in inventories (before impairment)		(2,151)	(2,996)
Change in trade and other payables		5,134	15,823
Change in employee benefit liabilities		(2,470)	(869)
Change in provisions	26	8,381	(4,169)
Other		480	5
Cash flows from operating activities before income tax and interest paid		**214,948**	**195,441**
Income tax paid		(7,322)	(9,050)
Interest paid		(46,950)	(37,448)
Net cash flows from operating activities		**160,676**	**148,943**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes 1-32 to, and forming part of, the Consolidated Financial Statements.

(in millions of Russian rubles, unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(204,193)	(266,415)
Proceeds from the sale of property, plant and equipment		4,702	1,507
Acquisition of investments and placement of bank deposits		(120,533)	(97,447)
Proceeds from disposal of investments and withdrawal of bank deposits		144,904	101,904
Dividends received		31	47
Interest received		8,799	7,290
Net cash flows used in investing activities		**(166,290)**	**(253,114)**
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		118,482	293,076
Repayment of loans and borrowings		(89,592)	(185,484)
Proceeds from shares issued		-	4,295
Acquisition of non-controlling interest in subsidiaries	21	-	(764)
Dividends paid		(2,020)	(3,469)
Repayment of finance lease liabilities		(597)	(1,381)
Net cash flows from financing activities		**26,273**	**106,273**
Net increase in cash and cash equivalents		**20,659**	**2,102**
Cash and cash equivalents at the beginning of year		**61,917**	**59,815**
Cash and cash equivalents at the end of year	20	**82,576**	**61,917**

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes 1-32 to, and forming part of, the Consolidated Financial Statements.

(in millions of Russian rubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2013	49,947	16,244	(2,819)	19,751	(4,046)	807,577	886,654	335,765	1,222,419
Loss for the year	-	-	-	-	-	(132,113)	(132,113)	(27,276)	(159,389)
Other comprehensive loss	-	-	-	-	(2,768)	-	(2,768)	(1,208)	(3,976)
Related income tax	-	-	-	-	549	-	549	228	777
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**(2,219)**	**(132,113)**	**(134,332)**	**(28,256)**	**(162,588)**
Transactions with owners of the Company									
Contributions and distributions									
Issue of shares (see Note 21)	113,207	196,734	-	(19,751)	-	(282,565)	7,625	(7,092)	533
Dividends (see Note 21)	-	-	-	-	-	(166)	(166)	(3,331)	(3,497)
Effect of employee share options	-	-	-	-	-	250	250	-	250
Total contributions and distributions	**113,207**	**196,734**	**-**	**(19,751)**	**-**	**(282,481)**	**7,709**	**(10,423)**	**(2,714)**
Changes in ownership interests in subsidiaries									
Shares issued by subsidiaries (see Note 21)	-	-	-	-	-	5,993	5,993	(655)	5,338
Acquisition of non-controlling interest in subsidiaries without a change in control (see Note 21)	-	-	-	-	-	(265)	(265)	(499)	(764)
Total transactions with owners of the Company	**113,207**	**196,734**	**-**	**(19,751)**	**-**	**(276,753)**	**13,437**	**(11,577)**	**1,860**
Balance at 31 December 2013	**163,154**	**212,978**	**(2,819)**	**-**	**(6,265)**	**398 711**	**765 759**	**295 932**	**1,061 691**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes 1-32 to, and forming part of, the Consolidated Financial Statements.

(in millions of Russian rubles, unless otherwise stated)

	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Treasury shares**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2014	163,154	212,978	(2,819)	(6,265)	398,711	765,759	295,932	1,061,691
Loss for the year	-	-	-	-	(15,355)	(15,355)	(8,902)	(24,257)
Other comprehensive income	-	-	-	2,619	-	2,619	1,179	3 798
Related income tax	-	-	-	(335)	-	(335)	(186)	(521)
Total comprehensive loss for the year	**-**	**-**	**-**	**2,284**	**(15,355)**	**(13,071)**	**(7,909)**	**(20,980)**
Transactions with owners of the Company								
Contributions and distributions								
Disposal of treasury shares (see Note 21)	-	-	94	-	-	94	-	94
Dividends (see Notes 21)	-	-	-	-	-	-	(2,032)	(2,032)
Effect of employee share options	-	-	-	-	4	4	-	4
Total contributions and distributions	**-**	**-**	**94**	**-**	**4**	**98**	**(2,032)**	**(1,934)**
Changes in ownership interests in subsidiaries								
Shares issued by subsidiaries (see Note 21)	-	-	-	-	194	194	(167)	27
Total transactions with owners of the Company	**-**	**-**	**94**	**-**	**198**	**292**	**(2,199)**	**(1,907)**
Balance at 31 December 2014	**163,154**	**212,978**	**(2,725)**	**(3,981)**	**383,554**	**752,980**	**285,824**	**1,038,804**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes 1-32 to, and forming part of, the Consolidated Financial Statements.

1 Background

(a) The Group and its operations

Joint Stock Company IDGC Holding was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (RAO UES) dated 26 October 2007, as a spin-off of RAO UES.

At an Extraordinary General Meeting of Shareholders of JSC IDGC Holding on 23 March 2013, the decision was made to amend the Charter of JSC IDGC Holding, under which it was renamed JSC Russian Grids (JSC Russian Grids, or the Company). On 4 April 2013, the respective changes to the Charter of JSC IDGC Holding were registered by the Interregional Inspectorate of the Federal Tax Service No. 46 for the city of Moscow.

The ordinary and preference shares of the Company are traded on the MICEX-RTS Stock Exchange. The Company's GDRs are listed on the London Stock Exchange.

The Company's registered office is located at 4 Belovezhskaya Street, Moscow, Russia, 121353 (before the 25th of July 2014 the Company's registered office was located at 26 Ulanskiy Pereulok, Moscow, Russia, 107996).

The Russian Grids Group (Russian Grids) (the Group) is comprised of JSC Russian Grids and its subsidiaries presented in Note 5.

The Group's principal activities are electricity distribution and technological connection services.

The Group's power distribution companies sell electricity. In addition, some interregional distribution grid companies also worked as guaranteeing electricity suppliers in 2014 and 2013.

(b) Russian business environment

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

In 2014, the Russian economy was negatively impacted by macroeconomic factors, including devaluation of the Russian Ruble. In December 2014, the Ruble interest rates have increased significantly after the Central Bank of Russia raised its key rate. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty 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.

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

(c) Relations with state and current regulations

The Group's strategic business units (see Note 7) are regional natural monopolies. The Russian Government directly affects the Group's operations through a system of regional tariffs.

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

1 Background (continued)

(c) Relations with state and current regulations (continued)

As at 31 December 2014, the Russian Government owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of the Company (31 December 2013: 86.32% of the voting ordinary shares and 7.01% of the preference shares). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Group is supported by the Russian Government due to its strategic position in the economy of the Russian Federation. The Group's customer base includes a number of state-controlled entities.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for investments classified as available-for-sale financial assets that have been measured at fair value.

(c) 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 million.

(d) Use of judgments, estimates and assumptions

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

- Note 17 – Deferred tax assets
- Note 27 – Allowances for trade and other receivables
- Note 14 – Impairment of property, plant and equipment

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial periods is included in Note 14, Property, plant and equipment.

2 Basis of preparation (continued)

(e) Changes in accounting policies

The Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements, except for the application of new standards and interpretations that came into effect on 1 January 2014.

The application of the following new standards and interpretations had no material impact on the financial position or performance of the Company:

- *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. The amendments had no material impact on the financial statements of the Group.
- *Levies* (IFRIC 21). 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. This interpretation has no material impact on the Group.
- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation*. The amendments clarify the offsetting rules for assets and liabilities and introduce new related disclosure requirements applied retrospectively. These amendments have no material impact on the Group financial statements.
- *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). These amendments have no material impact on the Group financial statements

(in millions of Russian rubles, unless otherwise stated)

2 Basis of preparation (continued)

(f) Change in presentation

Reclassification of comparative information

The Group changed presentation in the financial statements for certain amounts. The changes were applied to the comparative information in the consolidated financial statements for year ended 31 December 2014.

	2013	Reclassification of income/(loss) from non-contracted electricity consumption	Reclassification of loss on disposal of property, plant and equipment	Reclassification of income from property, plant and equipment received free of charge	Total changes	2013 (restated)
Revenue	759 779	(3 973)	–	–	(3 973)	755 806
Operating expenses	(914 495)	481	3 245	(1 797)	1 929	(912 566)
Other income, net	5 895	3 492	(3 245)	1 797	2 044	7 939
Results from operating expenses	(148 821)	–	–	–	–	(148 821)

The respective changes were made in the Notes to the financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.Certain comparative amounts have been reclassified to conform with the current year presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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. Losses attributable to the non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

1) The fair value of the consideration transferred: plus2) The recognized amount of any non-controlling interests in the acquiree; plus

- 3) The fair value of the pre-existing equity interest in the acquiree if the business combination is achieved in stages; less
- 4) The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Transaction costs that the Group incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

3 Significant accounting policies (continued)

(iii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners, and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iv) Acquisitions from entities under common control

The assets and liabilities of a business acquired in a common control transaction are recognized at the carrying amounts recognized previously in the consolidated financial statements of the acquired entities. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(v) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale financial assets which are recognized in other comprehensive income.

3 Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

(ii) Non-derivative financial assets

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

The Group derecognizes 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 recognized as a separate asset or liability.

The Group has the following non-derivative financial assets: loans and receivables, held for maturity investments, cash and cash equivalents, and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables are comprised of the following classes of assets: trade and other receivables as presented in Note 19, and cash and cash equivalents as presented in Note 20.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(k)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b), are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized or impaired, the cumulative gain or loss in other

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial assets (continued)

comprehensive income is transferred to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities.

Financial assets held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate, less impairment.

(iii) Non-derivative financial liabilities

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

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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

(d) Share capital

Ordinary shares and non-redeemable preference shares are both classified as equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The deemed cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRS, was determined by using its fair value at that date.

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 labor, 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 capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant 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.

3 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized 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 derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized 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 for the current and comparative periods are as follows:

- Buildings 7-50 years
- Transmission networks 5-40 years
- Equipment for electricity transmission 5-40 years
- Other 1-50 years

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

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates, and joint ventures.

For the measurement of goodwill at initial recognition, see Note 3(a)(ii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. With respect to associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

3 Significant accounting policies (continued)

(f) Intangible assets (continued)

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Licenses and certificates 1-10 years
- Software 1-15 years

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

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial 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 recognized in the consolidated statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Advances given

Advances given are classified as non-current if they are connected with the acquisition of an asset which will be classified as non-current upon initial recognition. Advances given for the acquisition of an asset are included in its carrying amount upon the acquisition of control over the asset, and when it is probable that the Group will obtain economic benefit from its usage.

3 Significant accounting policies (continued)

(j) Value-added tax

Output value-added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Amounts of VAT related to advances received and given as well as VAT prepayment are recognized in the consolidated statement of financial position on a net basis and disclosed as an asset within accounts receivable (VAT recoverable). Amounts of VAT to be paid to the tax authorities are presented separately within short-term accounts payable.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(k) Impairment

(i) Financial assets

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

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

An impairment loss with respect to a financial asset measured at amortized 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 recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

3 Significant accounting policies (continued)

(k) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

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

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

An impairment loss with respect to goodwill is not reversed. With respect to other assets, impairment losses recognized 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 amortization, if no impairment loss had been recognized.

(l) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State Pension Fund, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

3 Significant accounting policies (continued)

(l) Employee benefits (continued)

(ii) Defined benefit post-employment plans

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognized 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 during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss. Actuarial gains and losses on changes in actuarial assumptions are recognized in other comprehensive income and expense.

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 recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Other non-current employee benefits

The Group's net obligation with respect to long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Remeasurements are recognized in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

A liability is recognized 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.

3 Significant accounting policies (continued)

(m) Provisions

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

(n) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(i) Electricity distribution and sales of electricity

Revenue from electricity transmission is recognized based on acts of services rendered. The act is prepared for each counterparty in accordance with the concluded contract on the provision of services based on the meter readings and the “boiler” tariffs. The tariffs for the distribution of electricity on the regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

Revenue from the sale of electricity is recognized based on:

- Monthly acts of acceptance of electricity under the electricity supply agreements (electricity sale agreements) of legal entities, based on the meter readings and unregulated prices formed on the retail market in the settlement period;
- Monthly documents (receipts) on the consumption of utilities services by individuals based on the meter readings and tariffs approved by the Regional Energy Commission.

Revenue from the resale of electricity and capacity which is sold under power supply contracts includes the part of revenue related to the transmission of electricity. The tariff for the sale of electricity under power supply contracts is calculated with the transmission fee taken into account.

(ii) Technological connection services

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

Revenue for connection to the power network is recognized when an act of acceptance is signed by the customer and the customer is connected to the grid network or, for a contract where connection services are performed in stages, revenue is recognized in proportion to the stage of completion.

3 Significant accounting policies (continued)

(n) Revenue (continued)

(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.

(o) Government subsidies

Government grants are recognized where there is reasonable assurance that the grant will be received and all the attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

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

(p) Other expenses

(i) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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.

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognized in profit or loss as incurred.

3 Significant accounting policies (continued)

(q) Finance income and costs

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

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

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

(r) Income tax expense

Income tax expense is comprised of current and deferred tax. It is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized with respect to 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 recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting nor taxable profit or loss;
- Temporary differences relating to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 accrues tax liabilities for 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

3 Significant accounting policies (continued)

(r) Income tax (continued)

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 realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) 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. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

(t) Segment reporting

The Group determines and presents operating segments based on internal information provided to the Management Board of the Company, which is the Group’s chief operating decision-making body.

An operating segment is a component of the Group that engages in business activities and 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. The operating results of operating segments for which discrete financial information is available are reviewed regularly by the Management Board so that it can make decisions about resources to be allocated to the segment and assess its performance.

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

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

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

3 Significant accounting policies (continued)

(u) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following will have a potential impact on the Group's operations. The Group plans to adopt the following pronouncements when they become effective:

- 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. With respect to 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. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the 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.

- IFRS 14 *Regulatory Deferral Accounts* is effective for annual periods beginning on or after 1 January 2016. The new standard introduces the requirements for the presentation in the financial statements of balances on regulatory deferral accounts related to the provision of goods or services to customers by an organization at prices or tariffs subject to tariff regulation. The Group has not determined the outcome of the potential impact of this standard on its financial position or performance. The Group is currently assessing the impact of the standard on the consolidated financial statements.

- 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. The standard is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The Group is currently assessing the impact of the standard on the consolidated financial statements.

- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled "Clarification of Acceptable Methods of Depreciation and Amortization." The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. These amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Group is currently assessing the impact of the standard on the consolidated financial statements.

- 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 Group has not yet analyzed the likely impact of the improvements on its financial position or performance. The Group is currently assessing the impact of the standard on the consolidated financial statements.

4 Measurement of fair values

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

When measuring the fair value of an asset or liability, the Group uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 27.

(in millions of Russian rubles, unless otherwise stated)

5 Significant subsidiaries

	Country of incorporation	31 December 2014 Ownership/voting, %	31 December 2013 Ownership/voting, %
JSC FGC UES	Russian Federation	80.15	80.60**
JSC MOESK	Russian Federation	50.90	50.90
JSC Tyumenenergo	Russian Federation	100.00	100.00
JSC Lenenergo	Russian Federation	67.55/70.42	53.71 / 60.56**
JSC IDGC of Centre	Russian Federation	50.23	50.23
JSC IDGC of Urals	Russian Federation	51.52	51.52
JSC IDGC of Centre and Volga region	Russian Federation	50.40	50.40
JSC Kubanenergo	Russian Federation	92.24	92.24
JSC IDGC of Siberia	Russian Federation	55.59	55.59
JSC IDGC of Volga	Russian Federation	67.63	67.63
JSC IDGC of North-West	Russian Federation	55.38	55.38
JSC IDGC of North Caucasus	Russian Federation	93.20	93.20
JSC Chechenenergo	Russian Federation	72.66	51.00**
JSC IDGC of South	Russian Federation	51.66	51.66
JSC TDC	Russian Federation	85.77 / 94.58	85.77 / 85.77
JSC Yantarenergo	Russian Federation	100.00	100.00
JSC Karachaevo-Cherkesskenergo	Russian Federation	100.00	100.00
JSC Kalmenergosbyt	Russian Federation	100.00	100.00
JSC Kabbalkenergo	Russian Federation	65.27	65.27
JSC Tyvaenergosbyt	Russian Federation	100.00	100.00
JSC Ingushenergo	Russian Federation	49.00*	49.00*
JSC Sevkavkazenergo	Russian Federation	55.94	55.94
JSC Dagestan Power Sales Company	Russian Federation	51.00	51.00

* The Group exercises control over these entities through its majority representation on the Board of Directors.
** Ownership is indicated excluding the effect of the shares issue incomplete as at period end.

(in millions of Russian rubles, unless otherwise stated)

6 Non-controlling interests

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interest, before any intra-group eliminations.

31 December 2014 and for the year then ended

	FGC	MOESK	Lenenergo	IDGC Centre	IDGC Urals	IDGC Centre and Privolzhye	IDGC Siberia	Other individually immaterial subsidiaries	Total
Non-controlling percentage	19.85	49.10	32.45	49.77	48.48	49.60	44.41		
Non-current assets	817,680	283,057	114,398	74,315	61,826	58,986	33,827		
Current assets	118,448	29,480	17,204	19,479	13,951	18,622	16,094		
Non-current liabilities	(241,312)	(74,698)	(52,730)	(34,323)	(18,287)	(27,237)	(16,200)		
Current liabilities	(120,243)	(76,393)	(38,018)	(20,539)	(16,278)	(18,575)	(20,072)		
Net assets	**574,573**	**161,446**	**40,854**	**38,932**	**41,212**	**31,796**	**13,649**		
Carrying amount of non-controlling interest	**114,402**	**80,294**	**15,174**	**19,464**	**20,729**	**16,116**	**6,241**	**13,404**	**285,824**
Revenue	178,139	128,020	45,510	86,955	68,975	69,352	60,489		
Profit/(loss)	16,958	5,434	(8,925)	(3,285)	1,515	(2,084)	(10,458)		
Other comprehensive income/(loss)	2,202	280	139	532	(97)	57	129		
Total comprehensive income/(loss)	**19,160**	**5,714**	**(8,786)**	**(2,753)**	**1,418**	**(2,027)**	**(10,329)**		
Profit/(loss) allocated to non-controlling interest	3,136	2,637	(2,910)	(1,652)	698	(1,034)	(4,644)	(5,133)	(8,902)
Other comprehensive income/(loss) allocated to non-controlling interest	437	137	45	265	(47)	28	57	71	993
Cash flows from operating activities	89,726	35,808	8,847	7,978	11,761	5,872	3,271		
Cash flows used in investment activities	(24,772)	(45,792)	(27,475)	(12,345)	(8,860)	(9,802)	(6,830)		
Cash flows from financing activities	(44,513)	12,693	16,420	3,648	(1,228)	2,940	5,067		
Net increase (decrease) in cash and cash equivalents	**20,441**	**2,709**	**(2,208)**	**(719)**	**1,673**	**(990)**	**1,508**		

(in millions of Russian rubles, unless otherwise stated)

6 Non-controlling interests (continued)

31 December 2013 and for the year then ended

	FGC	MOESK	Lenenergo	IDGC Centre	IDGC Urals	IDGC Centre and Privolzhye	IDGC Siberia	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**19.40**	**49.10**	**46.29**	**49.77**	**48.48**	**49.60**	**44.41**		
Non-current assets	791,708	267,285	102,956	79,333	59,670	60,949	44,071		
Current assets	131,459	26,349	18,747	16,713	11,092	15,940	11,214		
Non-current liabilities	(265,876)	(75,168)	(34,676)	(39,422)	(20,181)	(29,823)	(14,463)		
Current liabilities	(105,561)	(58,761)	(36,563)	(14,871)	(10,690)	(12,610)	(16,844)		
Net assets	**551,730**	**159,705**	**50,464**	**41,753**	**39,891**	**34,456**	**23,978**		
Carrying amount of non-controlling interest	**109,114**	**78,885**	**18,279**	**20,850**	**20,040**	**17,676**	**10,828**	**20,260**	**295,932**
Revenue	160,530	130,762	42,322	93,532	65,523	77,636	63,764		
Profit/(Loss)	(184,319)	19,012	4,152	266	(1,197)	1,752	(1,029)		
Other comprehensive income/(loss)	(105)	(546)	7	(291)	(395)	(102)	(169)		
Total comprehensive income/(loss)	**(184,424)**	**18,466**	**4,159**	**(25)**	**(1,592)**	**1,650**	**(1,198)**		
Profit/(loss) allocated to non-controlling interest	(37,685)	9,403	1,766	149	(550)	868	(457)	(770)	(27,276)
Other comprehensive income/(loss) allocated to non-controlling interest	(21)	(268)	2	(145)	(192)	(51)	(75)	(230)	(980)
Cash flows from operating activities	61,568	32,145	11,602	10,265	6,305	9,561	2,088		
Cash flows used in investment activities	(137,458)	(38,535)	(19,615)	(15,433)	(10,114)	(7,367)	(6,294)		
Cash flows from financing activities	73,461	(346)	8,219	5,311	3,207	(1,510)	4,109		
Net increase (decrease) in cash and cash equivalents	**(2,429)**	**(6,736)**	**206**	**143**	**(602)**	**684**	**(97)**		

7 Operating segments

The Group has fourteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity distribution services, including technological connection services, in a separate geographical region of the Russian Federation and is managed separately.

The "other" segment includes insignificant operating segments such as electricity sales, rent services and repair and maintenance services. For each of the strategic business units, the Management Board reviews internal management reports on at least a quarterly basis. Unallocated items are comprised of assets and balances of the Company's headquarters, which exercises management activity on a remuneration basis.

The Management Board of the Company assesses the performance, assets and liabilities of operating segments based on internal management accounting, which is based on the information reported in statutory accounts. Performance is measured based on earnings or loss before interest expense, income tax and depreciation and amortization (EBITDA). Management believes that EBITDA is the most relevant measurement for evaluating the results of the Group's operating segments.

The reconciliation of operating segment measurements with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for the financial statements to be presented in accordance with IFRS.

Information regarding reportable segments is included below.

(in millions of Russian rubles, unless otherwise stated)

7 Operating segments (continued)

(i) Information about reportable segments

As at and for the year ended 31 December 2014:

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanener go**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**FGC**	**Other**	**Total**
Revenue from external customers	63,665	52,048	53,917	45,944	28,484	29,387	7,829	68,190	41,388	44,561	836	86,627	125,102	42,829	65,226	756,033
Inter-segment revenue	919	28	5,691	48	408	7	5,665	972	2,873	161	3,369	78	158	126,112	29,292	175,781
Total segment revenue	**64,584**	**52,076**	**59,608**	**45,992**	**28,892**	**29,394**	**13,494**	**69,162**	**44,261**	**44,722**	**4,205**	**86,705**	**125,260**	**168,941**	**94,518**	**931,814**
Including																
Electricity transmission	57,648	50,895	57,481	45,244	28,009	28,464	12,281	65,113	31,343	36,261	3,804	69,151	112,509	159,780	10,764	768,747
Connection services	954	871	1,720	488	704	848	436	723	882	8,249	250	1,496	11,829	6,999	1,750	38,199
Resale of electricity and power	5,681	-	-	-	-	-	-	3,056	11,017	-	-	15,053	-	-	59,856	94,663
Other revenue	301	310	407	260	179	82	777	270	1,019	212	151	1,005	922	2,162	22,148	30,205
Finance income	76	457	174	29	43	634	127	265	237	1,345	2	107	550	5,995	310	10,351
Finance costs	(1,047)	(1)	(942)	(912)	2,236	(1,801)	(355)	(2,038)	(1,395)	(2,766)	(243)	(2,502)	(3,457)	(5,544)	(623)	(21,390)
Depreciation	4,969	7,242	4,116	5,662	2,872	2,472	1,878	5,866	3,956	9,078	364	8,375	22,139	80,216	3,376	162,581
EBITDA	**6,792**	**11,612**	**7,433**	**6,836**	**(1,410)**	**537**	**371**	**10,190**	**4,821**	**3,050**	**522**	**15,741**	**37,495**	**100,098**	**(3,758)**	**200,270**
Segment assets	**70,168**	**135,470**	**62,232**	**66,400**	**41,481**	**61,715**	**33,753**	**93,718**	**60,905**	**164,769**	**7,740**	**111,392**	**326,036**	**1,231,217**	**105,946**	**2,572,942**
Including property, plant and equipment and construction in progress	50,093	122,834	48,360	56,624	29,987	47,499	25,461	73,478	40,925	139,479	5,293	89,171	275,494	1,078,341	51,714	2,135,053
Capital expenditure	6,129	8,031	7,107	5,789	1,130	8,278	2,098	8,025	5,197	23,040	832	12,177	45,494	127,965	5,101	266,878
Segment liabilities	**37,287**	**24,370**	**29,098**	**23,702**	**36,258**	**32,093**	**15,464**	**44,018**	**33,940**	**93,329**	**6,006**	**55,160**	**142,249**	**376,727**	**133,335**	**1,083,136**

(in millions of Russian rubles, unless otherwise stated)

7 Operating segments (continued)

(i) Information about reportable segments (continued)

As at and for the year ended 31 December 2013:

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanenergo**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**FGC**	**Other**	**Total**
Revenue from external customers	68,921	51,920	52,183	49,117	27,052	33,898	8,218	77,644	39,267	39,813	287	92,802	124,254	33,648	61,956	760,980
Inter-segment revenue	801	32	5,261	63	374	6	4,284	27	2,783	89	3,520	145	477	121,703	31,090	170,655
Total segment revenue	**69,722**	**51,952**	**57,444**	**49,180**	**27,426**	**33,904**	**12,502**	**77,671**	**42,050**	**39,902**	**3,807**	**92,947**	**124,731**	**155,351**	**93,046**	**931,635**
Including																
Electricity transmission	56,240	50,637	55,258	39,968	25,882	30,505	11,152	61,225	29,650	33,207	3,408	61,396	110,981	152,429	8,561	730,499
Connection services	1,828	975	1,884	527	1,424	3,336	1,190	828	955	6,515	208	923	13,231	986	2,010	36,820
Resale of electricity and power	11,513	-	-	8,407	-	-	-	15,375	10,798	-	-	29,770	-	-	53,167	129,030
Other revenue	141	340	302	278	120	63	160	243	647	180	191	858	519	1,936	29,308	35,286
Finance income	13	301	90	13	46	475	62	116	16	644	-	108	378	5,000	312	7,574
Finance costs	(616)	(537)	(732)	(677)	(1,853)	(1,535)	(189)	(2,089)	(1,039)	(2,217)	(189)	(2,112)	(2,448)	(1,448)	(443)	(18,124)
Depreciation	4,433	7,411	3,664	5,035	2,734	1,712	1,766	5,390	3,511	8,171	345	7,561	18,737	70,845	3,126	144,441
EBITDA	**4,226**	**12,121**	**5,486**	**5,995**	**4,975**	**980**	**2,773**	**10,956**	**5,283**	**11,832**	**68**	**11,602**	**36,809**	**54,621**	**(10,165)**	**157,562**
Segment assets	**60,202**	**133,390**	**56,622**	**65,319**	**46,659**	**62,672**	**32,696**	**89,280**	**55,201**	**148,483**	**7,420**	**104,988**	**299,675**	**1,214,291**	**106,827**	**2,483,725**
Including property, plant and equipment and construction in progress	47,415	125,503	45,439	56,900	31,618	40,746	25,895	71,609	39,648	124,823	4,846	85,253	250,818	1,039,897	50,712	2,041,122
Capital expenditure	6,858	11,043	8,868	8,671	3,849	11,300	2,740	9,507	6,314	19,313	556	14,630	51,212	170,663	5,899	331,423
Segment liabilities	**25,155**	**21,682**	**24,827**	**22,660**	**34,636**	**31,284**	**12,636**	**40,325**	**27,754**	**72,142**	**5,659**	**52,012**	**121,186**	**371,316**	**132,034**	**995,308**

(in millions of Russian rubles, unless otherwise stated)

7 Operating segments (continued)

(ii) Major customer

In 2014, the Inter RAO Group (consisting primarily of electricity sales companies within the Inter RAO Group) was a major customer of the Group. Total revenues from companies of Inter RAO Group amounted to RUB 163,152 million for the year ended 31 December 2014 (RUB 139,899 million for the year ended 31 December 2013).

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities

The reconciliation of key segment items measured as reported to the Management Board with similar items in these financial statements is presented in the tables below.

The reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Total segment revenues	**931,814**	**931,635**
Intersegment revenue elimination	(175,781)	(170,655)
Reclassification from other income	4,324	143
Other adjustments	(760)	(5,328)
Unallocated revenues	11	11
Revenues per consolidated statement of profit or loss and other comprehensive income	**759,608**	**755,806**

Reconciliation of reportable segment EBITDA is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
EBITDA of reportable segments	**200,270**	**157,562**
Adjustment for disposal of property, plant and equipment	4,130	(182)
Adjustment for inventories valuation	193	406
Discounting of financial instruments	261	(156)
Trade and other receivables' allowance adjustment	(821)	17,356
Adjustments for finance lease	783	3,119
Impairment of property, plant and equipment	(78,872)	(239,446)
Accrued salaries and wages	300	424
Employee benefit obligations recognition	437	(813)
Adjustment on assets related to employee benefit fund	(164)	157
Provisions	1,181	(2,714)
Adjustments for deferred expenses	(31)	(121)
Adjustment of available-for-sale financial assets	1,173	1,869
Reversal of impairment of intercompany promissory notes	2,427	9,983
Other adjustments	516	(3,477)
Unallocated items	51	(2,541)

(in millions of Russian rubles, unless otherwise stated)

	131,835	**(58,574)**
Depreciation and amortization	(125,910)	(115,942)
Interest expenses on financial liabilities	(23,804)	(15,500)
Interest expenses on finance lease	(169)	(385)
Income tax (expense)/benefit	(6,208)	31,012
Loss for the year per consolidated statement of profit or loss and other comprehensive income	**(24,257)**	**(159,389)**

The reconciliation of reportable segment total assets is presented below:

	31 December 2014	31 December 2013
Total segment assets	**2,572,942**	**2,483,725**
Intersegment balances	(121,586)	(109,257)
Intersegment investments	(34,936)	(34,715)
Trade and other receivables and payables offsetting	(2,860)	(386)
Adjustment for net book value of property, plant and equipment	(404,810)	(203,720)
Impairment of property, plant and equipment	(78,872)	(239,446)
Assets related to employee benefits	6,552	6,716
Investments in associates and joint ventures	1,520	533
Adjustments for impairment of account receivables	24,714	27,769
Inventories write-off	(554)	(661)
Adjustment for deferred tax calculation	(18,770)	(11,681)
Advances given	(3,939)	(14,045)
Other adjustments	24,202	24,430
Unallocated assets	20,476	16,777
Total assets per consolidated statement of financial position	**1,984,079**	**1,946,039**

The reconciliation of reportable segment total liabilities is presented below:

	31 December 2014	31 December 2013
Total segment liabilities	**1,083,136**	**995,308**
Intersegment balances	(119,543)	(107,343)
Trade and other receivables and payables offsetting	(2,860)	(386)
Adjustment for deferred tax calculation	(43,391)	(23,585)
Employee benefit obligations	25,512	28,971
Finance lease liabilities	954	1,431
Accrued salaries and wages	166	191
Other provisions and accruals	422	1,870
Other adjustments	(890)	(13,008)
Unallocated liabilities	1,769	899
Total liabilities per consolidated statement of financial position	**945,275**	**884,348**

(in millions of Russian rubles, unless otherwise stated)

8 Revenue

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Electricity transmission	620,022	580,656
Technological connection services	36,473	37,005
Sales of electricity and capacity	86,516	127,063
Other revenues	12,484	11,009
	755,495	**755,733**
Government subsidies	4,113	73
	759,608	**755,806**

In 2014 and 2013, some companies of the Group acted as electricity suppliers Hence, in addition to providing power transmission services, these companies purchased electricity on the wholesale market and sold it on the retail market.

Other revenue is comprised of electricity transmission assets rental income, repair and maintenance services, etc.

9 Other income, net

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Income from non-contracted electricity consumption	4,684	3,491
Income from fines on commercial contracts	4,875	3,520
Net other income/expense	4,750	928
	14,309	**7,939**

Net other income/expense includes insurance reimbursement, profit/loss on disposal of fixed assets and other items.

(in millions of Russian rubles, unless otherwise stated)

10 Operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Personnel costs (see Note 11)	155,155	150,193
Depreciation and amortization (see Notes 14, 15)	125,910	115,942
Impairment of property, plant and equipment (see Note 14)	81,690	239,446
Material expenses, including:		
Purchased electricity for compensation of technological losses	92,098	101,135
Purchased electricity for resale	46,834	60,164
Electricity and heat power for own needs	3,402	3,269
Other material costs	25,273	24,742
Production work and services, including:		
Electricity transmission	125,445	122,437
Repairs, maintenance and installation services	14,302	14,607
Other works and industrial services	4,637	5,016
Taxes other than income tax	14,738	9,733
Rent	6,638	7,203
Insurance	2,548	2,437
Other third-party services, including:		
Communication services	3,068	3,066
Security services	4,841	3,084
Consulting, legal and audit services	2,173	3,599
Software costs and servicing	2,972	2,655
Transportation	1,896	2,119
Other services	6,965	8,710
Impairment of trade and other receivables	18,872	19,892
Provisions (see Note 26)	12,043	1,665
Other expenses	8,305	11,452
	759,805	**912,566**

(in millions of Russian rubles, unless otherwise stated)

11 Personnel costs

	Year ended 31 December 2014	Year ended 31 December 2013
Wages and salaries	117,831	112,690
Social security contributions	31,793	30,492
Expenses related to post-employment defined benefit plan	435	1,653
(Gains)/expenses related to other long-term employee benefits	(141)	57
Other	5,237	5,301
	155,155	**150,193**

The amount of contributions to the defined benefit contribution plan was RUB 23,274 million for the year ended 31 December 2014 (2013: RUB 23,112 million).

12 Finance income and costs

Recognized in profit or loss	Year ended 31 December 2014	Year ended 31 December 2013
Finance income		
Interest income on loans, bank deposits and promissory notes	10,054	7,733
Gain on disposal of financial assets	129	652
Other finance income	529	664
	10,712	**9,049**
Finance costs		
Interest expenses on financial liabilities measured at amortized cost	(23,804)	(15,500)
Interest expense on finance lease	(169)	(385)
Impairment loss on available-for-sale financial assets	(16,633)	(28,757)
Other finance costs	(2,257)	(5,976)
	(42,863)	**(50,618)**

The Group recognised impairment loss on available-for-sale financial assets and assets held-to-maturity in the amount of RUB 16,633 million (2013: RUB 28,757 million), mainly due to further decline in the fair value of investments in OJSC Inter RAO below their cost in the amount of RUB 5,620 million (available-for-sale financial assets) and impairment on deposits (financial assets held-to-maturity) in the amount of RUB 10,272 million.

(in millions of Russian rubles, unless otherwise stated)

12 Finance income and costs (continued)

As at 31 December 2014 Bank Tavrichesky (hereinafter, "the Bank") faced liquidity problems. On 11 February 2015, external management procedure was initiated, and the Bank was taken into temporary administration of GK Deposit Insurance Agency (hereinafter, "ASV"). ASV is implementing an action plan to prevent the Bank from going into bankruptcy.

Taking into account the financial difficulties faced by the Bank, the external administration procedure to which it is subject and the terms of restructuring deposits as part of the financial restructuring program, the Group's management believes that as at 31 December 2014 its financial investments had been impaired, and recognized an impairment loss with respect to the above financial assets carried at amortized cost for the difference between the carrying amount of the asset and present value of future cash flows. Cash flows that do not include future losses that have not yet been incurred were discounted using the effective interest rate that initially applied to the financial asset, i.e. the effective rate, calculated on initial recognition. As at December 31, 2014 the allowance was RUB 10 272 million.

13 Income tax (expense)/benefit

	Year ended 31 December 2014	**Year ended 31 December 2013**
Current tax expense		
Current year	(11,059)	(11,752)
Adjustment for prior years	1,899	4,528
	(9,160)	**(7,224)**
Deferred tax expense		
Origination and reversal of temporary differences	4,183	42,097
Change in tax base of property, plant and equipment	(1,231)	(3,861)
	2,952	**38,236**
	(6,208)	**31,012**

The Group’s applicable tax rate in 2014 and 2013 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

In 2014 and 2013, some Group companies recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result, adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognized. The tax value of property, plant and equipment was accordingly decreased, which resulted in an increase of deferred tax liabilities.

(in millions of Russian rubles, unless otherwise stated)

13 Income tax (expense)/benefit (continued)

Income tax recognized in other comprehensive income

	2014			2013		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	125	(22)	103	(123)	25	(98)
Foreign currency translation differences	650	-	650	26	-	26
Remeasurements of the defined benefit liability	3,023	(499)	2,524	(3,879)	752	(3,127)
	3,798	**(521)**	**3,277**	**(3,976)**	**777**	**(3,199)**

Reconciliation of the effective tax rate

	Year ended 31 December 2014	**%**	**Year ended 31 December 2013**	**%**
Loss before income tax	(18,049)		(190,401)	
Income tax at the applicable tax rate	3,610	(20)	38,080	(20)
Effect of income taxed at lower rates	37	-	78	-
Non-deductible expenses	(10,328)	57	(5,888)	3
Change in tax base of property, plant and equipment	(1,231)	7	(3,861)	2
Adjustment for prior years	1,899	(11)	4,528	(2)
Unrecognizeddeferred tax assets	(195)	1	(1,925)	1
	(6,208)	**34**	**31,012**	**(16)**

(in millions of Russian rubles, unless otherwise stated)

14 Property, plant and equipment

	Land and buildings	Transmis-sion networks	Equipment for electricity transmission	Other	Construc-tion in progress	Total
Cost/Deemed cost						
Balance at 1 January 2013	**168,412**	**741,711**	**598,269**	**179,245**	**463,328**	**2,150,965**
Reclassification between groups	(270)	419	(47)	(102)	-	-
Additions	4,103	7,729	4,772	11,735	286,885	315,224
Transfer	22,925	132,073	116,315	28,203	(299,516)	-
Disposals	(520)	(1,073)	(4,383)	(1,497)	(2,468)	(9,941)
Balance at 31 December 2013	**194,650**	**880,859**	**714,926**	**217,584**	**448,229**	**2,456,248**
Balance at 1 January 2014	**194,650**	**880,859**	**714,926**	**217,584**	**448,229**	**2,456,248**
Reclassification between groups	(1,387)	1,553	(630)	464	-	-
Additions	1,281	4,822	1,432	5,463	246,078	259,076
Transfer	26,108	157,504	89,130	26,648	(299,390)	-
Disposals	(394)	(1,202)	(2,844)	(3,662)	(4,518)	(12,620)
Balance at 31 December 2014	**220,258**	**1,043,536**	**802,014**	**246,497**	**390,399**	**2,702,704**
Depreciation and impairment						
Balance at 1 January 2013	**(30,256)**	**(224,797)**	**(166,940)**	**(80,298)**	**(8,937)**	**(511,228)**
Reclassification between groups	(101)	(134)	(92)	43	284	-
Depreciation charge	(7,801)	(42,569)	(41,494)	(22,219)	-	(114,083)
Disposals	187	437	2,499	1,248	-	4,371
Impairment	(2,020)	(74,108)	(77,274)	(6,521)	(79,523)	(239,446)
Balance at 31 December 2013	**(39,991)**	**(341,171)**	**(283,301)**	**(107,747)**	**(88,176)**	**(860,386)**
Balance at 1 January 2014	**(39,991)**	**(341,171)**	**(283,301)**	**(107,747)**	**(88,176)**	**(860,386)**
Reclassification between groups	(376)	(12,893)	(8,065)	(1,404)	22,738	-
Depreciation charge	(8,597)	(47,034)	(42,510)	(22,920)	-	(121,061)
Disposals	125	599	1,725	2,166	(596)	4,019
Impairment	(11,347)	(33,897)	(20,974)	(3,464)	(12,008)	(81,690)
Balance at 31 December 2014	**(60,186)**	**(434,396)**	**(353,125)**	**(133,369)**	**(78,042)**	**(1,059,118)**
Net book value						
At 31 December 2013	**154,659**	**539,688**	**431,625**	**109,837**	**360,053**	**1,595,862**
At 31 December 2014	**160,072**	**609,140**	**448,889**	**113,128**	**312,357**	**1,643,586**

(in millions of Russian rubles, unless otherwise stated)

14 Property, plant and equipment (continued)

As at 31 December 2014, construction in progress includes advance payments for property, plant and equipment of RUB 21,128 million (31 December 2013: RUB 52,327 million) which are stated net of impairment provision of RUB 1,110 million (31 December 2013: RUB 1,357 million).

Capitalized borrowing costs for the year ended 31 December 2014 amounted to RUB 23,257 million (2013: RUB 23,426 million), with capitalization rates of 7.25%-12.5% (2013: 7.5%).

As at 31 December 2014 and 31 December 2013 there are no fixed assets pledged as collateral for loans (see Note 23).

In 2014 certain depreciation expenses have been capitalized to the cost of the constructions objects.

Impairment of property, plant and equipment

As the indicators of impairment were revealed, the Group performed an impairment test of the property, plant and equipment for the cash generating units (CGU). The recoverable amount of CGUs was estimated based on the value in use. As a result, in 2014 the Group recognized an impairment loss on property, plant and equipment in the amount of RUB 81,690 million (2013: RUB 239,446 million):

Cash generating units	**Impairment loss, million rubles**
FGC	21,837
IDGC Siberia	13,558
Lenenergo	9,881
IDGC Centre	9,056
MOESK	8,513
Kubanenergo	4,598
IDGC of Center and Volga Region	3,837
IDGC North Caucasus	3,781
IDGC South	1,984
IDGC North West	1,912
IDGC of Ural	1,496
Chechenenergo	1,237

Recoverable amount for all CGU’s is determined as value in use by discounting of cash flow projections at the weighted average cost of capital (WACC) within the range of 10.03% - 12.60% (2013: 10.45%-13.66%).

(in millions of Russian rubles, unless otherwise stated)

15 Intangible assets

	Software	Licenses and certificates	Other intangible assets	Total
Cost				
As of January 1, 2013	**14,398**	**234**	**6,221**	**20,853**
Additions	2,505	115	2,341	4,961
Disposals	(346)	(66)	(714)	(1,126)
As of December 31, 2013	**16,557**	**283**	**7,848**	**24,688**
As of January 1, 2014	**16,557**	**283**	**7,848**	**24,688**
Additions	2,129	84	3,153	5,366
Disposals	(2,034)	(96)	(2,239)	(4,369)
As of December 31, 2014	**16,652**	**271**	**8,762**	**25,685**
Amortization and impairment				
As of January 1, 2013	**(4,374)**	**(163)**	**(2,394)**	**(6,931)**
Amortization charge	(1,600)	(97)	(278)	(1,975)
Disposals	316	65	426	807
Impairment	–	–	(32)	(32)
As of December 31, 2013	**(5,658)**	**(195)**	**(2,278)**	**(8,131)**
As of January 1, 2014	**(5,658)**	**(195)**	**(2,278)**	**(8,131)**
Amortization charge	(4,540)	(36)	(428)	(5,004)
Disposals	1,099	86	565	1,750
As of December 31, 2014	**(9,099)**	**(145)**	**(2,141)**	**(11,385)**
Net book value				
As of December 31, 2013	**10,899**	**88**	**5,570**	**16,557**
As of December 31, 2014	**7,553**	**126**	**6,621**	**14,300**

16 Other investments and financial assets

	31 December 2014	31 December 2013
Non-current		
Available-for-sale financial assets	14,019	19,719
Financial assets held to maturity	2,381	874
Assets related to employee defined benefits plans (see Note 24)	6,552	6,716
	22,952	**27,309**
Current		
Financial assets held to maturity	17,908	53,306
	17,908	53,306

Available-for-sale financial assets are mainly represented by marketable securities stated at fair value, most of which are represented by equity investments in OJSC Inter RAO.

Bank deposits with an original maturity of more than three months were placed with a number of banks bearing an interest of 6.64%-12.75% per annum.

The Group’s exposure to credit risk and impairment losses related to other investments and financial assets are disclosed in Note 27.

(in millions of Russian rubles, unless otherwise stated)

17 Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Property, plant and equipment	1,529	3,685	(47,565)	(51,545)	(46,036)	(47,860)
Intangible assets	470	614	(81)	(42)	389	572
Investments in associates and joint ventures	5,643	3,829	(336)	(325)	5,307	3,504
Inventories	750	585	(91)	(47)	659	538
Trade and other receivables and prepayments	9,396	8,952	(3,246)	(1,042)	6,150	7,910
Finance leases	501	649	-	-	501	649
Loans and borrowings	8	-	(284)	(296)	(276)	(296)
Provisions	4,699	1,434	-	-	4,699	1,434
Employee benefits	2,595	3,604	(208)	(101)	2,387	3,503
Trade and other payables	2,688	1,787	(51)	575	2,637	2,362
Tax loss carry-forwards	5,283	6,522	-	(22)	5,283	6,500
Other	979	1,173	(310)	(246)	669	927
Tax assets/(liabilities)	**34,541**	**32,834**	**(52,172)**	**(53,091)**	**(17,631)**	**(20,257)**
Set-off of tax	(17,783)	(14,376)	17,783	14,376	-	-
Unrecognized deferred tax assets	(9,641)	(9,446)	-	-	(9,641)	(9,446)
Net tax assets/(liabilities)	**7,117**	**9,012**	**(34,389)**	**(38,715)**	**(27,272)**	**(29,703)**

(b) Unrecognized deferred tax liabilities

At 31 December 2014, a deferred tax liability for temporary differences of RUB 98,993 million (31 December 2013: RUB 129,574 million) related to an investment in subsidiaries was not recognized because the Group controls settlements of the liability will be incurred, and it is satisfied that it will not be incurred in the foreseeable future.

(in millions of Russian rubles, unless otherwise stated)

17 Deferred tax assets and liabilities (continued)

(c) Unrecognized deferred tax assets

Deferred tax assets have not been recognized with respect to the following items:

	31 December 2014	31 December 2013
Deductible temporary differences	31,975	23,058
Tax losses	16,231	24,171
Total	**48,206**	**47,229**
Unrecognized deferred tax assets at the applicable tax rate	**9,641**	**9,446**

The deductible temporary differences do not expire under current tax legislation. Tax losses may be carried forward and utilized for up to 10 years. Deferred tax assets have not been recognized with respect to tax losses and deductible temporary differences because it is not probable that future taxable profit will be available, against which the loss-making Group’s companies can utilize the benefits.

As at 31 December 2014 the amount of accumulated tax losses of the Group incurred during the period from 2005 to 2014, is 26 623 RUB million.

Movement in temporary differences during the year

	1 January 2014	Recognized in profit or loss	Recognized in other comprehensiv e income	31 December 2014
Property, plant and equipment	(47,860)	1,824	-	(46,036)
Intangible assets	572	(183)	-	389
Investments in associates and joint ventures	3,504	1,825	(22)	5,307
Inventories	538	121	-	659
Trade and other receivables and prepayments	7,910	(1,760)	-	6,150
Finance leases	649	(148)	-	501
Loans and borrowings	(296)	20	-	(276)
Provisions	1,434	3,265	-	4,699
Employee benefits	3,503	(617)	(499)	2,387
Trade and other payables	2,362	275	-	2,637
Tax loss carry-forwards	6,500	(1,217)	-	5,263
Other	927	(258)	-	669
Unrecognized deferred tax assets	(9,446)	(195)	-	(9,641)
	(29,703)	**2,952**	**(521)**	**(27,272)**

(in millions of Russian rubles, unless otherwise stated)

17 Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year (continued)

	1 January 2013	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2013
Property, plant and equipment	(80,318)	32,458	-	(47,860)
Intangible assets	636	(64)	-	572
Investments in associates and joint ventures	(2,650)	6,129	25	3,504
Inventories	490	48	-	538
Trade and other receivables and prepayments	6,443	1,467	-	7,910
Finance leases	2,515	(1,866)	-	649
Loans and borrowings	(443)	147	-	(296)
Provisions	2,273	(839)	-	1,434
Employee benefits	2,697	54	752	3,503
Trade and other payables	1,557	805	-	2,362
Tax loss carry-forwards	4,753	1,747	-	6,500
Other	852	75	-	927
Unrecognized deferred tax assets	(7,521)	(1,925)	-	(9,446)
	(68,716)	**38,236**	**777**	**(29,703)**

18 Inventories

	31 December 2014	31 December 2013
Raw materials and consumables	13,786	13,649
Impairment of raw materials	(380)	(559)
Other inventories	13,476	11,085
Impairment of other inventories	(252)	(255)
Net realizable value	**26,630**	**23,920**

(in millions of Russian rubles, unless otherwise stated)

19 Trade and other receivables

	31 December 2014	31 December 2013
Non-current accounts receivable		
Trade receivables	893	612
Trade receivables impairment allowance	(43)	(142)
Other receivables	350	197
Other receivables impairment allowance	-	(1)
Loans	141	39
Total financial assets	**1,341**	**705**
Advances given	14,591	15,162
Advances given impairment allowance	(10,992)	(9,828)
VAT recoverable	2,031	1,403
	6,971	**7,442**
Current accounts receivable		
Trade receivables	166,924	136,506
Trade receivables impairment allowance	(53,511)	(41,678)
Other receivables	27,712	13,011
Other receivables impairment allowance	(7,356)	(3,846)
Loans	706	147
Total financial assets	**128,475**	**104,140**
Advances given	8,612	6,771
Advances given impairment allowance	(1,433)	(1,529)
VAT recoverable	19,571	33,954
Prepaid taxes, other than income tax and VAT	551	608
	155,776	**143,944**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27.

(in millions of Russian rubles, unless otherwise stated)

20 Cash and cash equivalents

	31 December 2014	31 December 2013
Cash in state-controlled banks	39,515	44,377
Cash in banks not controlled by state	7,812	7,511
Deposits in state-controlled banks	35,002	4,936
Deposits in other banks	94	4,861
Cash equivalents	153	232
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**82,576**	**61,917**

Cash equivalents primarily consist of bank deposits with an original maturity of less than three months placed with a number of banks bearing an interest of 9.8%-15.0% per annum.

21 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares		Preference shares	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	161,078,853,310	47,871,694,416	2,075,149,384	2,075,149,384
Issued for cash	-	9,387,293,206 4/31*	-	-
Issued for FGC acquisition	-	103,819,865,687 27/31*	-	-
On issue at end of year, fully paid	161,078,853,310	161,078,853,310	2,075,149,384	2,075,149,384

* fraction of shares

(b) Ordinary and preference shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings.

Holders of preference shares are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

Preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. The dividend is not cumulative, however. The preference shares also

21 Equity (continued)

(b) Ordinary and preference shares (continued)

carry the right to vote, but this right is limited according to the amendments of the Company Charter, which include reorganization and liquidation.

In the event of liquidation, preference shareholders receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(c) Changes in ownership interests of subsidiaries

Shares issued by subsidiaries

On 5 June 2013, an Extraordinary General Meeting of Shareholders of JSC Chechenenergo, the Group's subsidiary, approved an increase in charter capital through the issuance of an additional 8,383,427,634 ordinary shares with a par value of RUB 1 each under a closed subscription. The approved offering price was RUB 1. This share issuance was registered by the Federal Service for Financial Markets on 18 July 2013. In 2013, 4,275,548,093 shares were subscribed by the Company. As at 31 December 2013, the Republic of Chechnya transferred property, plant and equipment to JSC Chechenenergo as prepayment for 1,581,437,865 shares of additional issued. Additional capital of RUB 1,581 million attributable to non-controlling shareholders was recognized as a non-controlling interest as at 31 December 2013. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 307 million. In 2014 the Ministry of Property Relations of Chechen Republic acquired 1,608,545,572 shares of this issue. As a result the effect of the non-controlling interest increase was recognized in the amount of 27 million rubles. The completion of the share issue resulted in increase of the Group's interest in OJSC Chechenenrgo from 51% to 72.66%.

On 18 March 2013, the Board of Directors of FGC, the Group's subsidiary, approved an increase in charter capital through the issuance of an additional 9,431,399,773 ordinary shares with a par value of RUB 0.5 each under an open subscription. The approved offering price was RUB 0.5. This share issuance was registered by the Central Bank of Russia financial markets service on 21 November 2013. In 2013, 7,524,307,067 shares were subscribed by existing non-controlling shareholders who paid RUB 3,762 million. Additional capital of RUB 3,762 million attributable to non-controlling shareholders was recognized as a non-controlling interest as at 31 December 2013. In 2013 the Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 380 million. As a result of the share issue completion in 2014 the Group's interest in OJSC FGD UES decreased from 80.6% to 80.15%.

On 20 June 2013, an Annual General Meeting of Shareholders of JSC Lenenergo, the Group's subsidiary, approved an increase in charter capital through the issuance of an additional 926,876,304 ordinary shares with a par value of RUB 1 each under an open subscription. The approved offering price was RUB 6.06. This share issuance was registered by the Central Bank of Russia financial markets service on 10 September 2013. In 2013, 495,049,505 shares were subscribed by the Company for RUB 3,000 million. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 5,074 million.

The Group acquired 28,685,116 of shares from this issue in 2014 for the cash consideration of 174 million ruble. The transaction was recorded as a reduction in the non-controlling interest and increase of the retained earnings in the amount of 194 million ruble. The Group's interest in OJSC Lenenergo increased from 53.71% to 67.55% following the completion of the issue.

21 Equity (continued)

(d) Dividends

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

At the annual shareholders meeting held on 28 June 2013, the decision was made not to declare dividends for ordinary and preference shares according to the results of 2012 and to declare dividends for preference shares in the amount of RUB 0.08 per share from the previous year`s retained earnings in the total amount of RUB 166 million.

On 30 June 2014 the General Shareholders Meeting of the Company decided not to declare dividends on preference and common shares of the Company for 2013. During 2014 no dividends were declared or paid by the Company either.

Information regarding treasury shares is presented below:

31 December 2014			**31 December 2013**		
Number of shares, mln.		**Book value, mln. RUB**	**Number of shares, mln.**		**Book value, mln. RUB**
Ordinary	**Preference**		**Ordinary**	**Preference**	
1,491	308	2,725	1,511	308	2,819

22 Loss per share

The calculation of basic earnings/(loss) per share for 2014 was based on the loss attributable to ordinary shareholders of RUB 15,355 million (31 December 2013: loss of RUB 132,113 million), and a weighted average number of ordinary shares outstanding of 159,588 million (31 December 2013: 158,698 million), calculated as shown below. The Company has no dilutive financial instruments.

In millions of shares	**2014**	**2013**
Issued shares at 1 January	**161,079**	**47,872**
Effect of treasury shares	(1,491)	(1,511)
Effect of shares issued for FGC	-	102,578
Effect of shares issue	-	9,759
Weighted average number of shares for the year ended 31 December	**159,588**	**158,698**

	Year ended 31 December 2014	**Year ended 31 December 2013**
Weighted average number of ordinary shares for the year ended 31 December (millions of shares)	**159,588**	**158,698**
Total loss attributable to holders of ordinary shares	**(15,355)**	**(132,113)**
Loss per ordinary share (in RUB) – basic and diluted	**(0.096)**	**(0.832)**

(in millions of Russian rubles, unless otherwise stated)

23 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortized cost.

	31 December 2014	31 December 2013
Non-current liabilities		
Unsecured loans	253,091	219,771
Unsecured bonds	300,842	324,858
Finance lease liabilities	909	1,391
Less: current portion of long-term finance lease liabilities	(225)	(643)
Less: current portion of long-term loans	(20,598)	(18,183)
Less: current portion of long-term bonds	(48,610)	(34,965)
	485,409	**492,229**
Current liabilities		
Unsecured loans	23,431	3,642
Promissory notes	363	375
Current portion of long-term finance lease liabilities	225	643
Current portion of long-term loans	20,598	18,183
Current portion of long-term bonds	48,610	34,965
	93,227	**57,808**

(in millions of Russian rubles, unless otherwise stated)

23 Loans and borrowings (continued)

Terms and conditions of loans and borrowings

Terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	31 December 2014 Nominal interest rate	31 December 2013 Nominal interest rate	31 December 2014 Face value	31 December 2014 Carrying value	31 December 2013 Face value	31 December 2013 Carrying value
Unsecured loans								
Unsecured bank loans *	RUB	2015-2025	7.00-12.60%	6.87-11.2%	175,533	173,360	148,421	148,421
Unsecured bank loans	RUB	2015-2017	8.25-11.80%	7.31-11.2%	11,020	11,020	3,054	3,054
Unsecured bank loans*	RUB	2015-2019	7.64-20%	7.64-12%	29,709	29,495	29,329	29,329
Unsecured bank loans	RUB	2015-2017	7.85-11.67%	8%	4,356	4,224	3,800	3,800
Unsecured bank loans *	RUB	2015-2019	7.11-23%	7.11-9.8%	30,894	30,894	21,893	21,893
Unsecured bank loans *	RUB	2014	-	MosPrime+2.4212%	-	-	6,000	6,000
Unsecured bank loans *	RUB	2015	7.92-9.0%	7.92-8.45%	3,404	3,404	4,336	4,336
Unsecured bank loans	RUB	2015-2017	8.75-17.0%	8.75%	10,164	10,164	4,025	4,025
Unsecured bank loans	RUB	2016-2021	8.28-12.75%	7.65-12.75%	639	639	1,166	1,166
Unsecured bank loans	RUB	2015	11-14%	11-12%	822	822	732	732
Unsecured bank loans	RUB	2017	16.08%	-	1,500	1,500	-	-
Unsecured bank loans	RUB	2015	11.85%	-	2,000	2,000	-	-
Unsecured bank loans	RUB	2016	9.7-11.0%	11.3%	400	400	400	400
Unsecured bank loans	RUB	2015	13.5%	13.5%	83	83	76	76
Unsecured bank loans	RUB	2017	11.29-11.40%	-	3,761	3,451	-	-
Unsecured bank loans*	RUB	2017-2018	10.92-14%	13-14%	5,005	5,005	6	6
Unsecured bank loans	RUB	2014	-	12.5%	-	-	60	60
Unsecured bank loans	RUB	2014	-	7.94%	-	-	52	52
Unsecured loans*	RUB				46	46	50	50
Unsecured loans	RUB	2015	0-10%	0-8.25%	13	13	14	14
					279,349	**276,522**	**223,414**	**223,414**

(in millions of Russian rubles, unless otherwise stated)

	Currency	Year of maturity	31 December 2014 Nominal interest rate	31 December 2013 Nominal interest rate	31 December 2014 Face value	31 December 2014 Carrying value	31 December 2013 Face value	31 December 2013 Carrying value
Promissory notes								
Promissory notes	RUB	On demand	0%	0%	363	363	368	368
Promissory notes	RUB	2014	-	0%	-	-	7	7
					363	**363**	**375**	**375**
Bonds								
Unsecured bonds	RUB	2015-2028	7.95-10.30%	7.5-8.75%	110,000	87,305**	112,128	112,128
Unsecured bonds	RUB	2022-2048	CPI+1-2.5%[1]	CPI+1-2.5%	110,000	111,383	111,091	111,091
Unsecured bonds	RUB	2019	8.45%	8.45%	17,500	17,943	17,943	17,943
Unsecured bonds	RUB	2014	-	8.10%	-	-	4,685	4,685
Unsecured bonds	RUB	2017-2024	9.3%	0%	1,082	740	981	717
Unsecured bonds	RUB	2015-2020	7.5-8.25%	8.5-8.8%	50,000	45,685**	45,675	45,675
Unsecured bonds	RUB	2015-2024	8.5-11.5%	8.5-8.8%	20,512	20,498	15,362	15,344
Unsecured bonds	RUB	2015	9.044%	9.044%	4,076	4,072	4,075	4,066
Unsecured bonds	RUB	2015	9.15%	9.15%	4,015	4,015	4,014	4,014
Unsecured bonds	RUB	2016-2017	8.25-8.50%	8.53-8.75%	6,103	6,095	6,102	6,089
Unsecured bonds	RUB	2016	8.4%	8.4%	3,106	3,106	3,105	3,105
					326,394	**300,842**	**325,161**	**324,857**
Financial lease liabilities	RUB	2015-2016	8%	8%	**909**	**909**	**1,391**	**1,391**
Total debt					**607,015**	**578,636**	**550,341**	**550,037**

* Loans from government-related entities.
** Carrying value differs due to redemption of some bond issues as of 31 December 2014.

[1] Consumer price index - CPI

(in millions of Russian rubles, unless otherwise stated)

23 Loans and borrowings (continued)

At 31 December 2014 and 31 December 2013, bank loans were not secured over property, plant and equipment.

The nominal interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements with respect to interest rate exposures.

For more information about the Group's exposure to interest rate risk, see Note 27.

Unused credit lines amounted to RUB 182,352 million at 31 December 2014 (RUB 236,517 million as at 31 December 2013).

Financial lease liabilities are payable as follows:

	31 December 2014			**31 December 2013**		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	317	92	225	782	139	643
Between one and five years	763	142	621	911	163	748
More than five years	70	7	63	-	-	-
	1,150	**241**	**909**	**1,693**	**302**	**1,391**

The financial lease liabilities are secured by leased assets.

24 Employee benefits

The Group has a defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, and anniversary benefits.

The table below summarizes the amounts of defined benefit obligations recognized in the financial statements.

Amounts recognized in the consolidated statement of financial position:

	31 December 2014	**31 December 2013**
Present value of post-employment benefits obligation	24,544	27,883
Present value of other long-term employee benefit obligation	968	1,088
Total present value of employee benefit obligation	**25,512**	**28,971**

(in millions of Russian rubles, unless otherwise stated)

24 Employee benefits (continued)

Change in the value of assets related to employee benefit obligations:

	Year ended 31 December 2014	Year ended 31 December 2013
Value of assets at 1 January	**6,716**	**6,568**
Return on plan assets	316	161
Employer contributions	1,788	2,043
Other movements in the accounts	(131)	(65)
Payment of remuneration	(2,137)	(1,991)
Value of assets at 31 December	**6,552**	**6,716**

Assets related to pension plans and defined benefit plans are administrated to non-state pension funds NPF Eletroenergetiki and Professionalny. The assets are not the fund's assets, since it was agreed between the Group and the fund that the Group had discretion to offset the contributions paid against future contributions or against other plans, or to switch to another provider at its own initiative.

Movements in the net defined benefit liability are as follows:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Post-employment benefits obligation	Other long-term employee benefit obligation	Post-employment benefits obligation	Other long-term employee benefit obligation
Defined benefit plan obligations as at the beginning of the year	27,883	1,088	23,272	1,006
Current service cost	1,566	108	1,307	103
Past service cost	(1,222)	(17)	253	(10)
Interest cost	1,961	73	1,611	70
Remeasurement of the defined benefit liability arising from:				
– Actuarial loss arising from demographic assumptions	544	15	3,367	7
– Actuarial gain arising from financial assumptions	(3,869)	(145)	(2,017)	(75)
– Actuarial loss/ (gain) arising from experience adjustment	302	(11)	2,529	125
Benefits paid	(2,621)	(143)	(2,439)	(138)
Defined benefit plan obligations as at the end of the year	**24,544**	**968**	**27,883**	**1,088**

(in millions of Russian rubles, unless otherwise stated)

24 Employee benefits (continued)

Amounts recognized in profit or loss are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Service cost	435	1,653
Remeasurement of other long-term employee benefit obligation	(141)	57
Interest expenses	2,034	1,681
Total expenses recognized in profit or loss	**2,328**	**3,391**

Amounts recognized in other comprehensive income are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Actuarial loss arising from demographic assumptions	544	3,367
Actuarial gain arising from financial assumptions	(3,869)	(2,017)
Actuarial loss arising from experience adjustment	302	2,529
Total actuarial (gain)/loss recognized in other comprehensive income	**(3,023)**	**3,879**

Movements in remeasurement of employee benefit obligation that was recognized in other comprehensive income during the year are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Remeasurements at 1 January	10,681	6,802
Movement for the period	(3,023)	3,879
Remeasurements at 31 December	**7,658**	**10,681**

The significant actuarial assumptions are as follows:

	31 December 2014	31 December 2013
Financial actuarial assumptions		
Discount rate, annual (nominal)	12%	8%
Future inflation rate	7%	5%
Future salary increase (nominal)	7%	5%
Demographic actuarial assumptions		
Expected age of retirement:		
Men	60	60
Women	55	55
Average level of staff movement	6.5%	7%

(in millions of Russian rubles, unless otherwise stated)

24 Employee benefits (continued)

A sensitivity of employee benefits obligation to changes in significant actuarial assumptions is as follows:

	Change in the assumption	**Impact on obligation**
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 3.38%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by 1.62%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by 1.93%
Average level of staff movement	Increase/decrease by 10%	Decrease/increase by 1.32%
Mortality	Increase/decrease by 10%	Decrease/increase by 0.78%

	31 December 2014	**31 December 2013**
Defined benefit liability	(25,512)	(28,971)
Assets related to the employee benefit plans	6,552	6,716
Total	**(18,960)**	**(22,255)**

Expected payments under the defined long-term benefit plans to employees in 2015 are 2,948 million rubles, including:

- 2,810 million rubles under the defined benefit plans (including non-state pension schemes)
- 138 million rubles under the other long-term employee benefit schemes

(in millions of Russian rubles, unless otherwise stated)

25 Trade and other payables

	31 December 2014	31 December 2013
Non-current accounts payable		
Trade payables	331	168
Other payables	204	1,218
Total financial liabilities	**535**	**1,386**
Advances from customers	17,316	13,101
	17,851	**14,487**
Current accounts payable		
Trade payables	162,850	135,009
Other payables and accrued expenses	9,970	5,954
Payables to employees	16,297	16,242
Dividends payable	81	69
Total financial liabilities	**189,198**	**157,274**
Advances from customers	67,041	73,734
	256,239	**231,008**
Taxes payable		
Value-added tax	5,776	5,294
Property tax	2,706	1,851
Social security contributions	3,404	2,132
Other taxes payable	344	981
	12,230	**10,258**
	268,469	**241,266**

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

26 Provisions

	2014	2013
Balance at 1 January	**10,397**	**14,566**
Provisions accrued during the year	15,310	8,170
Provisions reversed during the year	(3,174)	(6,505)
Provisions used during the year	(3,662)	(5,834)
Balance at 31 December	**18,871**	**10,397**

Provisions relate to legal proceedings and unsettled claims against the Group in the day-to-day terms of business.

27 Financial risk management

a. Overview

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

The Group’s principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

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.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

b. Credit risk

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

i. Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group’s customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

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 a contract and depends on the amount of capacity to be connected.

The Group does not require collateral with respect to trade and other receivables and other financial assets.

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

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

Exposure to credit risk

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

	Carrying amount	
	31 December 2014	**31 December 2013**
Promissory notes	3,086	2,425
Loans and receivables	129,816	104,845
Bank deposits, cash and cash equivalents	110,051	113,599
	242,953	**220,869**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	31 December 2014	**31 December 2013**
North-West region	22,679	11,619
Central region	40,991	59,488
Ural and Volga region	20,930	9,307
South region	15,496	10,442
Siberian region	13,997	3,999
Other regions	170	443
	114,263	**95,298**

The Group's ten most significant debtors account for RUB 27,110 million of the trade receivables carrying amount at 31 December 2014 (2013: RUB 26,058 million).

Impairment losses of trade and other receivables

The aging of receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
	31 December 2014	**31 December 2014**	**31 December 2013**	**31 December 2013**
Not past due	77,004	(3,805)	65,040	(940)
Past due less than 3 months	28,496	(2,451)	24,025	(2,154)
Past due more than 3 months and less than 6 months	12,837	(3,246)	8,745	(2,818)
Past due more than 6 months and less than 1 year	20,039	(7,485)	19,799	(12,025)
Past due more than 1 year	51,503	(43,923)	32,717	(27,730)
	189,879	**(60,910)**	**150,326**	**(45,667)**

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

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

	2014	2013
Balance at 1 January	**(45,667)**	**(31,621)**
Increase during the period	(28,874)	(26,315)
Allowance utilized	10,589	1,940
Decrease due to reversal	3,042	10,329
Balance at 31 December	**(60,910)**	**(45,667)**

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

Impairment of receivables

	31 December 2014	31 December 2013
Not overdue, not impaired receivables	73,199	64,100
Not overdue impaired receivables	3,805	940
Overdue, not impaired receivables	55,770	40,559
Overdue impaired receivables	57,105	44,727
	189,879	**150,326**

The Group analysed that the not impaired past due accounts receivable are recoverable with the high level of probability.

c. Liquidity risk

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

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

As stated in Note 23 the unused credit lines of Group amounted to 182,352 million rubles at 31 December 2014 (236,517 million rubles at 31 December 2013). The Group has opportunity to attract additional financing within the corresponding limits, including the purpose of execution of the short-term obligations.

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

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

31 December 2014

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	276,522	339,869	67,377	105,507	84,907	76,406	925	4,746
Bond issued	300,842	494,494	81,620	53,008	42,819	32,020	26,988	258,039
Promissory notes	363	363	363	-	-	-	-	-
Finance lease	909	1,150	317	213	181	339	30	70
Trade and other payables	189,733	188,197	187,128	619	241	31	21	157
	768,369	**1,024,073**	**336,805**	**159,347**	**128,148**	**108,796**	**27,964**	**263,012**

31 December 2013

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	223,413	278,150	38,523	54,385	99,120	22,040	57,179	6,903
Bond issued	324,858	647,759	59,178	65,485	57,474	40,704	33,728	391,190
Promissory notes	375	375	375	-	-	-	-	-
Finance lease	1,391	1,693	782	279	174	150	308	-
Trade and other payables	158,660	161,389	160,848	415	70	16	17	23
	708,697	**1,089,366**	**259,706**	**120,564**	**156,838**	**62,910**	**91,232**	**398,116**

27 Financial risk management (continued)

d. Market risk

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

i. Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The majority of the Group's revenues and expenditures, monetary assets and liabilities are denominated in RUB, and as such financial results are insignificantly impacted by changes in exchange rates.

ii. Interest rate risk

The Group obtains borrowings mostly at fixed rates and is subject to a limited risk of changes in interest rates.

Management does not have a formal policy for determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings, management gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for the early repayment of loans on the borrower's initiative, which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

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 or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

As at 31 December 2014 variable rate financial liabilities of the Group were RUB 110,000 million (31 December 2013: 116,000 million). A reasonably possible change of 100 basis points in interest rates at 31 December 2014 would have increased (decreased) equity and profit or loss (net of taxes) by RUB 721 million (2013: RUB 928 million) . This analysis assumes that all other variables remain constant.

iii. Other market price risk

Equity price risk arises from available-for-sale equity securities. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by Management. As at 31 December 2014, available-for-sale investments exposed to equity price risk of the Group were RUB 14,019 million (31 December 2012: RUB 19,719 million).

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

e. Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

		31 December 2014		31 December 2013	
	Note	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables	19	129,816	129,816	104,845	104,845
Available-for-sale financial assets	16	14,019	14,019	19,719	19,719
Financial assets held to maturity	16	20,289	20,289	54,180	54,180
Bank deposits, cash and cash equivalents	20	82,576	82,576	61,917	61,917
Non-current and current debt	23	(578,636)	(510,196)	(550,037)	(618,692)
Trade and other payables	25	(189,733)	(189,733)	(158,660)	(158,660)
		(521,669)	(453,229)	(468,036)	(536,691)

The basis for determining the disclosed fair values is described in Note 4 and below.

The interest rate used to discount estimated cash flows for non-current and current debt for the determination of fair value as at 31 December 2014 was 12.20% (31 December 2013: 11.46%-11.48%).

As at 31 December 2014, the estimated fair value of non-current debt (including the current portion) with fixed rates was RUB 129,377 million (as at 31 December 2013: RUB 173,627 million), which was measured using the market prices for quoted FGC UES bonds (Level 1 inputs) as at 31 December 2014. The carrying amount of this non-current debt was RUB 147,771 million (as at 31 December 2013: RUB 172,349 million).

As at 31 December 2014, the estimated fair value of non-current debt (including the current portion) with variable rates (bonds Series 22) was RUB 9,746 million (as at 31 December 2013: RUB 10,139 million), which was measured using the market prices for quoted FGC UES bonds (Level 2 inputs) as at 31 December 2014. The carrying amount of this non-current debt was RUB 10,000 million (as at 31 December 2013: RUB 10,000 million).

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

f. Fair value hierarchy

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

	Level 1	Total
31 December 2014		
Available-for-sale financial assets	14,019	14,019
	14,019	**14,019**
31 December 2013		
Available-for-sale financial assets	19,719	19,719
	19,719	**19,719**

The table below analyzes the movement of financial instruments carried at fair value during the year:

	Available-for-sale financial assets
Balance at 1 January 2014	**19,719**
Impairment loss	(5,825)
Change in fair value recognized in other comprehensive income	125
Balance at 31 December 2014	**14,019**

g. Capital management

The Group’s debt-to-capital ratio at the end of the reporting period was as follows:

	31 December 2014	31 December 2013
Total liabilities	945,275	884,348
Less: cash and cash equivalents	(82,576)	(61,917)
Net debt	**862,699**	**822,431**
Total equity	1,038,804	1,061,691
Debt-to-equity ratio at 31 December	**83.05%**	**77.46%**

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

(in millions of Russian rubles, unless otherwise stated)

27 Financial risk management (continued)

g. Capital management (continued)

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 (RAP), exceed their charter capital at all times.

As of 31 December 2014 the Company's net assets, as determined in accordance with the Russian Accounting Principles (RAP), are below its chartered capital. The Company takes necessary actions for keeping net assets in amount not less than the charter capital.

28 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 into in prior periods and consist of 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 since all of the substantial risks and rewards of the land plots are with the landlord, the leases are considered to be operating leases.

Non-cancellable operating lease rentals are payable as follows:

	31 December 2014	**31 December 2013**
Less than one year	5,551	4,418
Between one and five years	10,039	9,352
More than five years	49,572	44,644
	65,162	**58,414**

In 2014, RUB 6,638 million was recognized in the consolidated statement of profit and loss and other comprehensive income with respect to operating leases (2013: RUB 7,203 million).

29 Capital commitments

As at 31 December 2014, the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment for RUB 264,092 million (as at 31 December 2013: RUB 293,833 million).

30 Contingencies

(i) Insurance

The insurance industry in the Russian Federation is in a state of development, and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third-party liability with respect to 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. Based on previous experience the Group does not expect any significant insurance losses in the foreseeable future.

(ii) 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 for 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 adequately provided for tax assets and 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 have an effect on these consolidated financial statements if the authorities were successful in enforcing their interpretations.

(iii) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of Management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group except accrued provisions (Note 26).

(iv) Environmental matters

The Group 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. Group 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.

(in millions of Russian rubles, unless otherwise stated)

30 Contingencies

(v) Other contingencies

Management believes that all of the Group’s sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on the uncertainty of previously effective legislation that regulated the lease of Unified National Electricity Network property by the Group’s subsidiaries (“last-mile”) there is a risk that customers may challenge the Group’s position for invoicing and recognizing revenue for electric power transmission services provided via leased “last-mile” grids and may win such legal cases. The potential amount of such losses could be significant, but cannot be reliably estimated, as each claim has individual legal circumstances and the respective estimation should be based on a variety of assumptions and judgments, which makes it impracticable. No provision was recognized by the Group, as Management believes that the outflow of economic benefits under current and potential proceedings is not probable.

31 Related party transactions

(i) Control relationships

The Russian Federation holds the majority of the voting interest of the Company. It is the ultimate controlling party of the Group.

(ii) Management remuneration

The Group identifies members of the Management Board and Board of Directors of the Company as key management personnel. The remuneration for members of the Management Board and Board of Directors consists of the salary stipulated by the employment contract, non-monetary benefits, bonuses determined based on the results for the period, and other payments. Remuneration or compensation is not payable to members of the Board of Directors who are government employees.

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

Key management received the following remuneration during the year, which is included in personnel costs:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Salaries and bonuses	**549**	**301**
Post employment benefits	**3**	**2**
Total	**552**	**303**

31 Related party transactions (continued)

(iii) Transactions with government-related entities

In the course of its operating activities, the Group is also engaged in significant transactions with state-controlled entities. Revenues and purchases from state-controlled entities are measured at regulated tariffs where applicable; in other cases, revenues and purchases are measured at normal market prices.

Revenues from state-controlled entities for the year ended 31 December 2014 constitute 35% (2013: 30%) of total Group revenues, including 40% (2013: 35%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for state-controlled entities for the year ended 31 December 2014 constitute 36% (2013: 35%) of total transmission costs.

Significant loans from state-controlled entities are disclosed in Note 23.

Cash at state controlled banks is disclosed in Note 20.

(iv) Pricing policies

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

32 Events after the reporting period

There were no significant events subsequent to 31 December 2014.