

Consolidated financial statements
***Open public joint stock company Interregional Distribution
Grid Company of North-West and its subsidiaries***
for the year ended 31 December 2014

with independent auditor's report

Consolidated financial statements
Open public joint stock company Interregional Distribution Grid Company
of North-West and its subsidiaries

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Independent auditor's report

To the shareholders of Open public joint stock company
Interregional Distribution Grid Company of North-West

We have audited the accompanying consolidated financial statements of Open public joint stock company Interregional Distribution Grid Company of North-West and its subsidiaries, 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 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of Open public joint stock company Interregional Distribution Grid Company of North-West 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.

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 Open public joint stock company Interregional Distribution Grid Company of North-West and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year 2014 in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements of Open public joint stock company Interregional Distribution Grid Company for the year ended 31 December 2013 were audited by another auditor which issued audit reports with unqualified audit opinions dated 3 March 2014.



A.Y. Grebeniuk
Partner
Ernst & Young LLC

1 April 2015

Details of the audited entity

Name: Open public joint stock company Interregional Distribution Grid Company of North-West
Record made in the State Register of Legal Entities on 23 December 2003, State Registration Number (1047855175785).
Address: Russia 188359, Leningrad region, Gatchina, Sobornay st., 31.

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.



Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2014

(in thousand of Russian roubles)

	Notes	For the year ended 31 December	
		2014	2013
Revenue	6	46,935,058	44,615,078
Government grants		141,313	68,289
Operating expenses	7	(47,593,270)	(43,337,208)
(Loss)/profit from operating activities		(516,899)	1,346,159
Other non-operating expenses, net		912,497	399,504
Finance costs, net	9	(2,896,719)	(1,062,178)
(Loss)/profit before income tax		(2,501,121)	683,485
Income tax benefit/(expense)	10	284,339	(296,913)
(Loss)/profit for the year		(2,216,782)	386,572
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets		(2,093)	(322)
Income tax on items that may be reclassified subsequently to profit or loss		2,907	64
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		814	(258)
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurement of the defined benefit liability		41,458	(273,427)
Income tax on items that will never be reclassified to profit or loss		(8,292)	54,685
<i>Total items that will never be reclassified to profit or loss</i>		33,166	(218,742)
Other comprehensive income/(loss) for the year, net of income tax		33,980	(219,000)
Total comprehensive (loss)/income for the year		(2,182,802)	167,572

The accompanying notes on pages 12 to 64 are an integral part of these consolidated financial statements.



Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued) for the year ended 31 December 2014

(in thousand of Russian roubles)

	For the year ended 31 December		
	Notes	2014	2013
(Loss)/ profit attributable to:			
Equity holders of the Group		(2,216,818)	386,561
Non-controlling interests		36	11
(Loss)/profit for the year		(2,216,782)	386,572
Total comprehensive (loss)/income attributable to:			
Equity holders of the Group		(2,182,838)	167,561
Non-controlling interests		36	11
Total comprehensive (loss)/income for the year		(2,182,802)	167,572
Earnings per share			
Basic and diluted (loss)/ earnings per share <i>(in Russian roubles)</i>		(0.0228)	0.0017
Weighted average number of shares in issue		95,785,923,138	95,785,923,138

General Director



Letyagin A.V.

Deputy General Director for economy and finances



Nikiforov D.S.

Chief Accountant



Maksimova T.V.

1 April 2015



Consolidated Statement of Financial Position

as at 31 December 2014

(in thousand of Russian roubles)

	Notes	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	11	35,276,341	35,915,430
Intangible assets	12	222,583	142,209
Deferred tax assets	10	21,073	20,888
Investments and other financial assets	13	575,050	56,797
Other non-current assets	14	590,621	701,602
Total non-current assets		36,685,668	36,836,926
Current assets			
Accounts receivable and prepayments	15	14,654,917	12,338,947
Income tax receivable		11,969	112,013
Inventories	16	790,435	821,951
Current financial assets	17	1,147,559	–
Other current assets		569,009	517,245
Cash and cash equivalents	18	1,038,530	839,959
Total current assets		18,212,419	14,630,115
Total assets		54,898,087	51,467,041
Equity and liabilities			
Capital and reserves			
Share capital		9,578,592	9,578,592
(Accumulated deficit)/Retained earnings		(501,356)	1,792,091
Common control combination reserve		10,457,284	10,457,284
Other reserves		324,199	290,219
Equity attributable to the equity holders of the company		19,858,719	22,118,186
Non – controlling interests		324	288
Total equity		19,859,043	22,118,474

The accompanying notes on pages 12 to 64 are an integral part of these consolidated financial statements.



Consolidated Statement of Financial Position (continued)

as at 31 December 2014

(in thousand of Russian roubles)

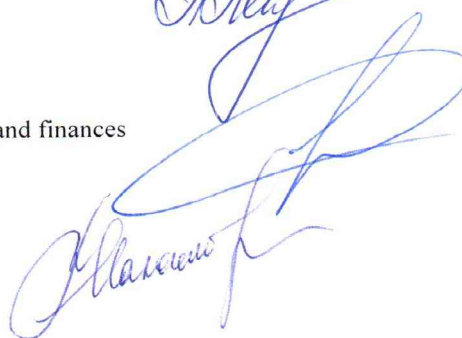
	Notes	31 December 2014	31 December 2013
Non-current liabilities			
Long-term loans and borrowings	20	14,913,056	13,953,056
Post-employment benefit obligations	21	1,620,525	1,673,495
Deferred tax liabilities	10	1,811,376	2,135,546
Other non-current liabilities	22	546,594	1,086,187
Total non-current liabilities		18,891,551	18,848,284
Current liabilities			
Accounts payable and advances received	23	11,078,740	6,012,981
Income tax payable		90,884	1,486
Current taxes payable		886,795	832,035
Current loans and borrowings	20	3,539,310	2,776,630
Current provisions		551,764	877,151
Total current liabilities		16,147,493	10,500,283
Total liabilities		35,039,044	29,348,567
Total equity and liabilities		54,898,087	51,467,041

General Director



Letyagin A.V.

Deputy General Director for economy and finances



Nikiforov D.S.

Chief Accountant

Maksimova T.V.

1 April 2015



Consolidated Statement of Changes in Equity for the year ended 31 December 2014

(in thousand of Russian roubles)

	Attributable to equity holders of the Company					Total equity	
	Share capital	(Accumulated deficit)/Retained earnings	Common control combination reserve	Other reserves	Total		Non-controlling interests
Balance as at 1 January 2013	9,578,592	1,420,990	10,457,284	509,219	21,966,085	277	21,966,362
Total comprehensive income for the year							
Profit for the year	-	386,561	-	-	386,561	11	386,572
Other comprehensive loss for the year	-	-	-	(219,000)	(219,000)	-	(219,000)
Total comprehensive income for the year	-	386,561	-	(219,000)	167,561	11	167,572
Transactions with owners							
Dividends to equity holders	-	(15,460)	-	-	(15,460)	-	(15,460)
Balance as at 31 December 2013	9,578,592	1,792,091	10,457,284	290,219	22,118,186	288	22,118,474
Balance as at 01 January 2014	9,578,592	1,792,091	10,457,284	290,219	22,118,186	288	22,118,474
Total comprehensive loss							
Loss for the year	-	(2,216,818)	-	-	(2,216,818)	36	(2,216,782)
Other comprehensive loss	-	-	-	33,980	33,980	-	33,980
Total comprehensive loss for the year	-	(2,216,818)	-	33,980	(2,182,838)	36	(2,182,802)
Transactions with owners							
Dividends to equity holders	-	(76,629)	-	-	(76,629)	-	(76,629)
Balance as at 31 December 2014	9,578,592	(501,356)	10,457,284	324,199	19,858,719	324	19,869,043

The accompanying notes on pages 12 to 64 are an integral part of these consolidated financial statements.



Consolidated Statement of Cash Flows

for the year ended 31 December 2014

(in thousand of Russian roubles)

	Year ended 31 December	
	2014	2013
Cash flows from operating activities		
(Loss)/ profit for the year	(2,216,782)	386,572
<i>Adjustments for:</i>		
Income tax (benefit) / expense	(284,339)	296,913
Finance costs, net	2,896,719	1,062,179
Depreciation and amortisation	4,092,156	3,576,078
Impairment of property, plant and equipment	1,911,855	–
(Profit)/loss from disposal of PPE	13,875	(16,939)
Impairment of account receivables	984,780	779,288
Provision/(reversal of provision) for inventory obsolescence	2,058	(9,714)
Other non-cash items	60,680	(91,040)
	7,461,002	5,983,337
<i>Working capital changes</i>		
Accounts receivable and prepayments	(3,412,060)	(7,322,373)
Inventories	29,458	(27,458)
Other current assets	(51,764)	(143,989)
Post-employments benefit obligations and related assets	–	64,198
Accounts payable, advances received and provisions	3,097,132	2,268,276
Cash from operations before income taxes and interest paid	7,123,768	821,991
Interest paid	(1,337,260)	(1,030,307)
Income tax paid	144,041	65,315
Contributions to defined benefit plan	(109,509)	–
Net cash from / (used in) operating activities	5,821,040	(143,001)



Consolidated Statement of Cash Flows (continued)

for the year ended 31 December 2014

(in thousand of Russian roubles)

	Year ended 31 December	
	2014	2013
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	48,705	193,926
Purchase of property, plant and equipment, intangible assets and other non-current assets	(4,378,020)	(5,997,699)
Interest received	62,214	11,013
Dividend income received	185	138
Deposits placed	(3,000,000)	–
Net cash used in investing activities	(7,266,916)	(5,792,622)
Cash flows from financing activities		
Proceeds from loans and borrowings	8,532,700	19,785,210
Repayments of loans and borrowings	(6,812,700)	(13,721,406)
Dividends paid	(75,553)	(15,219)
Net cash from financing activities	1,644,447	6,048,585
Net increase in cash and cash equivalents	198,571	112,962
Cash and cash equivalents as at 1 January	839,959	726,997
Cash and cash equivalents as at 31 December	1,038,530	839,959

The accompanying notes on pages 12 to 64 are an integral part of these consolidated financial statements.



ROSSETI



Interregional
Distribution
Grid Company
of the North-West



Notes to the Consolidated Financial Statements
for the year ended 31 December 2014



ROSSETI



Interregional
Distribution
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of the North-West



1. THE GROUP AND ITS OPERATIONS

Background

Open Joint Stock Company Interregional Distribution Grid Company of North-West (herein “IDGC North-West” or the “Company”) was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of OJSC RAO “UES of Russia” (“RAO UES”) as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningrad region, 188300, Russian Federation. The Company’s main offices are at Constitution Square, building 3 “A”, Saint Petersburg, 196247, Russian Federation.

Formation of the Group

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the IDGC North-West was incorporated with seven branches, located in the Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk, and subsidiaries (the “Group”). The principal subsidiaries are listed in Note 4.

The branches were formed on the basis of seven Regional Distribution Grid Companies: OJSC “Arkhenenergo”, OJSC “Vologdaenergo”, OJSC “AEK Komienergo”, OJSC “Novgorodenergo”, OJSC “Pskovenergo”, OJSC “Karelenenergo”, OJSC “Kolenergo”, all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method (see Note 2).

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.38% of the Company’s shares to OJSC “Holding IDGC”, a state-controlled entity. On 4 April 2013 in accordance with decision of General stockholders meeting dated 23 March 2013 OJSC “Holding IDGC” has been renamed to OJSC “Russian Grids” to comply with decree of President of the Russian Federation dated 22 November 2012 No. 1567 “About open joint stock company “Russian Grids”.

Relations with the state and current regulations

The Group’s business is a natural monopoly influenced by the Russian government. The government of the Russian Federation directly affects the Group’s operations through state tariffs.

In accordance with legislation of Russian Federation, the Group’s tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise capital required to maintain and expand current capacity.

As at 22 February 2013 the Ministry of Energy of the Russian Federation assigned the Company with the status of guaranteeing electric power supplier in-charge of the service area of OJSC “Kolskaya Energy Retail Company” effective from 1 March 2013. As at 22 March 2013 the Ministry of Energy of the Russian Federation assigned the Company with the same status in respect of the service area of OJSC “Novgorodoblenergosbyt” effective from 1 April 2013. As at 25 September 2013 the Ministry of Energy of the Russian Federation assigned the Company with the same status in respect of the service area of OJSC “Novgorodoblelectro” effective from 1 October 2013.



The status of guaranteeing electric power supplier in-charge in all cases was assigned till assigning of guaranteeing supplier status to the winner of the tender in respect of specified service areas, but not more than for the period of 12 months. The Group established separate units within its Kolenergo and Novgorodenergo branches for the purpose of electricity sales activities. The assigning of guaranteeing electric power supplier in-charge status did not entail change in assets, liabilities and equity of the Group at the date of status assignment.

From 1 January 2014 guaranteeing electric power supplier in-charge function in Novgorod Region of the service area of OJSC “Novgorodoblenergosbyt” was assigned to another company according to Order of the Ministry of Energy of the Russian Federation as at 23 December 2013 No. 912.

As at 1 October 2014 guaranteeing electric power supplier in-charge in Novgorod region of the service area of OJSC “Novgorodoblelectro” was assigned to another company by Ministry of Order № 638 issued on as at 24 September 2014.

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 some characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment impact may differ from management’s assessment.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with International Financial Reporting Standards (IFRS).

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as at 1 January 2007 by an independent appraiser to determine deemed cost as part of the first-time adoption of IFRSs.

Functional and presentation currency

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



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Predecessor accounting

In 2008 the Group accounted for the merger with entities controlled by RAO UES as business combination among entities under common control using the predecessor accounting method. Accordingly, assets and liabilities of the contributed entities were combined from the earliest period presented and accounted for at their carrying values, as determined by RAO UES in its IFRS consolidated financial statements.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the merger of the entities under common control is recorded in equity as a common control combination reserve.

Use of estimates

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

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

In particular, information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following Notes:

Note 10, 26 – income tax;

Note 11 – useful lives of property, plant and equipment, impairment of non-financial assets;

Note 15 – impairment of trade and other receivables;

Note 17 – impairment of investments;

Note 21 – post-employment obligations;

Note 24 – provisions for vacation and bonuses and for litigation and claims.

In management's view there are no assumptions or estimation uncertainties that may have a significant risk of resulting in a material adjustment within the next reporting year.

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 the Group entities.

Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company and entities controlled by the Group (its subsidiaries).



Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ▶ Exposure, or rights, to variable returns from its involvement with the investee;
- ▶ The ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, income, expenses, unrealized profits and losses relating to transactions between members of the Group are eliminated in full on consolidation.

Foreign currencies

In preparing financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences are recognised in profit or loss, except for differences related to available-for-sale financial assets which are recognised in other comprehensive income.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- ▶ expected to be realised or intended to be sold or consumed in normal operating cycle;
- ▶ held primarily for the purpose of trading;
- ▶ expected to be realised within twelve months after the reporting period; or
- ▶ cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ▶ it is expected to be settled in normal operating cycle;
- ▶ it is held primarily for the purpose of trading;
- ▶ it is due to be settled within twelve months after the reporting period; or
- ▶ there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.



The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ in the principal market for the asset or liability, or
- ▶ in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Group measures available-for-sale financial assets at fair value at each balance sheet date. Fair value related disclosures for financial instruments measured at amortized cost are summarised in Note 28.

Property, plant and equipment

Owned assets

Items of property, plant and equipment, except for land, are measured at historical cost (or deemed cost) less accumulated depreciation and impairment loss. Land is measured at cost less accumulated impairment loss.

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



Items of property, plant and equipment transferred from customers are measured at fair value on initial recognition.

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis in other non-operating income and expense in the consolidated statement of profit or loss and other comprehensive income.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised, with the carrying amount of the component replaced being written off. Other subsequent expenditure is capitalised if a future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired under finance lease is initially recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy for similar assets.

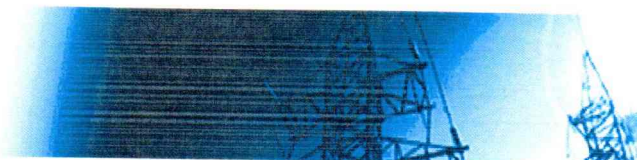
The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Depreciation

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each 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. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated.



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

Buildings and structures	7-50 years;
Power transmission equipment	7-33 years;
Power conversion equipment	5-29 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Intangible assets

All of the Group's intangible assets have finite useful lives and are capitalised on the basis of the costs incurred to acquire and prepare them for their intended use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and expenditure is reflected in the statement of profit and loss in the year in which it was incurred.

Intangible assets are amortised using the straight-line method from the date they are ready for use over their useful lives, for the current and comparative periods, as follows:

Software	3-15 years;
Licenses and certificates	3-5 years.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the consolidated statement of profit or loss and other comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. Management determines the classification of its financial assets at initial recognition.

The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable.

As at and for the years ended 31 December 2014 and 2013, the Group had no derivatives designated as hedging instruments in an effective hedge, or financial assets and liabilities classified by the Group at fair value through profit or loss.



(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

Initial recognition

The Group initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date that they are originated/issued. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument. All financial assets other than financial assets at fair value through profit or loss are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally vested right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(ii) Non-derivative financial assets – measurement

Loans and receivables

Loans and receivables are a category of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 15 and cash and cash equivalents as presented in Note 18.



Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amount of cash and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of reporting period. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss previously recognised in equity is included in profit and loss. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss and other comprehensive income when the Group's right to receive the dividends is established. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost. Available-for-sale financial assets comprise equity securities as presented in Note 13.

(iii) Non-derivative financial liabilities – measurement

Financial liabilities are classified initially as loans and borrowings, trade and other accounts payable. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Share capital

Ordinary shares

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

Impairment of non-derivative financial assets

A financial asset not carried at fair value through profit or loss, including investment in an equity accounted investee, 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 in the Group;
- ▶ economic conditions that correlate with defaults;
- ▶ the disappearance of an active market for a security; or
- ▶ observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.



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.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both a specific asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale investment securities are recognised by reclassifying the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to 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 recognised in the statement of profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Impairment of 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 intangible assets that have indefinite lives or that are not yet available for use and goodwill, recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").



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The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

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

The entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using the specific identification 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.

Spare parts

Spare parts and servicing equipment are carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared (approved by the shareholders) before or on the reporting date. Dividends are disclosed when they are declared after the financial statements date, but before the consolidated financial statements are authorized for issue.

Post-employment benefit obligations

Long-term employee benefits provided by the Group include defined contribution plans, defined benefit plans and other long-term employee benefits.



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 plans, including Russia's State pension fund, are recognised in as an employee benefit expense in profit and loss in the periods during which services are rendered by the employees under labour contracts. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit post-employment plans

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

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

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

Other long-term employee benefits

Other long-term defined benefit plans provided by the Group are regulated by Collective Agreements and include: benefits in connection with the jubilee dates of employees' birthdays, one-time benefits paid in case of death and financial support to workers. The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefits are discounted to determine its present value, and the fair value of any related assets is deducted.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.



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Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is stated net of value added tax (VAT).

Rendering of services

Revenue from transmitting electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meters, and tariffs as set by regional regulatory bodies.

Revenue for the technological connection to the power network is recognised at the moment of actual connection of the customer to the network.

Revenue from sale of electricity is recognised over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meters.

Dividends and interest income

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised 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 recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as a part of the cost of those assets, until such time as the assets are ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss using the effective interest method in the period in which they are incurred.

Income Tax

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



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Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises on the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share 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, adjusted for own shares held by the Group. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.



Segment reporting

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

Segment results that are reported to the Management Board of the Company include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

New and amended standards and interpretations

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments issued in 2011 introduce the criteria that the entity should have legally enforceable right to set-off and have an intention to offset or realise assets and settle liabilities simultaneously. These amendments have no impact on the Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments issued in June 2013 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods. This amendment would be considered in any future novation.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-financial Assets

The amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, the amendments require recoverable amount disclosures for assets or cash-generating units, for which an impairment loss was recognized or reversed during the reporting period. The Group assessed the effect of the amendments to IAS 36 in the current period and concluded that they had no impact on the Group since the assessment of the recoverable amounts related to cash-generating units CGU of the Group was based on value in use according to IAS 36.



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IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This interpretation has no impact on the Group.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

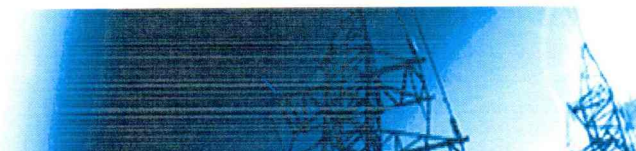
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

New Standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instrument

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.



Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are ‘similar’; and the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

4. GROUP SUBSIDIARIES

The Group’s consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

Subsidiary	Principal activity	Ownership as at 31 December 2014, %	Ownership as at 31 December 2013, %
Pskovenergosbyt	Sale of electricity	100	100
Pskovenergoagent	Collection services	100	100
Energoservice North-West	Electricity metering services	100	100
Lesnaya skazka	Recreation	98	98

5. OPERATING SEGMENTS

The Management Board of the Company has been determined as the Group chief operating decision maker (“CODM”).

The Group’s primary activity is the provision of electricity transmission services and connection services within regions of the Russian Federation. From 2013 the Group started to perform guaranteeing electric power supplier functions (see Note 1).

The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of IDGC North-West) and segments relating to other activities (represented by separate legal entities).



The Management Board regularly evaluates and analyses financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

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

- Transmission Segments – Arkhenergo, Vologdaenergo, Karelenegero, Kolenergo, Komienegero, Novgorodenergo and Pskovenergo;
- Energy Retail Segments – Kolenergo, Novgorodenergo; Pskovenergosbyt;
- Other Segments – other Group companies.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those used in the consolidated financial statements prepared under IFRSs.

The major differences relate to:

- difference in the measurement of property, plant and equipment;
- recognition of employee benefits obligations; and
- difference in accounting for deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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



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Segment results for the year ended 31 December 2014 are presented below:

	Transmission					Energy Retail				Total			
	Arkhl- energo	Vologda- energo	Karel- energo	Kol- energo	Komi- energo	Novgorod- energo	Pskov- energo	Kol- energo	Novgorod- energo		Pskov- energosbyt	Other	Unallocated
Revenues													
Power transmitting	4,784,297	6,288,738	3,899,633	3,571,534	6,628,317	3,131,373	213,826	-	-	-	-	-	28,517,718
Technological connection to power network	263,684	20,288	35,845	23,994	381,264	79,795	76,710	-	-	-	-	-	881,580
Sale of electricity	-	-	-	-	-	-	-	8,324,092	2,692,574	5,531,917	-	-	16,548,583
Other revenue	460,930	176,991	8,551	31,214	217,765	37,258	47,135	-	-	-	7,333	-	987,177
Intersegment revenue	-	-	5	-	-	-	2,865,826	-	-	425,252	244,754	-	3,535,837
Total revenues	5,508,911	6,486,017	3,944,034	3,626,742	7,227,346	3,248,426	3,203,497	8,324,092	2,692,574	5,957,169	252,087	-	50,470,895
Profit/(loss) before income tax	532,067	(348,434)	(18,043)	(912,511)	321,443	(410,229)	(350,362)	718,146	(61,221)	8,178	(15,083)	-	(536,049)
Depreciation	(434,371)	(1,024,922)	(423,869)	(313,615)	(778,614)	(565,530)	(402,116)	-	-	(439)	(2,980)	(12,458)	(3,958,914)
Finance income	27,948	47,071	30,846	42,093	41,877	24,917	22,679	493	392	244	448	-	239,008
Finance costs	(287,636)	(209,888)	(185,565)	(204,507)	(132,405)	(192,282)	(133,813)	(37,017)	(11,425)	(8,112)	(5,459)	-	(1,408,109)
Income tax expense	(10,766)	(19,589)	(9,021)	(6,361)	(18,110)	(12,668)	(13,214)	(1,233)	-	(4,083)	752	-	(94,293)
Total assets	7,434,989	13,022,659	5,611,073	6,517,369	11,759,122	6,115,079	5,310,469	960,896	556,710	648,909	78,423	3,617,058	61,632,756
<i>Including property, plant and equipment</i>	3,984,373	9,349,454	3,860,043	3,353,248	9,801,293	5,929,093	4,601,935	5,069	-	546	12,992	40,706	40,938,752
Total liabilities	868,591	1,227,137	447,951	910,825	2,888,162	79,211	528,564	693,426	604,298	616,891	144,629	25,692,571	34,702,256
Capital expenditures	873,700	1,025,634	370,454	504,737	1,510,569	522,205	438,049	-	-	527	4,066	7,853	5,257,794



Segment results for the year ended 31 December 2013 are presented below:

	Transmission					Energy Retail								
	Arkh- engorgo	Vologda- engorgo	Karel- engorgo	Kol- engorgo	Komi- engorgo	Novgorod- engorgo	Pskov- engorgo	Kol- engorgo	Novgorod- engorgo	Pskov- engorgo	Other	Unallocated	Total	
Revenues														
Power transmitting	4,469,789	6,347,979	3,565,156	3,763,478	6,448,101	2,135,801	180,248	-	-	-	-	-	26,910,552	
Technological connection to power network	36,890	21,661	602,742	4,285	218,332	19,330	51,453	-	-	-	-	-	954,693	
Sale of electricity	-	-	-	-	-	-	-	7,411,443	3,387,091	5,340,408	-	-	-	16,138,942
Other revenue	294,876	66,820	8,935	123,662	53,539	31,677	23,953	-	-	-	7,429	-	610,891	
Intersegment revenue	-	1	5	-	-	-	2,782,776	-	-	441,198	359,314	-	3,583,294	
Total revenues	4,801,555	6,436,461	4,176,838	3,891,425	6,719,972	2,186,808	3,038,430	7,411,443	3,387,091	5,781,606	366,743	-	48,198,372	
Profit/(loss) before income tax	141,036	118,308	403,560	284,995	504,525	(568,651)	(242,210)	204,839	(113,514)	503	(72,380)	-	661,011	
Depreciation	(410,002)	(891,141)	(339,682)	(291,125)	(692,511)	(510,415)	(358,580)	-	-	(640)	(3,917)	(17,807)	(3,515,820)	
Finance income	1,881	3,113	1,987	3,249	2,561	1,809	1,382	-	-	167	193	-	16,342	
Finance costs	(209,085)	(107,779)	(164,500)	(236,248)	(98,093)	(145,711)	(99,176)	18,885	2,943	(8,215)	(5,461)	-	(1,052,440)	
Income tax expense	(50,189)	(91,181)	(41,204)	(35,926)	(90,203)	(59,692)	(64,154)	-	-	3,366	(464)	-	(429,647)	
Total assets	6,903,429	12,167,451	6,114,602	5,061,190	10,372,988	6,832,076	5,133,262	931,101	714	558,229	137,175	1,683,986	55,896,203	
<i>Including property, plant and equipment</i>	3,549,650	9,346,860	3,915,552	3,167,577	9,077,637	5,964,369	4,578,677	10,500	-	986	12,019	37,027	39,660,854	
Total liabilities	898,035	1,238,208	584,270	197,618	1,914,598	612,671	421,207	738,675	827	529,339	188,445	21,148,215	28,472,108	
Capital expenditures	466,642	1,932,355	778,312	318,045	1,150,748	996,849	552,652	-	-	1,432	1,608	34,065	6,232,708	



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

Reconciliation of revenues is presented below:

	Year ended 31 December	
	2014	2013
Segment revenues	50,470,895	48,198,372
Intersegment revenue elimination	(3,535,837)	(3,583,294)
Revenues per consolidated statement of profit or loss and other comprehensive income	46,935,058	44,615,078

Reconciliation of profit before income tax is presented below:

	Year ended 31 December	
	2014	2013
Segment results – (loss)/ profit before income tax	(536,049)	661,011
Employee benefits	(26,332)	(9,010)
Adjustment for depreciation of property, plant and equipment	(43,710)	(37,645)
Adjustments for finance costs	26,968	64,380
Impairment of property, plant and equipment	(1,911,855)	–
Other adjustments	(10,143)	4,749
Profit before income tax per consolidated statement of profit or loss and other comprehensive income	(2,501,121)	683,485

Reconciliation of depreciation and amortization is presented below:

	Year ended 31 December	
	2014	2013
Segment depreciation	(3,958,914)	(3,515,820)
Adjustment for depreciation and impairment of property, plant and equipment	(43,710)	(37,645)
Amortization of intangible assets	(89,532)	(22,613)
Depreciation, amortization per consolidated statement of profit or loss and other comprehensive income	(4,092,156)	(3,576,078)

Reconciliation of financial costs is presented below:

	Year ended 31 December	
	2014	2013
Segment finance income	239,008	16,342
Segment finance costs	(1,408,109)	(1,052,440)
Amounts included in cost of qualifying assets	62,710	54,374
Effect of discounting of accounts receivable	(35,742)	10,006
Provision for impairment of investments	(1,665,078)	–
Effect of adjustment for post-employment obligations	(88,293)	(68,394)
Other finance costs reclassification	(1,215)	(22,066)
Finance costs, net per consolidated statement of profit or loss and other comprehensive income	(2,896,719)	(1,062,178)



Reconciliation of income tax expense is presented below:

	Year ended 31 December	
	2014	2013
Segment income tax expense	(94,293)	(429,647)
Adjustment due to different accounting principles for deferred tax calculation	378,632	132,734
Income tax benefit/ (expense) per consolidated statement of profit or loss and other comprehensive income	284,339	(296,913)

Reconciliation of total assets is presented below:

	31 December 2014	31 December 2013
Total segment assets	61,632,756	55,896,203
Adjustment for differences in deemed cost and depreciation rates	(3,744,223)	(3,752,999)
Impairment of property, plant and equipment	(1,911,855)	
Adjustment for inventories valuation and write offs	(202,922)	(204,938)
Adjustment due to different accounting principles for deferred tax calculation	(830,595)	(487,027)
Intersegment balances	(495,043)	(454,091)
Investments in subsidiaries	(36,219)	(28,164)
Discounting of accounts receivable	(45,033)	(9,291)
Recognition of assets related to post-employment benefits	517,520	545,501
Other adjustments	13,701	(38,153)
Total assets per consolidated statement of financial position	54,898,087	51,467,041

Reconciliation of property, plant and equipment is presented below:

	31 December 2014	31 December 2013
Segment property, plant and equipment	40,938,752	39,660,854
Adjustment for differences in deemed cost and depreciation rates, borrowing cost capitalized	(3,744,223)	(3,752,999)
Impairment of property, plant and equipment	(1,911,855)	–
Advances for acquisition of property, plant and equipment	(1,512)	(15,789)
Reclassification from other non-current assets	–	30,482
Other adjustments	(4,821)	(7,118)
Property, plant and equipment per consolidated statement of financial position	35,276,341	35,915,430

Reconciliation of total liabilities is presented below:

	31 December 2014	31 December 2013
Total segment liabilities	34,702,256	28,472,108
Post-employment benefit obligations	1,620,525	1,673,495
Adjustment due to different accounting principles for deferred tax	(798,687)	(297,310)
Intersegment balances	(495,043)	(454,091)
Other adjustments	9,993	(45,635)
Total liabilities per consolidated statement of financial position	35,039,044	29,348,567



Information on revenues for separate types of services and products of the Group is presented in Note 6.

The Group operates in the Russian Federation. Significant customers of the Group are entities controlled by the Government of the Russian Federation. The amounts of revenues from such entities are disclosed in Note 25. Revenues from companies under government control are reported by all segments of the Group.

For the years ended 31 December 2014 and 2013 the Group had two major customers – electricity distribution selling companies in two regions of the Russian Federation – with individual turnover over 10% of total Group revenue. Revenue from such customers is reported by transmission segments operating in the regions where these distribution companies are located: Arkhangelsk and Komi (2013: Arkhangelsk, Komi). The total amounts of revenue for these major customers for the year ended 31 December 2014 were 3,996,138 (Arkhangelsk) and 3,364,215 (Komi) (for the year ended 31 December 2013: 3,570,258 (Arkhangelsk) and 3,227,145 (Komi)). Trade receivables from major customers as at 31 December 2014 amounted to 2,489,594 (Arkhangelsk) and 693,778 (Komi) (as at 31 December 2013: 2,672,630 (Arkhangelsk) and 240,573 (Komi)).

6. REVENUE

	Year ended 31 December	
	2014	2013
Power transmitting	28,517,718	26,910,552
Sale of electricity	16,548,583	16,138,942
Technological connection to power network	881,580	954,693
Other revenue	987,177	610,891
Total revenue	46,935,058	44,615,078

7. OPERATING EXPENSES

	Year ended 31 December	
	2014	2013
Power transmitting services	12,484,061	11,153,816
Salaries and other personnel expenses (Note 8)	9,752,048	9,633,709
Electricity purchased for resale	8,970,315	9,355,540
Depreciation and amortization of non-current assets	4,092,156	3,576,078
Electricity purchased to cover losses	3,951,377	3,820,209
Impairment of property, plant and equipment	1,911,855	–
Raw materials used	1,742,539	1,834,298
Network and equipment repair services	765,100	813,665
Taxes other than income tax	348,370	288,112
Energy resources for own needs	277,255	281,562
Telecommunication and information services	230,940	224,674
Impairment of trade and other receivables	984,780	779,288
Other operating expenses	2,082,474	1,576,257
Total operating expenses	47,593,270	43,337,208



8. SALARIES AND OTHER PERSONNEL EXPENSES

Salaries and other personnel expenses for the year ended 31 December 2014 and 2013 were:

	Year ended 31 December	
	2014	2013
Wages, salaries	6,693,668	6,678,088
Defined contribution plan	1,935,567	1,840,221
Unused vacation provision	1,091,575	1 057 394
Defined benefit plan (Note 21)	31,238	58,006
Total	9,752,048	9,633,709

9. FINANCE COSTS, NET

Finance costs, net for the year ended 31 December 2014 and 2013 were:

	Year ended 31 December	
	2014	2013
Interest expense on loans	1,441,270	1,089,838
Discounting of long-term accounts receivable	51,993	1,449
Provision for impairment of investments (Note 17)	1,665,078	–
Interest expense on post-employment obligations (Note 21)	119,862	91,615
Less: amounts included in the cost of qualifying assets	(101,330)	(96,297)
Total finance costs	3,176,873	1,086,605
Interest income	(232,148)	(11,013)
Unwinding of discount	(16,251)	(11,455)
Other finance income	(31,755)	(1,959)
Total finance income	(280,154)	(24,427)
Total finance costs, net	2,896,719	1,062,178

The annual capitalization rate for general purpose borrowings for the year ended 31 December 2014 was 7.84% (2013: 8.14%).

10. INCOME TAX

Income tax recognised in profit or loss for the year ended 31 December 2014 and 2013 was:

	Year ended 31 December	
	2014	2013
Current income tax	90,168	1,291
Adjustment for prior years	(44,669)	86,568
Fines	(99)	74
Deferred income tax	(329,739)	208,980
Total income tax (benefit)/ expense	(284,339)	296,913



Profit before income tax for the year is reconciled to income tax expense as follows:

	Year ended 31 December	
	2014	2013
(Loss) / profit before income tax	(2,501,121)	683,485
Income tax at statutory tax rate	(500,224)	136,697
Adjustments due to:		
Change in a manner of recoverability of deferred tax asset	226,552	–
Non-deductible expenses	34,101	73,574
Fines	(99)	74
Adjustments in respect of current income tax of previous year	(44,669)	86,568
Income tax (gain)/ expense at effective tax rate of 11% (2013: 43%)	(284,339)	296,913

The statutory tax rate effective in the Russian Federation was 20% in 2014 and in 2013.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The statutory tax rate of 20% was applied in the calculation of deferred tax assets and liabilities as at 31 December 2014 and 2013. The tax effect of the movements in these temporary differences is detailed below:

	31 December 2014	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2014
Post-employment benefit obligations	95,416	(121,891)	(8,292)	225,599
Other current liabilities and accrued expenses	112,332	(58,471)	–	170,803
Other assets/ liabilities	348,169	338,818	2,908	6,443
Tax loss carry-forwards	–	(274,039)	–	274,039
Accounts payable and advances received	327	180	–	147
Deferred tax assets	556,244	(115,403)	(5,384)	677,031
Netting	(535,171)	120,972	–	(656,143)
Net deferred tax assets	21,073	5,569	(5,384)	20,888
Property, plant and equipment	(1,950,121)	366,930	–	(2,317,051)
Accounts receivable	(396,426)	78,212	–	(474,638)
Deferred tax liabilities	(2,346,547)	445,142	–	(2,791,689)
Netting	535,171	(120,972)	–	656,143
Net deferred tax liabilities	(1,811,376)	324,170	–	(2,135,546)



	31 December 2013	Recognized in profit or loss	Recognized in other comprehensive income	1 January 2013
Post-employment benefit obligations	225,599	1,903	54,685	169,011
Other current liabilities and accrued expenses	170,803	(47,604)	–	218,407
Other assets/ liabilities	6,443	(57,006)	64	63,385
Tax loss carry-forwards	274,039	261,280	–	12,759
Accounts payable and advances received	147	19	–	128
Deferred tax assets	677,031	158,592	54,749	463,690
Netting	(656,143)	(194,691)	–	(461,452)
Net deferred tax assets	20,888	(36,099)	54,749	2,238
Property, plant and equipment	(2,317,051)	(118,038)	–	(2,199,013)
Accounts receivable	(474,638)	(249,534)	–	(225,104)
Deferred tax liabilities	(2,791,689)	(367,572)	–	(2,424,117)
Netting	656,143	194,691	–	461,452
Net deferred tax liabilities	(2,135,546)	(172,881)	–	(1,962,665)

As at 31 December 2014 the Group has not recognised deferred tax assets in respect of tax loss carry-forwards. As at 31 December 2014 there was no tax loss carried forward (31 December 2013: 1,370,195). The tax losses can be utilized 10 years after their origination.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes it is probable that taxable profit will be available against which the deductible temporary difference will be utilized.



11. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
<i>Cost or Deemed cost</i>						
Opening balance as at 1 January 2014	5,852,279	26,157,905	13,641,066	5,984,540	2,205,440	53,841,230
Additions and transfers	811,132	2,296,994	1,421,976	482,062	5,348,743	10,360,907
Disposals and transfers	(5,791)	(7,628)	(13,256)	(48,798)	(5,063,827)	(5,139,300)
Closing balance as at 31 December 2014	6,657,620	28,447,271	15,049,786	6,417,804	2,490,356	59,062,837
<i>Depreciation and impairment</i>						
Opening balance as at 1 January 2014	(1,630,338)	(9,675,319)	(3,988,622)	(2,631,521)	–	(17,925,800)
Charge for the year	(299,944)	(2,038,156)	(930,929)	(733,595)	–	(4,002,624)
Impairment	(199,128)	(842,474)	(479,389)	(153,611)	(237,253)	(1,911,855)
Disposals	4,126	3,604	8,433	37,620	–	53,783
Closing balance as at 31 December 2014	(2,125,284)	(12,552,345)	(5,390,507)	(3,481,107)	(237,253)	(23,786,496)
Net book value as at 1 January 2014	4,221,941	16,482,586	9,652,444	3,353,019	2,205,440	35,915,430
Net book value as at 31 December 2014	4,532,336	15,894,926	9,659,279	2,936,697	2,253,103	35,276,341
<i>Cost or Deemed cost</i>						
Opening balance as at 1 January 2013	5,186,851	23,481,202	11,792,915	5,049,099	2,193,558	47,703,625
Additions and transfers	690,953	2,683,464	1,861,866	1,005,306	6,388,736	12,630,325
Disposals and transfers	(25,525)	(6,761)	(13,715)	(69,865)	(6,376,854)	(6,492,720)
Closing balance as at 31 December 2013	5,852,279	26,157,905	13,641,066	5,984,540	2,205,440	53,841,230
<i>Depreciation and impairment</i>						
Opening balance as at 1 January 2013	(1,371,685)	(7,894,482)	(3,158,145)	(2,028,426)	–	(14,452,738)
Charge for the year	(267,775)	(1,785,703)	(839,953)	(660,034)	–	(3,553,465)
Disposals	9,122	4,866	9,476	56,939	–	80,403
Closing balance as at 31 December 2013	(1,630,338)	(9,675,319)	(3,988,622)	(2,631,521)	–	(17,925,800)
Net book value as at 1 January 2013	3,815,166	15,586,720	8,634,770	3,020,673	2,193,558	33,250,887
Net book value as at 31 December 2013	4,221,941	16,482,586	9,652,444	3,353,019	2,205,440	35,915,430



Borrowing cost included in cost of qualifying assets for the year ended 31 December 2014 amounted to 101,330 (2013: 96,297).

As at 31 December 2014 prepayments for the acquisition of property, plant and equipment, net of VAT included in the assets under construction amounted to 19,350 (as at 31 December 2013: 31,851 net of VAT).

In connection with identified impairment indicators, the Group performed impairment testing in respect of property, plant and equipment for specific cash-generating units as at 31 December 2014.

The majority of the Group's property, plant and equipment is specialized in nature which is rarely sold on the open market, except for those cases when they are sold as part of existing enterprises. The market for similar property, plant and equipment is not active in Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

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

The cash-generating units determined on the basis of the geographical location of branches and subsidiaries and represent the smallest identifiable group of assets that generate inflow of cash independently from other assets of the Group.

In evaluating the recoverable amount of assets the following key assumptions were used:

- Cash flows were projected on the basis of the Methodological Guidance for testing of electric power grid assets for impairment (approved by OJSC "Russian grids" No. 558r on 17 December 2014) and projected data for the period:
 - until 2019 for the cash-generating units "Arkhenenergo", "Kolenergo", "Komienergo";
 - until 2022 for the cash-generating units "Vologdaenergo", "Novgorodenergo", "Karelenergo", "Pskovenergo".
- The forecast cash flows were determined for the period 2015-2019 (for the cash-generating units "Arkhenenergo", "Kolenergo", "Komienergo"), for the period 2015-2022 (for the cash-generating units "Vologdaenergo", "Novgorodenergo", "Karelenergo", "Pskovenergo") based on the Group's management's best estimate of the volume of electric-power transmission, operating and capital costs, and tariffs approved by the regulatory authorities for 2015.
- Business-plans, adjusted and agreed with OJSC "Russian grids" (approved by the board of directors of IDGC North-West on 25 December 2014) based on the tariff models were used as a source for the forecast tariffs for electric-power transmission for the forecast period. The tariff models were formed considering the average annual growth of tariffs for electric-power transmission (in accordance with the forecast of the social and economic development of the Russian Federation for 2015 and the planning period of 2016-2017). Growth rates in 2017-2022 are limited by the rate of inflation in accordance with the forecast of the Ministry of Economic Development of the Russian Federation.



- Projected volume of electric-power transmission for “Arkhenergo”, “Kolenergo”, “Komienergo” were determined on the basis of the annual business-plans for the period 2015-2019 (approved by the board of directors of IDGC North-West on 25 December 2014).
- Projected volume of electric-power transmission for “Vologdaenergo”, “Novgorodenergo”, “Karelenegero”, “Pskovenergo” were determined on the basis of the annual business-plans for the period 2015-2019. Starting 2020 the level of production, based on the management's estimates, was forecasted without taking into account growth rate and was set at the 2019 level.
- Projected cash flows were discounted to their present value using a weighted-average cost of capital of 11.16%.
- The rate of the net cash flows growth in the terminal period comprised:
 - 2.6% for the cash-generating units “Arkhenergo”, “Kolenergo”, “Komienergo”;
 - 2.4% for the cash-generating units “Vologdaenergo”, “Novgorodenergo”, “Karelenegero”, “Pskovenergo”.

As a result of testing as at 31 December 2014 the impairment loss has been recognized in the amount of 1,911,855 (including 1,316,784 for “Vologdaenergo” and 595,071 for “Novgorodenergo”).

The key assumptions used in calculating value-in-use of property, plant and equipment as at 31 December 2014 and the sensitivity analysis to changes in assumptions is described below:

In calculating the value-in-use of property, plant and equipment the most significant impact on the test result have assumptions made in relation to the following indicators: the rate of revenue growth from the electric-power transmission to the previous year, the ratio of the capital investments to the sum of depreciation, the change in the level of operating expenses.

The following tables present the values of the key assumptions used in the impairment test of property, plant and equipment:

%	2015	2016	2017	2018	2019	Terminal period
<i>Arkhenergo</i>						
Rate of revenue growth from the electric-power transmission to the previous year	(1,47)	4,26	5,26	5,28	5,23	3,50
Capital investment to depreciation ratio	34,07	41,51	42,80	42,48	41,40	100,00
Change in the level of operating expenses	6,74	4,08	4,12	2,53	4,09	1,23
<i>Kolenergo</i>						
Rate of revenue growth from the electric-power transmission to the previous year	0,89	9,63	5,15	5,27	5,32	3,50
Capital investment to depreciation ratio	63,06	56,47	40,82	53,12	83,19	100,00
Change in the level of operating expenses	0,29	5,09	4,84	5,47	5,38	1,91
<i>Komienergo</i>						
Rate of revenue growth from the electric-power transmission to the previous year	6,18	8,01	5,30	5,48	5,47	3,50
Capital investment to depreciation ratio	108,81	56,82	105,16	99,49	90,61	100,00
Change in the level of operating expenses	5,76	3,70	5,26	2,51	3,14	1,83



%	2015	2016	2017	2018	2019	2020	2021	2022
<i>Vologdaenergo</i>								
Rate of revenue growth from the electric-power transmission to the previous year	5,61	8,85	-1,03	-1,36	5,08	3,09	3,11	3,01
Capital investment to depreciation ratio	61,44	73,44	81,46	79,10	76,74	96,61	97,27	97,26
Change in the level of operating expenses	0,22	4,53	-1,22	-0,33	2,93	2,24	2,49	2,30
<i>Kareleenergo</i>								
Rate of revenue growth from the electric-power transmission to the previous year	-2,22	9,38	-1,98	-4,93	5,05	3,46	3,40	2,63
Capital investment to depreciation ratio	18,92	41,01	80,80	46,35	70,06	98,15	97,25	97,26
Change in the level of operating expenses	-2,17	5,54	-9,76	-12,65	1,79	0,40	1,44	1,33
<i>Novgorodenergo</i>								
Rate of revenue growth from the electric-power transmission to the previous year	7,81	7,16	5,61	5,68	5,74	3,50	3,15	3,05
Capital investment to depreciation ratio	19,43	34,60	49,62	65,77	48,08	95,17	97,29	97,26
Change in the level of operating expenses	2,92	1,69	3,59	3,29	6,21	2,28	2,69	2,45
<i>Pskovenergo</i>								
Rate of revenue growth from the electric-power transmission to the previous year	17,19	17,86	9,19	5,43	5,15	3,39	3,10	3,01
Capital investment to depreciation ratio	39,50	68,39	74,74	74,72	74,71	93,71	97,31	97,26
Change in the level of operating expenses	3,37	3,98	2,99	1,79	3,20	2,43	1,52	1,33

Increase in the annual revenue by 30% would result in the absence of impairment for “Vologdaenergo”. Increase in the annual revenue by 25% would result in the absence of impairment for “Novgorodenergo”.

Decrease in discount rate by 3% would result in the absence of impairment for “Vologdaenergo”. Decrease in the discount rate by 2.6% would result in the absence of impairment for “Novgorodenergo”.

The models of “Arkhenenergo”, “Kolenergo”, “Komienergo” are not sensitive to the long-term growth rate (2% and 3% accordingly).

The change in the rate of revenue growth: for “Arkhenenergo” the annual decrease in revenue in each period by 0.6%, would have result in the impairment of 1% (43,232); for “Kolenergo” the annual decrease in revenue in each period by 0.9%, would have result in the impairment of 2% (69,515); for “Komienergo” the annual decrease in revenue in each period by 0.9%, would result in the impairment of 1% (46,304).

The discount rate change: for “Arkhenenergo” the change in the discount rate to 12% would have led to the impairment of 3% (123,440); for “Kolenergo” the change in the discount rate to 12.8% would have led to the impairment of 1% (32,341); for “Komienergo” the change in the discount rate to 12.1% would have led to the impairment of 1% (56,291).



12. INTANGIBLE ASSETS

	Software	Licenses and certificates	Total
<i>Cost</i>			
Opening balance as at 1 January 2014	168,326	36,511	204,837
Additions	142,214	32,355	174,569
Disposals	(38,260)	(7,633)	(45,893)
Closing balance as at 31 December 2014	272,280	61,233	333,513
<i>Amortization</i>			
Opening balance as at 1 January 2014	(53,974)	(8,654)	(62,628)
Charge for the year	(84,100)	(5,432)	(89,532)
Disposals	35,080	6,150	41,230
Closing balance as at 31 December 2014	(102,994)	(7,936)	(110,930)
Net book value as at 1 January 2014	114,352	27,857	142,209
Net book value as at 31 December 2014	169,286	53,297	222,583
<i>Cost</i>			
Opening balance as at 1 January 2013	78,671	23,528	102,199
Additions	95,019	13,572	108,591
Disposals	(5,364)	(589)	(5,953)
Closing balance as at 31 December 2013	168,326	36,511	204,837
<i>Amortization</i>			
Opening balance as at 1 January 2013	(40,373)	(5,595)	(45,968)
Charge for the year	(18,965)	(3,648)	(22,613)
Disposals	5,364	589	5,953
Closing balance as at 31 December 2013	(53,974)	(8,654)	(62,628)
Net book value as at 1 January 2013	38,298	17,933	56,231
Net book value as at 31 December 2013	114,352	27,857	142,209



13. INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments in securities and other financial assets as at 31 December 2014 and 2013 were:

	31 December 2014	31 December 2013
Available-for-sale investments, at fair value		
Equity securities	8,331	10,616
Loans and receivables, at amortized cost		
Restructured trade receivables from principal activities	168,290	13,144
Deposits (Note 17)	356,514	-
Long-term promissory notes	6,612	5,899
Other non-current receivables	35,303	27,138
Total	575,050	56,797

Equity securities represent investments in shares of OJSC TGC-1 and other securities, which are listed on MICEX and RTS, recorded at fair value.

The restructured trade receivables from core operations for electricity supply for prior periods, which were past-due and in respect of which the agreement to settle such receivables during several years was reached prior to 2013. Long-term promissory notes represent investments in non-interest-bearing promissory notes of MDM-Bank maturing on 21 September 2016. All non-current receivables are denominated in roubles.

14. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2014 and 2013 were:

	31 December 2014	31 December 2013
Assets related to long-term post-employment benefits	517,519	545,501
VAT on non-current prepayments from customers	67,558	149,974
Other	5,544	6,127
Total	590,621	701,602

Assets related to post-employment benefits represent balances on collective and individual accounts in Non-State Pension Fund of the Electric Power Industry (see Note 21). Those assets are not owned by the fund since under current contractual agreement with fund the Group can utilize contributions either by reducing future contributions, financing other plans or transferring assets to another fund at its own discretion.

The movement in the balance of assets related to the post-employment benefits for 2014 and 2013 were as follows:

	31 December 2014	31 December 2013
as at 1 January 2014	545,501	546,345
Income on plan's assets	31,569	21,410
Contributions	51,984	60,555
Other movements in accounts	6,150	5,313
Payments of benefits	(117,685)	(88,122)
As at 31 December 2014	517,519	545,501



15. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable and prepayments as at 31 December 2014 and 2013 were:

	31 December 2014	31 December 2013
Trade receivables	15,650,901	13,374,218
Other receivables	887,299	520,811
Less: allowance for doubtful debts	(2,159,812)	(1,933,499)
Subtotal financial assets	14,378,388	11,961,530
Prepayments	276,529	377,417
Total	14,654,917	12,338,947

All accounts receivable are denominated in roubles and relate to sales to enterprises located in Russian Federation. Accounts receivable include amounts due from related parties (Note 25).

All impaired receivables have been provided for. Management has determined an allowance for doubtful debtors based on specific customer identification, current court practice, customer payment discipline, subsequent receipts, and settlements and the analysis of expected future cash flows. Management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

The Group's trade receivables as at 31 December 2014 include 572,319 related to litigations with electricity sales companies (31 December 2013: 552,676) which were fully included in respective provision (31 December 2013: fully included in respective provision). During 2014 some of the litigations that existed as at 31 December 2013 were won by the Group, some were lost by the Group while others remained unresolved. Additionally the Group entered into a number of new similar litigations. The main reasons for the litigation are disagreements over the amount of power consumed, application of tariffs for electricity transmission and provision of power and delays in customers' payments. No provision has been recognised for amounts considered to be probable of recovery by the Group.

Certain trade receivables and other accounts receivable have been restructured and are due to be realized more than one year from the end of reporting period (Note 13).

The ageing of receivables at the reporting date was:

	Gross 31 December 2014	Impairment 31 December 2014	Gross 31 December 2013	Impairment 31 December 2013
Not past due	4,334,526	–	3,889,992	–
Past due less than 3 months	5,195,573	–	3,133,756	(11,811)
Past due more than 3 months and less than 6 months	1,941,962	(74,892)	1,998,089	(28,729)
Past due more than 6 months and less than 1 year	1,784,841	(94,120)	2,883,010	(878,339)
Past due more than 1 year	3,281,298	(1,990,800)	1,990,182	(1,014,620)
	16,538,200	(2,159,812)	13,895,029	(1,933,499)

Based upon historic default rates, management believes that, apart from the above, no impairment allowance is necessary in respect of receivables.



Movement in the impairment allowance in respect of trade and other receivables:

	Year ended 31 December	
	2014	2013
Balance at the beginning of the year	(1,933,499)	(1,631,958)
Accrued	(1,977,602)	(1,395,248)
Released	992,822	624,926
Amounts written-off against provision as uncollectable receivables	758,467	468,781
Balance at the end of the year	(2,159,812)	(1,933,499)

Recognition of the allowance for impaired receivables was included in other operating expenses. The allowance account in respect of trade receivables is used to record impairment loss when the recovery of the amount due is impossible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

16. INVENTORIES

Inventories, measured at cost, as at 31 December 2014 and were as follows:

	31 December 2014	31 December 2013
Spare parts and consumables for repairs	352,505	398,762
Emergency stock	153,909	148,615
Fuel and oils	116,481	103,064
Working clothes and fittings	97,664	84,350
Other inventories	79,971	95,197
Less: allowance for obsolete and slow-moving inventories	(10,095)	(8,037)
Total	790,435	821,951

As of 31 December 2014 there are no inventories pledged to secure bank loans and borrowings (Note 20) (31 December 2013: no).

17. SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term and long-term investments represent deposits placed in OAO "Bank Tavrichesky" at the rate of 10.5% per annum with original maturity of 366 days. As at 31 December 2014 the amounts of deposits with interests is 3,169,151.

	Interest rate, %	Due date	Summ
Deposits by maturity			
OJSC "Bank "Tavrichesky"	10,5	June 19, 2015	3 000 000
Interest on deposits	10,5	June 19, 2015	169 151
Total deposits with interest			3 169 151
Impairment allowance			(1 665 078)
Carrying amount net of impairment allowance			1 504 073
including			
Presented in long-term investments			356 514
Presented in short-term investments			1 147 559



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

As at the date these consolidated financial statements were authorized, ASV had held a tender to select an investor to reorganize and restructure the Bank. As a result of the tender procedure, OJSC AKB International Finance Club was selected as the investor for the Bank. ASV allocated 28 billion roubles to facilitate the Bank financial restructuring. The funds are primarily intended to restore the Bank's current liquidity problems and enforce its financial discipline.

The Company's management expects that the outstanding receivables will be repaid to the IDGC North-West in 2015 as a part of the debt restructuring plan announced by ASV. At the same time, the Company will have to place a 20 year subordinated deposit with the Bank bearing an interest payable on a quarterly basis at a rate of 0.51% per annum.

Taking into account the financial difficulties faced by the Bank, the external administration procedure and the terms of restructuring of deposits as part of the financial restructuring plan referred to above, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate of 10.5% per annum (the effective interest rate computed at initial recognition). As at 31 December 2014 the allowance amounted to 1,665,078.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2014 and 2013 were as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current accounts denominated in roubles	981,388	832,318
Specific bank accounts	9,332	5,918
Other cash and cash equivalents	47,810	1,723
Total	<u>1,038,530</u>	<u>839,959</u>

The Group has accounts in several Russian banks, including OJSC “Sberbank”, OJSC “Bank-VTB”, OJSC “Gasprombank”, OJSC “Alfa-Bank”, OJSC “Rosbank”, OJSC “Svyaz-bank”, OJSC “Transcreditbank” and others. Management believes that they all are reliable counterparties with a stable position on the Russian market and no impairment allowance is necessary.

19. EQUITY

Authorised, issued and fully paid share capital

As at 31 December 2014 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2013: 95,785,923,138 ordinary shares) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.



Common control combination reserve

The Group was formed in 2008 as a result of the combination of a number of businesses under common control. The carrying value of the net assets of the businesses contributed were determined based on as amounts recorded in the IFRS financial statements of the predecessor, rather than the fair values of those net assets. The difference between the value of the share capital issued and the IFRS carrying values of the contributed net assets and non-controlling interests was recorded as a common control combination reserve within equity.

Retained earnings and dividends

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

In accordance with 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, that as at 31 December 2014 was (455,310). 31 December 2013: 402,659).

In 2014 dividends for the year ended 31 December 2013 were declared in the amount of 0.008 roubles per ordinary share. The total amount of dividends accrued in 2014 for the year ended 31 December 2013 was 76,629 (2013: 15,461). Dividends for the year ended 31 December 2014 have not been declared by the date of this report.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

Earnings per share

Earnings per share were calculated using the weighted average number of ordinary shares. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share (in 2014 loss per share was 0.0068 RUB, in 2013 earnings per share were 0.0017 RUB).

20. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings measured at amortised cost.

	<u>31 December 2014</u>	<u>31 December 2013</u>
<i>Non-current liabilities</i>		
Unsecured bank loans	14,913,056	13,953,056
	<u>14,913,056</u>	<u>13,953,056</u>
<i>Current liabilities</i>		
Current portion of unsecured bank loans	3,539,310	1,383,336
Unsecured bank loans	–	1,393,294
	<u>3,539,310</u>	<u>2,776,630</u>



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of the North-West



Terms and conditions of outstanding loans were as follows:

Bank loan	Currency	Year of maturity	31 December 2014		31 December 2013		31 December 2014		31 December 2013	
			Effective interest rate	Effective interest rate	Effective interest rate	Nominal amount	Carrying amount	Nominal amount	Nominal amount	
Unsecured bank loans										
Unsecured bank loans	RUB	2014	-	7.01% ^a -8.10%	-	-	-	-	2,776,630	2,776,630
Unsecured bank loans*	RUB	2015	7.01% ^a -7.98%	7.01% ^a -9.45%	3,135,651	3,135,651	3,135,651	3,100,000	3,100,000	3,100,000
Unsecured bank loans	RUB	2015	8.45%	7.31%	403,659	403,659	403,659	700,000	700,000	700,000
Unsecured bank loans*	RUB	2016	7.01% ^a -11.25%	7.49% ^a -8.42%	9,883,563	9,883,563	9,883,563	7,193,563	7,193,563	7,193,563
Unsecured bank loans	RUB	2017	11.80%	-	1,600,000	1,600,000	1,600,000	-	-	-
Unsecured bank loans*	RUB	2017	10.00%	-	200,000	200,000	200,000	-	-	-
Unsecured bank loans*	RUB	2018	8.06% ^a -8.10%	8.06% ^a -8.10%	3,229,493	3,229,493	3,229,493	2,959,493	2,959,493	2,959,493
Total debt					18,452,366	18,452,366	18,452,366	16,729,686	16,729,686	16,729,686

* - Loans from state-controlled entities



Loans are attracted at market interest rates. Annual interest rates are equivalent to effective interest rates.

The Group has no floating rate loans.

Information about the Group's exposure to interest rate and foreign currency risk is presented in Note 29.

All loans and borrowings are denominated in Russian roubles.

As at 31 December 2014 and 31 December 2013 there are no inventories pledged to secure bank loans and borrowings.

21. RETIREMENT BENEFIT OBLIGATIONS

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

- defined contribution pension plan and defined benefit pension plan; and
- defined benefit pension plans regulated by Collective Agreements that include lump sum benefits for pensioners, benefits paid in connection with the jubilee dates birthday of employees and pensioners, and financial support for pensioners, one-time benefits paid in case of death.

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the periods ended 31 December 2014 and 2013.

The amounts recognised in the consolidated statement of financial position are as follows:

	31 December 2014	31 December 2013
Present value of post-employment obligation under defined benefit plans	1,523,981	1,590,725
Present value of other long-term employee benefit obligation	96,544	82,770
Total net defined benefit liability	1,620,525	1,673,495



The movement in the net defined benefit obligation over the year is as follows:

	Post-employment benefits	Other long-term employee benefit obligation	Total
As at 1 January 2014	1,590,725	82,770	1,673,495
Current service cost	68,809	6,521	75,330
Past service cost and curtailments	(44,092)	–	(44,092)
Interest expense	114,127	5,735	119,862
Remeasurement:			
Loss from change in financial assumptions	72,877	16,951	89,828
Gain from change in financial assumptions	(153,657)	(11,358)	(165,015)
Experience losses	39,322	7,005	46,327
Contributions	(164,130)	(11,080)	(175,210)
As at 31 December 2014	1,523,981	96,544	1,620,525
As at 1 January 2013	1,326,488	64,913	1,391,401
Current service cost	52,607	5,399	58,006
Past service cost and curtailments	–	–	–
Interest expense	87,328	4,287	91,615
Remeasurement:			
Loss from change in demographic assumptions	133,539	10,653	144,192
Gain from change in financial assumptions	(67,081)	(3,876)	(70,957)
Experience losses	206,969	11,320	218,289
Contributions	(149,125)	(9,926)	(159,051)
As at 31 December 2013	1,590,725	82,770	1,673,495

Amounts recognized in profit or loss

	Year ended 31 December	
	2014	2013
Service cost	31,238	58,006
Remeasurement of present value of other long-term employee benefit obligation	12,599	18,097
Interest expense	119,862	91,615
Total expense recognised in profit or loss	163,699	167,718



Amounts recognized in other comprehensive income

	Year ended 31 December	
	2014	2013
Loss from change in demographic assumptions	72,877	133,539
Gain from change in financial assumptions	(153,657)	(67,081)
Experience losses	39,322	206,969
Total (gain)/ loss recognised in other comprehensive income	(41,458)	273,427

The movement of remeasurement in other comprehensive income is as follows

	Year ended 31 December	
	2014	2013
As at 1 January	(362,005)	(635,432)
Movement of remeasurement	(41,458)	273,427
At 31 December	(403,463)	(362,005)

The principal actuarial assumptions are as follows

Financial actuarial assumptions	31 December 2014	31 December 2013
Discount rate, annual (nominal)	12.00%	8.00%
Future financial support benefit increases	7.00%	5.00%
Future salary increases (nominal)	7.00%	5.00%

Demographic actuarial assumptions	31 December 2014	31 December 2013
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	4.90%	5.00%
Mortality table	2011	2010

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

	Change in assumption	Impact on defined benefit liability
Discount rate	Increase / decrease by 0.5%	Decrease/ Increase by 2.04%
Future salary increases	Increase / decrease by 0.5%	Increase / decrease by 1.09%
Future benefits increases (inflation)	Increase / decrease by 0.5%	Increase / decrease by 1.05%
Employee turnover	Increase / decrease by 10%	Decrease/ Increase by 0.79%
Mortality level	Increase / decrease by 10%	Decrease/ Increase by 0.23%

The above sensitivity analysis is based on reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant.

The Group expects to contribute 50,854 to its defined benefit pension plans in 2015.

As at 31 December 2014, weighted average duration of post-employment and other long term employee benefits was 6.9 years and 9.9 years, respectively.



22. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2014 and 2013 were as follows:

	31 December 2014	31 December 2013
Advances from customers	442,880	983,163
Long-term accounts payable	74,212	68,946
Other	29,502	34,078
Total	546,594	1,086,187

23. ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Accounts payable and advances received as at 31 December 2014 and 2013 were as follows:

	31 December 2014	31 December 2013
Trade payables	5,845,624	2,737,014
Advances received	2,603,414	1,584,333
Unsettled liabilities for the acquisition of property, plant and equipment	1,981,381	1,118,654
Payables to employees	346,695	340,211
Dividends payable	1,317	241
Other payables	300,309	232,528
Total	11,078,740	6,012,981

No interest was charged on the outstanding balance for trade and other payables during credit period. All payables are RUB-denominated.

24. CURRENT PROVISIONS

	Provision for litigation and claims		Provision for unused vacation and bonuses	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
As at 1 January	134,144	357,597	743,007	748,901
Accrual of provision	20,375	53,458	985,989	1,230,646
Reversal of provision	(2,857)	(191,937)	(15,521)	–
Utilization of provision	(13,682)	(84,974)	(1,299,691)	(1,236,540)
As at 31 December	137,980	134,144	413,784	743,007

The provisions relate to court cases against the Group and outstanding disputes with sales companies for electricity purchased for compensation of losses.

The unused vacation provision was determined by reference to the number of unused vacation days as at the reporting date and the employees' annual average pay rates.

The provision for annual bonus is an estimate of expense for the 2014 performance bonus payment.

The provisions established as at 31 December 2014 is expected to be used in 2015.



25. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 31 December 2014 the Group was controlled by OJSC Russian Grids, a state controlled entity (see Note 1).

Management remuneration

There are no transactions or balances with key management and close family members except for their remuneration in the form of salary and bonuses. Total key management remuneration which was included in personnel expenses amounted to:

	Year ended 31 December	
	2014	2013
Salaries and bonuses	146,500	204,972
Pension and benefits on retirement	(23,300)	7,540

Transactions with state-controlled entities

In the course of its operating activities the Group is 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 15.8% (2013: 13.5%) of total Group revenues and 9.8% (2013: 9.1%) of power transmitting revenue.

Electricity transmission fees due to state-controlled entities for the year ended 31 December 2014 constitute 52.8% (2013: 64.9%) of total power transmitting services costs.

Cash and cash equivalents in state-controlled banks as at 31 December 2014 constitute 94.6% (31 December 2013: 89.9%) of total cash and cash equivalents.

Significant loans from state controlled entities are disclosed in Note 20.

Pricing policies

Related party revenue for power transmitting is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commission.

26. COMMITMENTS AND CONTINGENCIES

Political environment

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



A fall in crude oil prices, significant devaluation of the Russian rouble and sanctions which some countries imposed on Russia negatively influenced the Russian economy in 2014. In December 2014, the rouble interest rates 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.

Insurance

The insurance market in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not widely spread in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport as well as accident, health and medical insurance for employees. Furthermore, the Group has arranged for third party liability insurance in respect of potential effects related to usage of dangerous production facilities.

As at 31 December 2014 the Group has insured its main production assets with the insurance coverage of RUB 43,659,377 (as at 31 December 2013: RUB 43,659,377) and vehicles below 10 years of age with the insurance coverage of RUB 573,298 (as at 31 December 2013: RUB 545,753).

Apart from this, the Group does not have full coverage for its production facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Taxation contingencies in Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more tough position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.



Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

Disagreements with counterparties

The Group believes that all its sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. Disagreements between the Group and its counterparties on to the amount of mutual obligations are normally proceeded in courts. Disagreements appear due to different approaches to electricity volume's calculation, tariffs applied by the Group and its counterparties and disagreements regarding electric power transmitted via "last-mile" grid. Disagreements on the volume of electricity distributed impact the volume of electric power the Group has to acquire from sales companies to compensate electricity losses.

Often the Group comes to an amicable agreement with its counteragents regarding the reimbursement of electric power losses in case of disagreements related to electricity transmission services.

The Group recognise allowance for doubtful debts for receivables on electricity transmission services challenged by customers and provision for counterparties' claims for reimbursement of electric power acquired to compensate electricity losses in case of adverse court precedents outcomes for the same/similar court cases for distribution companies took place in the past.

Capital expenditure commitments

As at 31 December 2014 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of 2,395,109 (as at 31 December 2013: 2,864,999).

27. OPERATING LEASE ARRANGEMENTS

The Group mainly leases land from municipal authorities. The leases provide an option to renew the lease after the end of lease term. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	Year ended 31 December	
	2014	2013
Rental land payments	53,859	52,396
Other rental payments	96,368	150,149
Total	150,227	202,545



Non-cancellable operating lease rentals are payable as follows:

	31 December 2014	31 December 2013
Less than one year	66,717	61,932
Between one and five years	173,928	216,824
More than five years	1,232,083	1,578,423
Total	1,472,728	1,857,179

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- ▶ The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to their quoted closing bid price;
- ▶ The fair value of other financial assets and financial liabilities is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.
- ▶ The fair value of cash, short-term loans and receivables, trade and other payables and short-term borrowings approximate their carrying amounts as at 31 December 2014 largely due to the short-term maturities of these instruments.

	Fair value measurement		
	Using quotation in active markets (Level 1)	Using significant observable inputs (Level 2)	Using significant unobservable inputs (Level 3)
31 December 2014			
Available-for-sale financial assets	8,331	8,331	–
Long-term account receivables	168,290	–	168,290
Long-term deposits	210,446	–	210,446
Loans and borrowings with fixed interest rate	13,375,860	–	13,375,860
31 December 2013			
Available-for-sale financial assets	10,616	10,616	–
Long-term account receivables	13,144	–	13,144
Loans and borrowings with fixed interest rate	16,729,686	–	16,729,686

The fair value of financial assets recognised in the consolidated statement of financial position at fair value (refer to Notes 13 and 29) was determined based on quoted closing bid prices on MICEX at the reporting date (Level 1 of fair value measurement hierarchy in accordance with IFRS 7).

In the years ended 31 December 2014 and 2013, there have been no transfers between fair value measurement levels.



29. FINANCIAL RISK MANAGEMENT

Overview

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

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

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.

(a) Risk management framework

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

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

(b) Industry risks

Industry risk is caused by the changes in economic condition of the industry and the extent of these changes within the industry as well as in comparison with other industries. Industry risk is mainly related to credit risk and have direct impact on it.

The legislation in the Russian Federation regulating electric power transmission is in a developing state, and is characterised by frequent changes and subject to varying interpretation. Because of these reasons, various interpretations of the legislation and contractual terms relatively often take place between electricity market participants, which results in disagreements under various grounds and entail the following risks:

- ▶ Risk of the significant increase in overdue accounts receivable and growth of bad debts for electricity transmission services, particularly with sale companies regarding industry legislation treatment in respect of electricity transmission services settlements.
- ▶ Risk of reduction of the volume of services provided due to termination (non-prolongation) of Unified National Electricity Network grids rent arrangements with OJSC "FGC UES" (last mile contracts), which may arise from changes in the regulatory and legislative frameworks.



The Group undertakes the following activities in order to minimize the above mentioned risks:

- ▶ monitoring agreement terms compliance and timely response to disputable matters as well as initiation and prolongation of grids' rent agreements with OJSC "FGC UES";
- ▶ monitoring electricity balances (in natural units) and analysis of actual amount of electricity losses and the volume of electricity transmitted including electricity volumes transmitted to customers connected via grids leased under last mile agreements with OJSC "FGC UES" and excluding these volumes;
- ▶ continuous analysis of reasons for disagreements with customers, including disagreements regarding the volume of electricity transmitted;
- ▶ court proceedings by the Group in respect of disagreement cases when customers challenge grids' transmitting spots ownership of the Group in order to accumulate precedents of positive court outcomes on such issues.

(c) Major categories of financial instruments

The Group holds a number of financial instruments with specific characteristics and financial risk factors associated with them. The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and loans given, cash and cash equivalents, and promissory notes.

Financial instruments per categories as at 31 December 2014 and 31 December 2013 were as follows:

Financial assets per category	31 December 2014	31 December 2013
<i>Available-for-sale financial assets</i>		
Available-for-sale investments	8,331	10,616
<i>Loans and receivables</i>		
Trade and other receivables	14,378,388	11,961,530
Deposits	1,147,559	-
<i>Cash and cash equivalents</i>		
Cash and cash equivalents	1,038,530	839,959
Total financial assets	16,572,808	12,812,105

Financial liabilities per category	31 December 2014	31 December 2013
<i>Financial liabilities at amortized cost</i>		
Loans and borrowings	(18,452,366)	(16,729,686)
Trade and other payables	(8,128,621)	(4,088,437)
Total financial liabilities	(26,580,997)	(20,818,123)

(d) Credit risk

Credit risk is the risk that a counterparty will default on its obligations to the Group, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding unsecured trade and other receivables. The carrying amount of financial assets represents the maximum credit exposure.



The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. Credit limits attributable to customers are regularly reviewed at least on an annual basis. Of the receivables balance as at 31 December 2014, the Group's ten largest customers (individually 1% and above of the total balance) represent 49% (31 December 2013: 65%) of the outstanding balance.

The credit risk arising from the other financial assets of the Group, which include cash and cash equivalents, arises from the risk of default of the counterparty, with the maximum exposure being equal to the carrying value of these instruments.

(e) Offsetting of financial assets and liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognized amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognized financial instruments that are subject to the above agreements.

	Trade and other receivables	Trade and other payables
31 December 2014		
Net amounts presented in the statement of financial position	2,570,324	6,059,458
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(295,263)	(295,263)
Amounts related to financial collateral (including cash collateral)	–	–
Net amount	2,275,061	5,764,195
31 December 2013		
Net amounts presented in the statement of financial position	2,767,631	2,217,773
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(306,812)	(306,812)
Amounts related to financial collateral (including cash collateral)	–	–
Net amount	2,460,819	1,910,961

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.



(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Available loan facilities

As at 31 December 2014 the Group has available loan facilities (unutilised credit lines), which is planned to be subsequently utilised by the Group of 3,148,222 (31 December 2013: 7,168,222).

Liquidity analysis of the Group's obligations

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2014	Carrying amount	Contractual cash flows	Up to 6 month	6 month-1 year	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Loans and borrowings	18,452,366	21,611,624	1,216,974	3,813,353	10,892,031	2,239,197	3,450,069	–
Trade and other payables	8,128,631	8,128,631	8,128,631	–	–	–	–	–
	26,580,997	29,740,255	9,345,605	3,813,353	10,892,031	2,239,197	3,450,069	–
<hr/>								
31 December 2013	Carrying amount	Contractual cash flows	Up to 6 month	6 month-1 year	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Loans and borrowings	16,729,686	20,028,274	1,620,607	2,350,203	4,813,586	7,643,324	252,305	3,348,249
Trade and other payables	4,088,437	4,088,437	4,082,710	5,727	–	–	–	–
	20,818,123	24,116,711	5,703,317	2,355,930	4,813,586	7,643,324	252,305	3,348,249



In 2014 the Group incurred net loss of 2,162,782. The loss was primarily caused by the recognition of an allowance of 1,665,078 for deposits placed in OJSC “Bank “Tavrichesky”” in connection with the restructuring procedure initiated with respect to OJSC “Bank “Tavrichesky”” and impairment of property, plant and equipment of 1,911,855. To support liquidity and normalize its financial and economic condition, in 2015 the Group plans to take the following actions:

- ▶ To curtail the financial investment program in 2015 by 12% compared to the initial approved program, with power supply reliability level remaining unchanged;
- ▶ To implement the Performance Management Program which is key to improving the Company's internal operational performance through cost control process. The Program will help to achieve the target reduction in maintenance costs per unit of electrical equipment compared with 2012 pursuant to the requirements of the Development Strategy for the Electric Grid Facilities of the Russian Federation approved by the Russian Government Decree No. 511-p on 3 April 2013 ;
- ▶ To restrain growth of operating costs under current macroeconomic conditions;
- ▶ To implement a set of measures designed to keep down contractor service costs and reschedule, where possible, service payments to contractors;
- ▶ To continue efforts to further improve payment discipline on the part of power supply companies and other consumers.

The Group's management believes that it will be able to pursue a balanced financial and economic policy aimed at developing electrical grid facilities across the regions where the Group is present. Management believes that the above crisis management measures will help the Group to maintain an adequate level of liquidity and meet financial obligations when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis, assuming that the Group will continue its operations in the foreseeable future and will be able to realize its assets and meet its liabilities in the normal course of business.

(g) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's profit or the value of its holding 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 to which the Group is exposed. The foreign currency transactions, undertaken by the Group, are minimal and thus the Group has limited exposure to foreign currency risk.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be at fixed or variable rates.

However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.



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

Under the loan agreements to which the Group is a party, in the event of a significant change in the Bank of Russia key rate the Group's lenders may unilaterally raise the rates on the committed loan facilities. Consequently, an increase in interest rates associated with insufficient liquidity in the banking system may have a strong effect on the financial and economic activities of the Group.

The quantitative analysis of sensitivity of profit before tax to changes in interest rates is presented below:

	Change in interest rates	Impact on profit before tax
Impact on 2014	+3,99	734 681
	-3,99	(734 681)
Impact on 2013	+1,82	303 814
	-1,82	(303 814)

To mitigate interest rate risks, the Group: provides for increases in interest rates in its business plans; has long-term revolving facility agreements under which interest rates may only increase if the Bank of Russia refinancing rate changes; initiates open competitive tenders to select lending service providers, so that the Group is able to borrow on the most favourable terms.

(h) Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

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

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

30. EVENTS AFTER THE REPORTING PERIOD

On 1 February 2015 guaranteeing electric power supplier in-charge function in Murmansk region of the service area of OJSC "Kolenergosbyt" was assigned to OJSC "AtomEnergSbyt" by Ministry of Energy Order № 14 issued on 23 January 2015, the sales of electricity in the Murmansk region has been discontinued within the boundaries zone of OJSC "Kolenergosbyt".

On 11 February 2015 by the decision of the Bank of Russia external management function in OJSC "Bank "Tavrichesky" was assigned to GK Deposit Insurance Agency in order to assess the financial position of the Bank and prevent its bankruptcy.

The Agency held a tender to select an investor to reorganize and restructure the Bank. As a result of the tender, OJSC AKB International Finance Club was selected as the investor for the Bank.



On 13 March 2015 the Board of Directors of the Bank of Russia approved changes in the participation plan of the GK Deposit Insurance Agency in preventing the bankruptcy of OJSC “Bank “Tavrishesky”.

As a part of the financial rehabilitation procedures with respect to the Bank additional funds limited to maximum amount of 124.6 million roubles may be required from the Group. The Group assesses the probability of occurrence of these events as not higher than possible.