Consolidated financial statements

Open Joint-Stock Company "Moscow United Electric Grid Company" and its subsidiaries

for the year ended 31 December 2014

with independent auditor's report

Contents

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the shareholders and Board of Directors of Open Joint-Stock Company "Moscow United Electric Grid Company"

We have audited the accompanying [consolidated] financial statements of Open Joint-Stock Company "Moscow United Electric Grid Company" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit and 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 Joint-Stock Company "Moscow United Electric Grid Company" 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 Joint-Stock Company "Moscow United Electric Grid Company" 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 Joint-Stock Company "Moscow United Electric Grid Company" and its subsidiaries for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 1 April 2014.

T.L. Okolotina
Partner
Ernst & Young LLC

1 April 2015

Details of the audited entity

Name: Open Joint-Stock Company "Moscow United Electric Grid Company"
Record made in the State Register of Legal Entities on 1 April 2005, State Registration Number 1057746555811.
Address: Russia, 115114, Moscow, 2-nd Paveletskiy proezd, 3, building 2.

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.

	Note	2014 '000 RUB	2013 '000 RUB
Revenue	6	128 018 249	129 125 139
Operating expenses, net	7	(119 827 084)	(106 760 123)
Other operating income	9	6 208 113	4 162 676
Profit from operating activities		**14 399 278**	**26 527 692**
Finance income	10	566 528	402 380
Finance costs	10	(3 560 171)	(2 558 792)
Profit before income tax		**11 405 635**	**24 371 280**
Income tax expense	11	(3 327 278)	(4 898 196)
Profit for the year		**8 078 357**	**19 473 084**
Items that will never be reclassified to profit or loss			
Remeasurements of the defined benefit liability	23	349 874	(682 499)
Tax on defined benefit liability		(69 975)	136 500
Other comprehensive income for the year, net of tax		**279 899**	**(545 999)**
Total comprehensive income for the year		**8 358 256**	**18 927 085**
Profit attributable to:			
Owners of the Company		8 014 771	19 336 153
Non-controlling interest		63 586	136 931
		8 078 357	**19 473 084**
Total comprehensive income attributable to:			
Owners of the Company		8 294 670	18 790 154
Non-controlling interest		63 586	136 931
Basic and diluted earnings per ordinary share (in Russian Roubles)	21	**0.1646**	**0.3970**

These consolidated financial statements were approved on 1 April 2015 by:

General Director

P.A. Sinyutin

First Deputy General Director
for Finance and Economic Activity
and Corporate management

A.V. Inozemtsev

The consolidated statement of Profit and Loss and Other Comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 62.

	Note	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Assets			
Non-current assets			
Property, plant and equipment	12	273 668 067	253 234 087
Intangible assets	13	1 290 221	540 707
Other non-current assets	15	5 067 246	6 127 287
Total non-current assets		**280 025 534**	**259 902 081**
Current assets			
Inventories	17	2 294 574	2 288 822
Income tax receivable		–	94 909
Trade and other receivables	18	23 407 990	21 736 663
Current investments	14	550 000	682 611
Cash and cash equivalents	19	4 305 289	1 596 266
Total current assets		**30 557 853**	**26 399 271**
Total assets		**310 583 387**	**286 301 352**

	Note	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Equity and liabilities			
Equity			
Share capital	20	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		115 659 250	110 274 829
Total equity attributable to the shareholders of OJSC MOESK		**158 593 684**	**153 209 263**
Non-controlling interest		431 985	368 399
Total equity		**159 025 669**	**153 577 662**
Non-current liabilities			
Loans and borrowings	22	52 729 724	52 289 354
Employee benefits	23	3 389 496	4 257 273
Deferred tax liabilities	16	9 701 911	9 720 266
Trade and other payables	25	9 343 529	7 634 898
Total non-current liabilities		**75 164 660**	**73 901 791**
Current liabilities			
Loans and borrowings	22	21 554 011	5 996 334
Income tax payable		883 845	3 169
Other taxes payable	26	599 607	294 667
Trade and other payables	25	52 800 050	52 080 515
Provisions	24	555 545	447 214
Total current liabilities		**76 393 058**	**58 821 899**
Total equity and liabilities		**310 583 387**	**286 301 352**

The consolidated statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 62.

	Attributable to shareholders of the Group				Non-controlling interest	Total equity
	Share capital	**Additional paid in capital**	**Retained earnings**	**Total**		
	’000 RUB	**’000 RUB**	**’000 RUB**	**’000 RUB**	**’000 RUB**	**’000 RUB**
Balance at 1 January 2013	**24 353 546**	**18 580 888**	**95 780 689**	**138 715 123**	**231 468**	**138 946 591**
Profit for the year	–	–	19 336 153	19 336 153	136 931	19 473 084
Other comprehensive income	–	–	(545 999)	(545 999)	–	(545 999)
Total comprehensive income for the year	**–**	**–**	**18 790 154**	**18 790 154**	**136 931**	**18 927 085**
Dividends to shareholders (Note 20)	–	–	(4 296 014)	(4 296 014)	–	(4 296 014)
Balance at 31 December 2013	**24 353 546**	**18 580 888**	**110 274 829**	**153 209 263**	**368 399**	**153 577 662**
Balance at 1 January 2014	**24 353 546**	**18 580 888**	**110 274 829**	**153 209 263**	**368 399**	**153 577 662**
Profit for the year	–	–	8 014 771	8 014 771	63 586	8 078 357
Other comprehensive income	–	–	279 899	279 899	–	279 899
Total comprehensive income for the year	**–**	**–**	**8 294 670**	**8 294 670**	**63 586**	**8 358 256**
Dividends to shareholders (Note 20)	–	–	(2 910 249)	(2 910 249)	–	(2 910 249)
Balance at 31 December 2014	**24 353 546**	**18 580 888**	**115 659 250**	**158 593 684**	**431 985**	**159 025 669**

The consolidated statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 62.

	2014 '000 RUB	2013 '000 RUB
Cash flows from operating activities		
Profit for the period	**8 078 357**	**19 473 084**
Adjustments for:		
Depreciation and amortisation (Note 7)	20 592 783	17 918 060
Loss on disposal of property, plant and equipment	1 226 842	301 416
Impairment losses on property, plant and equipment (Note 12)	5 596 990	318 906
Provisions for legal claims (Note 24)	202 298	(1 188 162)
Finance income (Note 10)	(566 528)	(402 380)
Finance costs (Note 10)	3 560 171	2 558 792
Allowance for impairment of accounts receivable	3 254 308	4 133 925
Provision for inventory obsolescence	(13 803)	10 017
(Gain)/loss on disposal of inventory	(31 932)	18 482
Income tax expense (Note 11)	3 327 278	4 898 196
Other non-cash items	(65 070)	(12 086)
Operating profit before changes in working capital	**45 161 694**	**48 028 250**
Change in inventories	39 983	(251 126)
Change in trade and other receivables, non-current advances given for connection services	(2 418 335)	(1 266 564)
Change in retirement benefit obligations and related assets	(690 533)	(106 472)
Change in trade and other payables	985 586	(4 265 171)
Change in taxes payable, other than income tax	304 940	(695 962)
Cash flows from operations before income taxes and interest expenses	**43 383 335**	**41 442 955**
Income taxes paid	(2 440 022)	(5 275 119)
Interest paid	(5 135 329)	(4 022 385)
Net cash from operating activities	**35 807 984**	**32 145 451**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	182 952	77 866
Acquisition of property plant and equipment	(45 115 363)	(38 849 585)
Interest received	554 490	392 684
Loans issued	(1 004 000)	–
Proceeds from loans issued	454 000	–
Acquisition of intangible assets (Note 13)	(864 021)	(186 332)
Proceeds from disposal of short-term investments	–	30 001
Net cash used in investing activities	**(45 791 942)**	**(38 535 366)**
Cash flows from financing activities		
Proceeds from borrowings	27 117 321	28 798 346
Repayment of borrowings	(11 501 718)	(23 891 996)
Payment of finance lease liabilities	(12 373)	(956 065)
Dividends paid (Note 20)	(2 910 249)	(4 296 014)
Net cash from/(used in) financing activities	**12 692 981**	**(345 729)**
Net increase/(decrease) in cash and cash equivalents	**2 709 023**	**(6 735 644)**
Cash and cash equivalents at beginning of year	1 596 266	8 331 910
Cash and cash equivalents at end of year (Note 19)	**4 305 289**	**1 596 266**

The consolidated statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 62.

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

CONTENT

1 Background

(a) Organisation and operations

Open Joint-Stock Company “Moscow United Electric Grid Company” (OJSC MOESK or the “Company”) was established on 1 April 2005 by transference of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1 adopted by shareholders of OJSC Mosenergo on 29 June 2004.

The consolidated financial statements of OJSC MOESK and its subsidiaries (the “Group”) were prepared as at 31 December 2014 and for the period then ended. The Group’s consolidated financial statements include the following subsidiaries:

No.	Subsidiary	Type of activity	Share. %
1	OJSC Moskabel’set’montaj (MKSM)	Maintenance and engineering services	100 %
2	OJSC Moskabel’energoremont (MKER)	Maintenance and engineering services	100 %
3	OJSC Repair of Electrical and Technical Equipment Plant (RETEP)	Maintenance and engineering services	100 %
4	OJSC Energocentr	Connection services	75 %

The parent entity of the Group is OJSC Rosseti. As at 31 December 2014, the Government of the Russian Federation owned 85.31% shares of JSC Rosseti (formerly JSC “IDGC Holding”) (at 31 December 2013 – 85.31%), which in turn owned 50.9% of the ordinary shares of the Company. JSC “IDGC Holding” was renamed JSC “Rosseti” following the decision made on 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding.

The Company’s registered office and the actual address is building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Group’s principal activity is electricity transmission through electrical networks located in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(b) Basis of measurement

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

(c) 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 RUB has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

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

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

- Note 12 – Property, plant and equipment;
- Note 16 – Deferred tax assets and liabilities;
- Note 18 – Trade and other receivables;
- Note 23 – Employee benefits;
- Note 24 – Provisions;
- Note 27 – Financial risk management;
- Note 29 – Commitments.

(e) Changes in accounting policies

In 2014 the Group applied for the first time certain new standards and amendments, which are effective for the annual periods beginning on or after 1 January 2014. The nature and the impact of each new standards and amendment is described below, however, they did not significantly impact the consolidated financial statements:

- *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36 *Impairment of Assets*. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal.

- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

- *Investment Entities* - Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*, under which a mandatory consolidation exception for certain qualifying investment entities is introduced according to IFRS 10. 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.

- *Levies* (IFRIC 21). The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation*. The amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

- *Defined Benefit Plans: Employee Contributions* - Amendments to IAS 19 *Employee Benefits*. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

- *Annual Improvements 2010-2012 Cycle* - in the 2010-2012 annual improvements cycle, the IASB issued amendment to IFRS 13 *Fair Value Measurement,* which clarifies 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 is effective for periods beginning at 1 January 2014. It has no impact on the Group.

- *Annual Improvements 2011-2013 Cycle* - in the 2011-2013 annual improvements cycle, the IASB issued amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

(ii) Accounting for acquisitions of non-controlling interests

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

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Acquisitions from entities under common control

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

(v) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of a subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, than such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories or are not . 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, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditure that is 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, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

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.

Gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised on a net basis within other income/expenses in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value.

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

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

- Buildings 20 to 40 years;
- Transmission networks 18 years;
- Transformers and transformer substations 13 to 16 years;
- Other 4 to 8 years.

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

(e) Intangible assets

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives of intangible assets are 2 to 5 years.

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

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

(g) Inventories

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

(h) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets 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. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

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

(ii) Non-financial assets

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia’s State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation 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. 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.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised immediately in profit or loss.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses which are resulting from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and the effects of changes in financial and demographical actuarial assumptions. Remeasurements of the net defined benefit liability is recognized immediately in other comprehensive income.

(iii) Other non-current employee benefits

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 benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

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

(j) Provisions

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

(k) Revenue

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

(i) Electricity transmission

Revenue from electricity transmission is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for electricity transmission on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(ii) Connection services

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

(iii) Other services

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

(l) Other expenses

(i) Lease payments

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

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

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

Determining whether an arrangement contains a lease

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

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

(ii) Social expenditure

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

(m) Finance income and costs

Finance income comprises interest income on cash balances, bank deposits and foreign currency gains. For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, employee benefits and finance leases, foreign currency losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income and expense is included in finance income and finance cost in the statement of profit or loss and other comprehensive income.

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

(n) Income tax expense

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

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

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint operationscontrolled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

In accordance with additions to part one of the Tax code of Russian Federation, under the Federal law of the Russian Federation of November 16, 2011 No. 321-FZ Group has ability but not created the consolidated group of taxpayers.

The tax base is determined separately for each of the Group’s main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

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

(o) Earnings per share

Basic earning 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 reporting period. The Company does not have dilutive potential ordinary shares.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs 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 Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see Note 5).

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

(q) New Standards and Interpretations not yet adopted

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

- IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled "Clarification of Acceptable Methods of Depreciation and Amortization". Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. These amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.
- IFRS 9 *Financial Instruments* was issued in phases and ultimately replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitled "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". These narrow scope amendments clarify, that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.
- Amendment to IFRS 11 *Joint Arrangements*, entitled "Accounting for Acquisitions of Interests in Joint Operations". The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of

IFRS 3 *Business Combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require determination of fair value, for financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the respective asset or liability.

(a) Equity and debt securities

The fair value of available-for-sale financial assets and held-to-maturity investments is determined by reference to their quoted closing bid price at the reporting date. The fair value of investments in unquoted debt securities is determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount.

(c) Non-derivative financial liabilities

The fair value of financial liabilities, which is calculated for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of issued bonds, the fair value is determined by reference to their quoted closing price at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are reviewed each quarter by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following reportable segments:

- Electricity transmission in Moscow;
- Electricity transmission in the Moscow region;
- Connection services in Moscow;
- Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment "other". None of these items meets any of the quantitative thresholds for determining reportable segments in 2014 or 2013.

Segment operating results that are reported to the Board of Directors are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses and other income and expenses which are included in “unallocated” component.

The difference between external revenues and revenue reported in consolidated statement of profit an loss and other comprehensive income for 2014 is due to recognition of income under agreements on compensation of losses as other revenues.

The segment revenue and profit before income tax for the year ended 31 December 2014 are as follows:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	112 508 624	11 837 363	1 242 335	125 588 322
Moscow	56 738 984	7 542 985	900 313	65 182 282
Moscow Region	55 769 640	4 294 378	342 022	60 406 040
Inter-segment revenue	-	531 510	1 979 531	2 511 041
Moscow	-	-	1 344 892	1 344 892
Moscow Region	-	531 510	634 639	1 166 149
Depreciation and amortisation	22 138 992	-	82 387	22 221 379
Moscow	12 033 243	-	68 581	12 101 824
Moscow Region	10 105 749	-	13 806	10 119 555
Reportable segment profit	5 135 107	10 931 936	500 535	16 567 578
Moscow	4 999 153	6 987 870	459 257	12 446 280
Moscow Region	135 954	3 944 066	41 278	4 121 298

Other material items are as follows:

’000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	(22 221 379)	1 628 596	(20 592 783)
Capital expenditure	(45 896 342)	(1 968 927)	(47 865 269)
Impairment losses on property, plant and equipment	-	(5 596 990)	(5 596 990)
Income tax expense	(4 973 584)	1 646 306	(3 327 278)

Comparative segment revenue and profit before income tax for the year ended 31 December 2013 are as follows:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	110 980 500	14 545 289	1 477 992	127 003 781
Moscow	54 974 091	8 072 736	1 251 398	64 298 225
Moscow Region	56 006 409	6 472 553	226 594	62 705 556
Inter-segment revenue	-	-	1 848 971	1 848 971
Moscow	-	-	1 386 294	1 386 294
Moscow Region	-	-	462 677	462 677
Depreciation and amortisation	18 737 440	156 448	69 672	18 963 560
Moscow	10 555 363	-	60 498	10 615 861
Moscow Region	8 182 077	156 448	9 174	8 347 699
Reportable segment profit	9 089 531	13 371 570	387 990	22 849 091
Moscow	5 943 221	7 462 661	307 694	13 713 576
Moscow Region	3 146 310	5 908 909	80 296	9 135 515

Other material items are as follows:

’000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	(18 963 560)	1 045 500	(17 918 060)
Capital expenditure	(51 383 874)	6 187 038	(45 196 836)
Impairment losses on property, plant and equipment	-	(318 906)	(318 906)
Income tax expense	(4 530 617)	(367 579)	(4 898 196)

Reconciliation of reportable segment profit:

’000 RUB	**2014**	**2013**
Reportable segments profit	16 067 043	22 461 101
Other profit or loss	500 535	387 990
Unallocated	(4 620 418)	(6 060 922)
Total profit before income tax per Russian Accounting Standards	**11 947 160**	**16 788 169**
Borrowing costs capitalized	216 369	363 847
Expenses associated with leased property, plant and equipment	209 795	1 869 030
Loss on disposal of property, plant and equipment	(67 073)	(29 272)
Depreciation and amortisation	1 634 724	1 065 561
Provision for legal claims	-	(119 939)
Provision for unused vacations and bonuses	-	(3 715)
Reversal/(allowance for impairment) of account receivable and advances for capital expenditure	348 682	4 961 726
Effect of loan discounting	(56 368)	(86 747)
Impairment loss on property, plant and equipment	(5 596 990)	(318 906)
Accrued expenses for connection services	2 072 821	135 937
Accrued employee benefits plan liabilities	517 903	(153 164)
Other items	178 612	(101 247)
Consolidated profit before income tax per IFRS	**11 405 635**	**24 371 280**

Major customer

In 2014, revenue from one customer of the Group’s electricity transmission in Moscow and Moscow region segments represented approximately 78% (RUB 99 597 646 thousand) of the Group’s total revenue (2013: 75%; RUB 97 487 695 thousand).

Segment assets are presented in the table below:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Unallocated**	**Total**
31 December 2014					
Total assets	**294 399 500**	**14 583 548**	**4 029 388**	**24 745 187**	**337 757 623**
Moscow	192 667 464	12 442 743	3 046 131	-	208 156 338
Moscow Region	101 732 036	2 140 805	983 257	-	104 856 098
Unallocated	-	-	-	24 745 187	24 745 187
Capital expenditure	**45 494 246**	**373 963**	**28 134**	**-**	**45 896 343**
Moscow	23 760 935	-	26 975	-	23 787 910
Moscow Region	21 733 311	373 963	1 159	-	22 108 433
31 December 2013					
Total assets	**263 205 648**	**22 123 570**	**3 482 313**	**22 486 491**	**311 298 022**
Moscow	173 445 576	12 922 398	2 856 782	-	189 224 756
Moscow Region	89 760 072	9 201 172	625 531	-	99 586 775
Unallocated	-	-	-	22 486 491	22 486 491
Capital expenditure	**51 212 134**	**26 546**	**145 194**	**-**	**51 383 874**
Moscow	33 157 217	-	97 543	-	33 254 760
Moscow Region	18 054 917	26 546	47 651	-	18 129 114

Reconciliation of reportable segments assets:

’000 RUB	2014	2013
Reportable segments assets	308 983 048	285 329 218
Other assets	4 029 388	3 482 313
Unallocated	24 745 187	22 486 491
Total assets per Russian Accounting Standards	**337 757 623**	**311 298 022**
Inventories	(379 151)	(2 382 643)
Advances given	(6 815 635)	(6 815 635)
Property, plant and equipment	(11 649 093)	(8 627 716)
Impairment losses on property, plant and equipment	(682 181)	(571 770)
Reversal/(allowance) for impairment of account receivable and advances for capital expenditure	3 718 064	3 664 418
Deferred tax assets	(4 413 089)	(3 798 089)
Other items	38 399	(83 810)
Eliminations of unallocated and intragroup balances	(6 991 550)	(6 381 425)
Consolidated assets per IFRS	**310 583 387**	**286 301 352**

Segment assets that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment assets represent the assets of each segment without allocation of VAT, cash and cash equivalents, inventory and investments, which are included in “unallocated” component.

Segment liabilities are presented in the table below:

’000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2014					
Total liabilities	**89 590 892**	**44 494 723**	**1 164 389**	**13 330 952**	**148 580 956**
Moscow	84 114 962	28 620 543	624 819	-	113 360 324
Moscow Region	5 475 930	15 874 180	539 570	-	21 889 680
Unallocated	-	-	-	13 330 952	13 330 952
31 December 2013					
Total liabilities	**71 471 924**	**44 142 429**	**1 125 893**	**10 352 924**	**127 093 170**
Moscow	66 784 044	28 351 633	844 442	-	95 980 119
Moscow Region	4 687 880	15 790 796	281 451	-	20 760 127
Unallocated	-	-	-	10 352 924	10 352 924

Reconciliation of reportable segments liabilities:

’000 RUB	**2014**	**2013**
Reportable segments liabilities	134 085 615	115 614 353
Other liabilities	1 164 389	1 125 893
Unallocated	13 330 952	10 352 924
Total liabilities per Russian Accounting Standards	**148 580 956**	**127 093 170**
Finance lease liabilities	201 238	67 432
Deferred tax liabilities	3 611 640	4 540 498
Employee benefits	3 389 496	4 257 273
Effect of discounting	(345 353)	(402 288)
Other items	(26 199)	(75 730)
Eliminations of unallocated and intragroup balances	(3 854 060)	(2 756 665)
Consolidated liabilities per IFRS	**151 557 718**	**132 723 690**

Segment liabilities that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment liabilities represent the liabilities of each segment without allocation of VAT, deferred tax liabilities and deferred income, which are included in “unallocated” component.

6 Revenue

	2014	**2013**
	’000 RUB	**’000 RUB**
Electricity transmission	112 508 624	110 980 500
Revenue from connection services	11 893 009	14 502 566
Other revenue	3 616 616	3 642 073
	128 018 249	**129 125 139**

Revenue from connection services represents services related to connection of customers’ power consumers to the electricity network of the Group.

Other revenues includes income from compensation of losses related to connection services in the amount of RUB 2 157 155 thousand (2013: RUB 2 397 639 thousnad), installation services, technical maintenance of electrical equipment and rental income.

7 Operating expenses, net

	2014	**2013**
	’000 RUB	**’000 RUB**
Electricity transmission	(57 152 524)	(53 664 055)
Depreciation and amortisation	(20 592 783)	(17 918 060)
Personnel costs (Note 8)	(16 361 955)	(16 619 831)
Impairment losses on property, plant and equipment (Note 12)	(5 596 990)	(318 906)
Repairs, maintenance and installation services	(3 907 132)	(3 200 444)
Allowance for impairment of trade and other receivables and non-current assets	(2 154 134)	6 318
Raw materials and supplies	(1 846 399)	(2 062 480)
Taxes other than income tax	(1 798 674)	(1 176 510)
Allowance for impairment of prepayments	(1 170 485)	(4 092 163)
Rent	(878 743)	(1 130 907)
Telecommunication services	(831 766)	(673 017)
Consulting, legal, audit services including professional training	(808 496)	(1 205 240)
Registration of rights to property	(799 112)	(931 552)
Insurance	(788 682)	(787 067)
Security services	(576 257)	(608 825)
Transportation	(351 142)	(385 430)
Provision for legal claims	(202 298)	1 188 162
Electricity count services	(131 731)	(177 463)
Provision for inventory obsolescence	13 803	(10 017)
Other expenses	(3 891 584)	(2 992 636)
	(119 827 084)	**(106 760 123)**

8 Personnel costs

	2014	2013
	’000 RUB	**’000 RUB**
Salaries and wages, including social tax	(12 887 079)	(12 769 111)
Contributions to State pension fund	(2 457 711)	(2 380 978)
Financial aid to employees and pensioners	(1 032 364)	(812 682)
Benefits/(expenses) in respect of post employment benefits – defined benefit plan	238 039	(490 718)
Net (expenses)/benefit in respect of other long-term post employment benefits	(1 074)	63 922
Expenses in respect of post employmenent benefits - defined contribution plan	(221 766)	(230 264)
	(16 361 955)	**(16 619 831)**

Average number of employees during the year was 15 933 (2013: 16 006). The amounts related to the key management remuneration are disclosed in the Note 30.

9 Other operating income

	2014	2013
	’000 RUB	**’000 RUB**
Income under non-contracted energy consumption	2 421 795	1 621 868
Income from assets acquired free of charge	2 891 883	1 880 669
Other income	894 435	660 139
	6 208 113	**4 162 676**

10 Finance income and costs

	2014	2013
	’000 RUB	**’000 RUB**
Finance income		
Interest income	554 490	392 684
Initial discount on recognition of financial liabilities	-	(221)
Interest on assets related to employee benefits obligations	12 038	9 917
	566 528	**402 380**
Finance costs		
Interest on employee benefits obligation	(256 565)	(247 134)
Interest expense	(3 238 791)	(2 138 246)
Interest on finance lease	(8 447)	(112 500)
Unwinding of discount on financial liabilities at amortized costs	(56 368)	(60 912)
	(3 560 171)	**(2 558 792)**

11 Income tax expense

	2014 '000 RUB	2013 '000 RUB
Current tax expense		
Current tax expense	(4 688 853)	(5 207 205)
Overprovided in prior periods	1 273 245	451 645
	(3 415 608)	**(4 755 560)**
Deferred tax		
Origination and reversal of temporary differences	1 361 575	(142 636)
Change in tax base of property, plant and equipment	(1 273 245)	-
	88 330	**(142 636)**
Income tax expense	**(3 327 278)**	**(4 898 196)**

In 2014 the Group recalculated income tax for prior periods (2011, 2012) related to the deductibility for tax purposes of certain amounts which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, the amount of income tax overprovided in prior periods was RUB 1 273 245 thousand in accordance with the adjusted tax declarations submitted to the tax authorities. Also the Group adjusted the tax value of property, plant and equipment which resulted in the increase of deferred tax liabilities of the Group in the amount of RUB 1 273 245 thousand.

The applicable tax rate in the Russian Federation is the income tax rate of 20%.

Reconciliation of effective tax rate:

	2014 '000 RUB	%	2013 '000 RUB	%
Profit before income tax	11 405 635	100	24 371 280	100
Income tax at applicable tax rate	(2 281 127)	(20)	(4 874 256)	(20)
Overprovided in prior periods	1 273 245	11	451 645	2
Change in tax base of PPE	(1 273 245)	(11)	-	-
Non-deductible expenses	(1 046 151)	(9)	(475 585)	(2)
	(3 327 278)	**(29)**	**(4 898 196)**	**(20)**

12 Property, plant and equipment

’000 RUB **Cost**	**Land and buildings**	**Trans-mission networks**	**Transfor-mers and transformer substations**	**Other**	**Construction in progress**	**Total**
At 1 January 2013	28 991 195	134 207 718	48 376 241	57 769 094	35 586 201	304 930 449
Additions	526 664	4 319 464	654 586	1 471 212	38 224 910	45 196 836
Disposals	(72 290)	(532 843)	(32 599)	(144 753)	(254 122)	(1 036 607)
Transfers	4 870 377	16 270 857	7 402 803	9 878 938	(38 422 975)	-
At 31 December 2013	**34 315 946**	**154 265 196**	**56 401 031**	**68 974 491**	**35 134 014**	**349 090 678**
Depreciation and impairment losses						
At 1 January 2013	(5 547 189)	(31 415 817)	(11 943 529)	(28 601 839)	(774 936)	(78 283 310)
Depreciation charge	(992 159)	(7 132 845)	(3 487 089)	(6 130 374)	-	(17 742 467)
Impairment losses	-	-	-	-	(318 906)	(318 906)
Disposals	16 474	152 752	12 235	133 758	172 873	488 092
At 31 December 2013	**(6 522 874)**	**(38 395 910)**	**(15 418 383)**	**(34 598 455)**	**(920 969)**	**(95 856 591)**
Net book value						
At 1 January 2013	23 444 006	102 791 901	36 432 712	29 167 255	34 811 265	226 647 139
At 31 December 2013	**27 793 072**	**115 869 286**	**40 982 648**	**34 376 036**	**34 213 045**	**253 234 087**
Cost						
At 1 January 2014	34 315 946	154 265 196	56 401 031	68 974 491	35 134 014	349 090 678
Additions	147 252	2 553 017	218 957	30 694	44 915 349	47 865 269
Disposals	(50 463)	(636 468)	(191 557)	(644 719)	(1 031 033)	(2 554 240)
Transfers	1 681 415	23 491 091	12 082 007	8 627 526	(45 882 039)	-
At 31 December 2014	**36 094 150**	**179 672 836**	**68 510 438**	**76 987 992**	**33 136 291**	**394 401 707**
Depreciation and impairment losses						
At 1 January 2014	(6 522 874)	(38 395 910)	(15 418 383)	(34 598 455)	(920 969)	(95 856 591)
Depreciation charge	(876 126)	(8 451 031)	(5 724 815)	(5 438 687)	-	(20 490 659)
Impairment losses	(700 493)	(3 555 809)	(977 414)	-	(363 274)	(5 596 990)
Disposals	26 030	285 098	85 312	319 160	495 000	1 210 600
At 31 December 2014	**(8 073 463)**	**(50 117 652)**	**(22 035 300)**	**(39 717 982)**	**(789 243)**	**(120 733 640)**
Net book value						
At 1 January 2014	27 793 072	115 869 286	40 982 648	34 376 036	34 213 045	253 234 087
At 31 December 2014	**28 020 687**	**129 555 184**	**46 475 138**	**37 270 010**	**32 347 048**	**273 668 067**

(a) Impairment of property, plant and equipment

The Group identified impairment indicators of certain cash generating units and performed impairment testing in respect of property, plant and equipment as at 31 December 2014.

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

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

The Group determines cash generating units based on geographical position of affiliates and subsidiaries. Cash generating units are the smallest identifiable groups of assets that generate cash flow independently of other assets of the Group.

The following main assumptions were used in assessing the recoverable amount of generating units:

- Cash flows were forecasted based on provisions of the Methodological guidelines on impairment testing of electric grid assets and forecasts for the period till 2019 for Moscow and Moscow region generating units;
- Forecasted cash flows were assessed for Moscow and Moscow region generating units for the period of 2015-2022 based on the Group management best estimate of the volume of electricity transferred, the operational and capitalized expenses, and the tariffs approved by the regulation authorities for 2015;
- For purposes of forecasting the tariffs for electricity transportation for the forecasted period a business plan (approved at the Board of Directors held at 19 November 2014), which is based on tariff models taking into account average annual growth of tariffs for electricity transportation (in accordance with the Forecast of social economic development of the Russian Federation for 2015 and planning period of 2016-2017 dated 26 September 2014), was used;
- Growth rate of the Company's boiler tariffs for 2017-2019 is limited by the inflation growth rate per forecast of the Ministry of economic development (Forecast of long-term social economic development of the Russian Federation for the period till 2030 dated 08 November 2013);
- Growth rates of the Group's required gross proceeds for 2017-2022 exceed the inflation growth rates per forecasts of the Ministry of economic development (Forecast of social economic development of the Russian Federation for 2015 and planning period of 2016-2017 dated 26 September 2014, Forecast of long-term social economic development of the Russian Federation for the period till 2030 dated 08 November 2013). The forecast is based on actual growth rates of the Company's required gross proceeds for the period of 2012-2015:
- Forecasted volume of electricity transportation was determined based on the Company's business plan for 2015-2019 (approved at the Board of Directors held at 19 November 2014);
- Volume of electricity transportation from 2020 per management of the Company was forecasted without taking into account annual growth of useful output and was fixed at 2019 level;

- Forecasted cash flows were discounted to their present value with nominal weighted average cost of capital equal to 11.16%;
- Growth rates of net cash flows in the period following the forecasted equal 2.4% for all cash generating units;
- For purposes of terminal value calculation the residual value of investment capital as of 31 December 2017 was adjusted for the inflation coefficient. For the capital base approved as of the moment of transfer to RAB accumulated inflation for the first period of RAB implementation for 2012-2017 was used. For the capital introduced during the first period of RAB implementation inflation for 2017 was used.

As a result of the test performed impairment loss on property, plant and equipment for Moscow segment was recognized in the amount of RUB 5 596 990 thousand as of 31 December 2014.

Sensitivity analysis

Decrease of discount rate by one percent would lead to increase of assets value in use and no impairment loss for Moscow segment would have to be recognized.

Increase of annual revenue of Moscow segment by 2.5% would lead to increase of assets value in use and no impairment loss for Moscow segment would have to be recognized.

Annual reduction of operational expenses by 8% would lead to increase of assets value in use and no impairment loss for Moscow segment would have to be recognized.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2014 the net book value of leased plant and machinery was RUB 150 063 thousand (31 December 2013: RUB 67 686 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

Borrowing costs totalling RUB 2 078 087 thousand for 2014 with a capitalisation rate of 8.69% (2013: RUB 1 973 801 thousand with a capitalisation rate of 8.37%) were included in the cost of property, plant and equipment and represent interest on loans.

(d) Advance payments for property, plant and equipment

As at 31 December 2014 construction in progress includes advance payments for property, plant and equipment of RUB 324 601 thousand (31 December 2013: RUB 692 739 thousand).

13 Intangible assets

’000 RUB	Software	Certificates and licences	Other	Total
At 1 January 2013	541 212	51 917	62 841	655 970
Additions	78 390	63 610	44 332	186 332
Disposals	(67 613)	(51 917)	-	(119 530)
At 31 December 2013	**551 989**	**63 610**	**107 173**	**722 772**
Amortisation				
At 1 January 2013	(100 559)	(25 317)	(125)	(126 001)
Amortisation	(115 594)	(54 454)	(5 545)	(175 593)
Disposals	67 612	51 917	-	119 529
At 31 December 2013	**(148 541)**	**(27 854)**	**(5 670)**	**(182 065)**
Net book value				
At 1 January 2013	440 653	26 600	62 716	529 969
At 31 December 2013	**403 448**	**35 756**	**101 503**	**540 707**
At 1 January 2014	551 989	63 610	107 173	722 772
Additions	199 708	60 656	603 657	864 021
Disposals	(160 640)	(36 994)	(202)	(197 836)
At 31 December 2014	**591 057**	**87 272**	**710 628**	**1 388 957**
Amortisation				
At 1 January 2014	(148 541)	(27 854)	(5 670)	(182 065)
Amortisation	(80 864)	(21 547)	(11 245)	(113 656)
Disposals	159 789	36 994	202	196 985
At 31 December 2014	**(69 616)**	**(12 407)**	**(16 713)**	**(98 736)**
Net book value				
At 1 January 2014	403 448	35 756	101 503	540 707
At 31 December 2014	**521 441**	**74 865**	**693 915**	**1 290 221**

14 Current investments

	31 December 2014 ’000 RUB	31 December 2013 ’000 RUB
Loan issued	550 000	-
Promissory notes	-	682 611
	550 000	**682 611**

As at 31 December 2014, the shor term investments are represented by the loan issued at 14% interest rate with maturity term in February 2015.

15 Other non-current assets

	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Long-term advances for connection services	14 453 696	14 782 834
VAT on advances from customers	1 333 368	828 230
Assets related to the pension plan liabilities	272 052	343 949
Allowance for impairment	(10 991 870)	(9 827 726)
	5 067 246	**6 127 287**

Assets related to the pension plan liabilities represent the Group's contributions accumulated on solidary and employees' individual pension accounts in the Non-State Pension Fund of Electric Power Industry. Subject to certain restrictions, the accumulated contributions can be withdrawn at the discretion of the Group.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities at 31 December are attributable to the following:

'000 RUB	**Assets**		**Liabilities**		**Net**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Property, plant and equipment	91 807	100 161	(15 604 779)	(15 452 944)	(15 512 972)	(15 352 783)
Intangible assets	1	2	(40 288)	(1 402)	(40 287)	(1 400)
Inventories	517 309	603 010	(253)	(512)	517 056	602 498
Trade and other receivables	3 981 339	3 695 629	-	-	3 981 339	3 695 629
Finance lease liability	358 493	390 966	-	-	358 493	390 966
Loans and borrowings	-	-	(281 253)	(291 624)	(281 253)	(291 624)
Employee benefits	677 795	782 665	(104)	-	677 691	782 665
Trade and other payables	400 276	372 489	(251)	-	400 025	372 489
Provisions	111 109	89 443	-	-	111 109	89 443
Other	86 888	-	-	(8 149)	86 888	(8 149)
Tax assets/ (liabilities)	**6 225 017**	**6 034 365**	**(15 926 928)**	**(15 754 631)**	**(9 701 911)**	**(9 720 266)**

(b) Movement in temporary differences during the year

'000 RUB	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Property, plant and equipment	(15 352 783)	(160 189)	-	(15 512 972)
Intangible assets	(1 400)	(38 887)	-	(40 287)
Inventories	602 498	(85 442)	-	517 056
Trade and other receivables	3 695 629	285 710	-	3 981 339
Finance lease liability	390 966	(32 473)	-	358 493
Loans and borrowings	(291 624)	10 371	-	(281 253)
Employee benefits	782 665	(34 999)	(69 975)	677 691
Trade and other payables	372 489	27 536	-	400 025
Provisions	89 443	21 666	-	111 109
Other	(8 149)	95 037	-	86 888
	(9 720 266)	**88 330**	**(69 975)**	**(9 701 911)**

'000 RUB	1 January 2013	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2013
Property, plant and equipment	(16 108 415)	755 632	-	(15 352 783)
Intangible assets	(719)	(681)	-	(1 400)
Inventories	601 112	1 386	-	602 498
Trade and other receivables	2 773 584	922 045	-	3 695 629
Finance lease liability	2 247 739	(1 856 773)	-	390 966
Loans and borrowings	(432 492)	140 868	-	(291 624)
Employee benefits	620 016	26 149	136 500	782 665
Trade and other payables	(116 008)	488 497	-	372 489
Provisions	634 537	(545 094)	-	89 443
Other	66 516	(74 665)	-	(8 149)
	(9 714 130)	**(142 636)**	**136 500**	**(9 720 266)**

17 Inventories

	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Raw materials and consumables	2 311 585	2 313 042
Other	374 369	380 888
Allowance for impairment of inventories	(391 380)	(405 108)
	2 294 574	**2 288 822**

18 Trade and other receivables

	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Trade receivables	13 114 538	11 067 004
Advances given	1 922 517	1 239 439
VAT on advances from customers	4 851 396	5 210 367
VAT receivable	26 178	380 394
Other receivables	5 085 855	2 526 664
VAT recoverable	451 437	2 124 516
Allowance for impairment of accounts receivable	(2 043 931)	(811 721)
	23 407 990	**21 736 663**

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

19 Cash and cash equivalents

	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Petty cash	2 766	203
Current accounts	4 302 523	1 507 823
Cash equivalents	-	88 240
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	**4 305 289**	**1 596 266**

The Group's exposure to interest rate risk, credit risk exposure and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

20 Equity

(a) Share capital

Share capital	**Ordinary shares 31 December 2014**	**Ordinary shares 31 December 2013**
Number of ordinary shares of 0.50 RUB each	48 707 091 574	48 707 091 574

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

(b) Treasury shares

The Group did not hold any own shares as at 31 December 2014 and 31 December 2013.

(c) Dividends

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

In 2014 the Company declared and paid dividends in amount of RUB 2 910 249 thousand (RUB 0.060 per share) (2013: in amount of RUB 4 296 014 thousand (RUB 0.088 per share)).

21 Earnings per share

The calculation of earnings per share is based upon the profit for the year attributable to the shareholders and the average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	31 December 2014	**31 December 2013**
Number of outstanding shares	48 707 091 574	48 707 091 574
Profit for the year attributable to the shareholders of OJSC "MOESK" ('000 RUB)	8 014 771	19 336 153
Earnings per share (RUB)	0.1646	0.3970

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 27.

	31 December 2014	31 December 2013
	'000 RUB	'000 RUB
Non-current		
Unsecured bank facility	42 121 317	36 721 317
Unsecured bond issues	10 468 870	15 568 037
Finance lease liabilities	139 537	-
	52 729 724	**52 289 354**
Current		
Unsecured bank facility	3 000 000	110 659
Current portion of unsecured bond issues	10 769 081	492 760
Current portion of unsecured bank facility	7 774 313	5 392 909
Current portion of finance lease liabilities	10 617	6
	21 554 011	**5 996 334**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

		31 December 2014	31 December 2013		31 December 2014		31 December 2013	
’000 RUB	**Currency**	**Nominal interest rate**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	RUB	-	-	2024	1 082 360	740 017	980 875	717 227
Unsecured bank facility *	RUB	8,00%	8,00%	2018	10 013 151	10 013 151	10 013 151	10 013 151
Unsecured bank facility *	RUB	8,00%	8,00%	2018	8 532 523	8 532 523	8 521 317	8 521 317
Unsecured bank facility *	RUB	8,00%	-	2015	1 001 404	1 001 404	-	-
Unsecured bank facility *	RUB	8,00%	-	2015	1 001 404	1 001 404	-	-
Unsecured bank facility *	RUB	8,00%	-	2015	1 001 404	1 001 404	-	-
Unsecured bank facility *	RUB	9,16%	-	2017	4 106 174	4 106 174	-	-
Unsecured bank facility *	RUB	-	7,80%	2014	-	-	4 005 130	4 005 130
Unsecured bank facility *	RUB	7,72%	7,72%	2015	3 002 539	3 002 539	3 002 539	3 002 539
Unsecured bank facility *	RUB	7,72%	7,72%	2015	3 202 708	3 202 708	3 202 708	3 202 708
Unsecured bank facility *	RUB	7,72%	7,72%	2015	1 501 269	1 501 269	1 501 269	1 501 269
Unsecured bank facility *	RUB	-	6,87%	2014	-	-	1 361 823	1 361 823
Unsecured bank facility *	RUB	7,46%	7,46%	2016	2 502 044	2 502 044	2 502 044	2 502 044
Unsecured bank facility *	RUB	11,50%	8,08%	2019	2 002 655	2 002 655	2 002 655	2 002 655
Unsecured bank facility *	RUB	11,50%	-	2017	8 015 123	8 015 123	-	-
Unsecured bank facility	RUB	11,50%	-	2017	5 009 452	5 009 452	-	-
Unsecured bank facility	RUB	11,50%	-	2017	2 003 780	2 003 780	-	-
Unsecured bank facility	RUB	-	7,94%	2014	-	-	52 449	52 449
Unsecured bank facility	RUB	-	12,50%	2014	-	-	59 800	59 800
Unsecured bonds	RUB	8,80%	8,80%	2015	5 124 166	5 121 407	5 122 961	5 116 458
Unsecured bonds	RUB	8,80%	8,80%	2015	5 078 357	5 075 157	5 077 151	5 070 209
Unsecured bonds	RUB	8,50%	8,50%	2016	5 163 000	5 160 389	5 161 836	5 156 903
Unsecured bonds	RUB	11,50%	-	2024	5 146 166	5 140 981	-	-
Unsecured bank facility*	RUB	-	MosPrime rate + 1.4212%	2016	-	-	3 000 000	3 000 000
Unsecured bank facility*	RUB	-	MosPrime rate + 1.4212%	2016	-	-	3 000 000	3 000 000
Finance lease liabilities	RUB	-	-	-	-	150 154	-	6
					74 489 679	**74 283 735**	**58 567 708**	**58 285 688**

*Loans from state controlled entities

Finance lease liabilities are payable as follows:

	31 December 2014			31 December 2013		
’000 RUB	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	30 168	(19 551)	10 617	6	-	6
Between one and five years	122 752	(46 613)	76 139	-	-	-
More than five years	70 211	(6 813)	63 398	-	-	-
	223 131	**(72 977)**	**150 154**	**6**	**-**	**6**

All bank loans are unsecured. The finance lease liabilities are secured by the leased assets (see Note 12). During 2013 the Group used an option of early repayment of finance lease liability.

23 Employee benefits

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

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund “Gazfond”); and
- other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners.

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

Amounts recognised in the consolidated statement of financial position:

	31 December 2014	**31 December 2013**
	’000 RUB	**’000 RUB**
Present value of post-employment benefits obligation	3 307 249	4 173 254
Present value of other long-term employee benefit obligation	82 247	84 019
Total present value of benefit obligation	**3 389 496**	**4 257 273**

Amounts recognised in profit or loss are as follows:

	Year ended 31 December 2014 '000 RUB	Year ended 31 December 2013 '000 RUB
Service cost	(232 233)	498 023
Remeasurement of other long-term employee benefit obligation	(4 732)	(71 227)
Interest expenses	256 565	247 134
Total loss recognised in profit and loss	**19 600**	**673 930**

Amounts recognised in other comprehensive income are as follows:

	Year ended 31 December 2014 '000 RUB	Year ended 31 December 2013 '000 RUB
Actuarial (gain)/loss arising from demographic assumptions	(90 566)	465 250
Actuarial (gain)/loss arising from financial assumptions	(436 363)	(190 750)
Actuarial loss arising from experience adjustment	177 055	407 999
Total actuarial (gain)/ loss recognised in other comprehensive income	**(349 874)**	**682 499**

Movements in defined benefit liability are as follows:

	Present value of post-employment benefits obligation		**Present value of other long-term employee benefit obligation**		**Present value of defined benefit liability**	
’000 RUB	**Year ended 31 December 2014**	**Year ended 31 December 2013**	**Year ended 31 December 2014**	**Year ended 31 December 2013**	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Benefit obligations as at the beginning of the year	4 173 254	3 271 985	84 022	149 625	4 257 276	3 421 610
Current service cost	190 038	138 902	5 806	12 059	195 844	150 961
Past service cost	(428 077)	351 816	-	(4 754)	(428 077)	347 062
Interest cost	250 552	236 528	6 013	10 606	256 565	247 134
Remeasurement loss (gain) of the defined benefit liability arising from:						
Actuarial loss (gain) arising from demographic assumptions	(90 566)	465 250	(577)	(62 187)	(91 143)	403 063
Actuarial (gain) loss arising from financial assumptions	(436 363)	(190 750)	(11 893)	(8 960)	(448 256)	(199 710)
Actuarial loss (gain) arising from experience adjustment	177 055	407 999	7 738	(80)	184 790	407 919
Benefits paid	(528 644)	(508 476)	(8 862)	(12 290)	(537 503)	(520 766)
Benefit obligations as at the end of the year	**3 307 249**	**4 173 254**	**82 247**	**84 019**	**3 389 496**	**4 257 273**

Movements in the fair value of assets related to pension plan liabilities during 2014 and 2013 were as follows:

	2014	2013
	’000 RUB	**’000 RUB**
Fair value of assets at 1 January	343 950	321 530
Return on plan assets	12 038	9 917
Contribution by employer	324 475	405 956
Other movements	10 047	6 084
Benefits paid	(418 458)	(399 538)
Fair value of assets at 31 December	**272 052**	**343 949**

	31 December 2014	31 December 2013
	’000 RUB	**’000 RUB**
Employees benefit liabilities	(3 389 496)	(4 257 273)
Fair value of assets	272 052	343 949
Net liabilities at 31 December	**(3 117 444)**	**(3 913 323)**

Assets related to defined benefit plans are managed by the non-state pension fund OAO NPF Elektroenergetiki. These assets are not assets of the fund as according to the agreements with the fund the Group may use earlier payments for reduction of future payments, or for refund through financing other plans or through transfer to another fund at its own discretion.

Movements in amount of restatement of employee benefit obligation that were fully recognised in OCI during the year are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
	’000 RUB	**’000 RUB**
1 January	2 247 000	1 564 501
Movement in amount of restatement	(349 874)	682 499
31 December	**1 897 126**	**2 247 000**

The significant actuarial assumptions are as follows:

	2014	2013
Financial actuarial assumptions		
Discount rate, annual (nominal)	12.00%	8.00%
Future inflation rate	7.00%	5.00%
Future Salary increase (nominal)	7.00%	5.00%

Demographic actuarial assumptions	2014	2013
The expected age of retirement:		
Men	60	60
Women	55	55
The average level of staff movement	6.00%	7.00%

The sensitivity of employee benefits obligation to changes in fundamental actuarial assumptions are as follows:

	Change in the assumption	Impact on obligation	Sensitivity
Discount rate	Increase/decrease by 0.5%	Decrease/increase by	2.83%
Future salary growth	Increase/decrease by 0.5%	Increase/decrease by	0.87%
Future growth of benefits (inflation)	Increase/decrease by 0.5%	Increase/decrease by	2.09%
Average level of staff movement	Increase/decrease by 10%	Decrease/increase by	1.06%
Mortality	Increase/decrease by 10%	Decrease/increase by	0.81%

The weighted average duration of the defined benefit plan obligation and the other long-term benefits as at 31 December 2014 is 10.5 years and 12.3 years, respectively. The expected contributions by the Group to the defined benefit plans and the other long-term benefits in 2015 are RUB 561 855 thousand and RUB 10 246 thousand, respectively.

24 Provisions

’000 RUB	**Legal claims**
Balance at 1 January 2013	**3 172 685**
Provisions accrued during the year	440 371
Provisions reversed during the year	(1 628 533)
Provisions used during the year	(1 537 309)
Balance at 31 December 2013	**447 214**
Provisions accrued during the year	305 834
Provisions reversed during the year	(103 536)
Provisions used during the year	(93 967)
Balance at 31 December 2014	**555 545**

Provision for legal claims relates to the claims where the Group acts as a defendant within the ordinary course of business. The balance of the provision at 31 December 2014 is expected to be utilised in 2015. Management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

25 Trade and other payables

	31 December 2014 ’000 RUB	**31 December 2013 ’000 RUB**
Non-current		
Advances received	8 226 560	6 536 118
Other payables	1 116 969	1 098 780
	9 343 529	**7 634 898**
Current		
Accounts payable – trade	18 141 365	15 816 674
Advances received	32 602 707	34 362 924
Other payables and accrued expenses	2 055 978	1 900 917
	52 800 050	**52 080 515**

As at 31 December 2014 overdue advances received for connection services were RUB 5 940 388 thousand (31 December 2013: RUB 10 515 541 thousand). The Group’s approach to managing liquidity risks is entering into additional agreements with revised terms of execution.

The Group’s exposure to liquidity risk related to trade and other payables is disclosed in Note 27.

26 Other taxes payable

	31 December 2014	**31 December 2013**
	’000 RUB	**’000 RUB**
Property tax	164 311	238 297
Other taxes	360 110	11 453
Employee taxes	13 782	5 016
Value added tax	61 404	39 901
	599 607	**294 667**

27 Financial risk management

(a) Overview

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

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

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

The Group’s 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) Credit risk

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

(i) Trade and other receivables

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

Approximately 78% (2013: 75%) of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over seven years, and, historically, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. The Group's management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

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

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

Exposure to credit risk

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

	Carrying amount	
'000 RUB	**31 December 2014**	**31 December 2013**
Trade and other receivables	16 186 192	12 827 735
Cash and cash equivalents	4 305 289	1 596 266
Current investments	550 000	682 611
	21 041 481	**15 106 612**

The Group's most significant customer is controlled by the Government of Russian Federation and accounts for RUB 9 081 814 thousand of the trade receivables carrying amount at 31 December 2014 (2013: RUB 6 995 268 thousand).

Impairment losses

The aging of trade and other receivables as at 31 December was:

	Gross	**Impairment**	**Gross**	**Impairment**
'000 RUB	**2014**	**2014**	**2013**	**2013**
Not past due	10 622 313	(751)	9 294 075	(35 779)
Past due less than 3 months	2 760 712	(1 169)	1 970 410	(27 240)
Past due from 3 to 6 months	765 711	(7 344)	160 656	-
Past due from 6 months to one year	965 844	(270 901)	564 470	(115 658)
More than one year	3 030 306	(1 678 528)	1 571 049	(554 248)
	18 144 886	**(1 958 694)**	**13 560 660**	**(732 925)**

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

	2014	**2013**
	'000 RUB	**'000 RUB**
Balance at 1 January	(732 925)	(1 267 564)
Increase during the period	(1 437 473)	(199 808)
Decrease due to write-off	225 731	503 840
Decrease due to reversal	(14 027)	230 607
Balance at 31 December	**(1 958 694)**	**(732 925)**

The impairment provision at 31 December 2014 of RUB 1 958 694 thousand (2013: RUB 732 925 thousand) relates to disputable accounts receivable with no payment.

Based on past experience and analysis performed by the credit department, Group management believes that no impairment allowance is necessary in respect of accounts receivable not past due because the customers to which these balances relate have a good credit history.

(ii) Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents are deposited only with financial institutions that at the time of deposit the management considers to have minimal risk of default. Bank deposits, cash and cash equivalents are mainly held at OJSC Sberbank, OJSC Bank VTB, state-owned banks.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective of liquidity management 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.

The Group monitors and manages liquidity risk by maintaining bank credit lines, obtaining loans (Note 22) and sufficient cash balances on its settlement accounts (see Note 19).

At 31 December 2014, the Group had available RUB 29 878 683 thousand (2013: 20 478 683 RUB thousand) of undrawn borrowing facilities.

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

2014 **’000 RUB**	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans	52 895 631	65 409 820	15 122 698	6 374 214	21 584 756	21 996 011	332 141	-
Bonds issued	21 237 951	28 080 691	12 179 715	5 863 984	627 567	629 424	631 417	8 148 584
Finance lease liabilities	150 154	223 131	30 168	30 774	31 123	30 908	30 128	70 030
Trade payables	18 148 270	18 148 270	18 148 270	-	-	-	-	-
	92 432 006	**111 861 912**	**45 480 851**	**12 268 972**	**22 243 446**	**22 656 343**	**993 686**	**8 218 614**

2013 **’000 RUB**	**Carrying amount**	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Over 5 years**
Non-derivative financial liabilities								
Loans	42 224 885	53 431 228	8 707 667	10 470 220	10 520 829	1 643 305	19 944 874	2 144 333
Bonds issued	16 060 797	18 433 683	1 330 015	11 337 810	5 147 534	75 331	77 100	465 893
Finance lease liabilities	6	6	6	-	-	-	-	-
Trade payables	9 280 556	9 280 556	9 280 556	-	-	-	-	-
	67 566 244	**81 145 473**	**19 318 244**	**21 808 030**	**15 668 363**	**1 718 636**	**20 021 974**	**2 610 226**

(d) Market risk

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

(i) 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 to 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.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
'000 RUB	**31 December 2014**	**31 December 2013**
Fixed rate instruments		
Financial assets	4 889 427	2 278 877
Financial liabilities	(74 133 582)	(52 285 682)
	(69 244 155)	**(50 006 805)**
Variable rate instruments		
Financial liabilities	-	**(6 000 000)**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. In 2014 the Group did not have financial instruments with the floating interest rate, therefore the effect for equity and profit or loss is shown for 2013 only.

	Profit and loss		Equity	
’000 RUB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2013				
Cash flow sensitivity (net)	**(60 000)**	**60 000**	**(60 000)**	**60 000**

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(e) Fair values

The basis for determining fair values is disclosed in Note 4. Set out below is a comparison, by class, of the carrying amounts and fair value of the Group’s financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount		Fair value	
’000 RUR	**2014**	**2013**	**2014**	**2013**
Financial assets				
Short term loans issued	550 000	-	550 000	-
Total	**550 000**	**-**	**550 000**	**-**
Financial liabilities				
Finance lease	150 154	6	137 367	6
Unsecured bank facility	52 895 630	42 224 883	47 731 768	42 164 122
Unsecured bonds	21 237 951	16 060 797	19 815 260	15 537 127
Total	**74 283 735**	**58 285 686**	**67 684 395**	**57 701 255**

Fair value of short term financial assets and liabilities is near their carrying amount primarily due to short maturity term.

Fair value of long term financial liabilities was determined on the basis of 11.94% market interest rate (31 December 2013: 8%)

(f) Fair value hierarchy

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

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

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

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

’000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2014				
Loans	-	550 00	-	550 000
Total assets	**-**	**550 000**	**-**	**550 000**
31 December 2014				
Finance lease	-	-	137 367	137 367
Unsecured bank facility	-	47 731 768	-	47 731 768
Unsecured bonds	-	19 815 260	-	19 815 260
Total liabilities	**-**	**67 547 028**	**137 367**	**67 684 395**
31 December 2013				
Finance lease	-	-	6	6
Unsecured bank facility	-	42 164 122	-	42 164 122
Unsecured bonds	-	15 537 127	-	15 537 127
Total liabilities	**-**	**57 701 249**	**6**	**57 701 255**

Fair value of loans and borrowings as of 31 December 2014 presented in the table above is determined by discounting of future cash flows by long-term and short-term loans using weighted average interest rate for Ruble denominated instruments of 11.94% and 12.82% accordingly (assumptions of Level 2 in the fair value hierarchy).

(g) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position.

	Carrying amount	
'000 RUB	**31 December 2014**	**31 December 2013**
Total borrowings (Note 22)	74 283 735	58 285 688
Less: Cash and cash equivalents (Note 19)	(4 305 289)	(1 596 266)
Net debt	69 978 446	56 689 422
Equity	159 025 669	153 577 662
Debt to equity ratio	**44.00%**	**36.91%**

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

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

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Less than one year	1 439 910	596 192
Between one and five years	1 703 410	894 817
More than five years	8 638 260	5 459 934
	11 781 580	**6 950 943**

The Group leases a number of plots of land owned by local governments under operating lease. Land lease payments are determined by lease agreements.

The plots of land leased by the Group are the areas where the Group's electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

29 Commitments

Future capital expenditures for which contracts relates to capital construction of power grid facilities have been signed as at 31 December 2014 amount to RUB 30 700 909 thousand (31 December 2013: RUB 33 787 836 thousand).

(a) Political environment

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia.

In 2014, the United States, European Union and other countries have introduced a series of unilateral restrictive political and economic actions against the Russian Federation and a number of Russian and Ukrainian individuals and organizations. These official actions, particularly in the case of a further escalation, may result in reduction of economic cooperation between business of before mentioned countries and Russian companies on the international capital markets, as well as other economic consequences. The impact of these events on the future results of operations and financial position of the Company at this time is difficult to determine.

(b) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full coverage for its plant facilities and equipment. The Group does not have full coverage for business interruption and 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.

(c) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group’s operating results.

(d) Taxation contingencies in the Russian Federation

The taxation systems in the Russian Federation and in other countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, 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 three to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

In addition, tax and other legislation do not address specifically all the aspects of the Group’s reorganisation related to reforming of the electric utilities industry in the Russian Federation. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

These circumstances may create tax risks in the Russian Federation and in the other countries in which the Group operates. Management believes that it has adequately provided for tax liabilities based on its interpretations of applicable relevant 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.

The Parent company and subsidiaries in Russian Federation where they operate have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group entities operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUR 1 billion in 2014 and RUR 2 billion in 2013. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2014 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices or making appropriate transfer pricing adjustments (where applicable).

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Company under the "controlled" transactions and assess additional tax liabilities unless the Company is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

(e) Environmental matters

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

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

30 Related party transactions

(a) Control relationships

As at 31 December 2014 the Parent of the Group was JSC “Rosseti”, a state controlled entity. The party with ultimate control over the Group is the Government of the Russian Federation, which held the majority of the voting rights of JSC “Rosseti”, the parent company.

(b) Transactions with parent company and other related parties relationships

’000 RUB	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2014	**2013**	**2014**	**2013**
Sale of goods and services:	**146 220**	**259 493**	**379 128**	**819 399**
Parent company	1 527	256	29 882	-
Fellow subsidiaries	144 693	259 237	349 246	819 399
Purchase of goods and services:	**15 092 508**	**7 465 889**	**1 573 865**	**1 433 743**
Parent company	388 321	360 483	22 562	425 371
Fellow subsidiaries	14 704 187	7 105 406	1 551 303	1 008 372
Advances given:	**-**	**-**	**42 516**	**35 713**
Parent company	-	-	-	-
Fellow subsidiaries	-	-	42 516	35 713
Advances received:	**-**	**-**	**96 582**	**101 720**
Parent company	-	-	-	-
Fellow subsidiaries	-	-	96 582	101 720

(c) Transactions with management and close family members

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

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

’000 RUB	**2014**	**2013**
Short-term employee benefits, including social taxes	704 152	506 821
Termination benefits	30 174	19 052
Current service cost related to employee benefits obligation	25 592	10 131
Financial cost related to employee benefits obligation	9 393	5 589
Remeasurement of employee benefits obligation (OCI)	(10 742)	17 667
	758 569	**559 260**

The amounts of the key management remuneration disclosed in the table are recognized as an expense related to key management personnel during the reporting period and included as personnel costs (see Note 8).

The carrying value of defined benefit plan and other post-employment benefits reported in the consolidated statement of financial position of the Group includes RUB 141 654 thousand liabilities related to key management (2013: RUB 117 411 thousand).

(d) Transactions with state-controlled entities

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

Revenues from state-controlled entities for the year ended 31 December 2014 constitute 81 % (2013: 77%) of total Group revenues, including 91 % (2013: 89%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2014 constitute 80% (2013: 62%) of total transmission costs.

Due to the fact that on 14 June 2013 the state-owned shares (79.64%) of JSC "FGC UES" were handed over from the Russian Federation represented by the Federal Agency for State Property Management (Rosimushchestvo) to JSC “Russian Grids”, the share of the cost of electricity transmission to government-related entities increased.

Significant loans from state-controlled entities are disclosed in Note 22.

(e) Pricing policies

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

In accordance with the Company Charter documents, the following transactions are subject to the approval of the Board of Directors, if the amount of the transaction is below 2% of total assets of the Company as determined in accordance with RAS (Russian accounting standards), and are subject to approval at the Shareholders` meeting if the amount of the transaction exceeds 2% of the total assets of the Company as determined in accordance with RAS (Russian accounting standards):

- Transactions involving the entities where the shareholders of the Company have ownership interest of 20% or more;
- Transaction involving the entities where the management of the Company also act in management capacity.

31 Events subsequent to the reporting date

In January 2015 OJSC Energocentr paid bond in amount RUB 215 725 thousand (Note 22).

The amount of RUB 550 000 thousand related to loan issued was repaid in 27 February 2015 (Note 14).

There were no other significant events after the reporting date that require adjustments or specific disclosures in the Group's financial statements.