Consolidated financial statements
OJSC Interregional Distribution Grid Company of Volga and its subsidiaries
for the year ended 31 December 2014

with independent auditor's report

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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 of OJSC Interregional Distribution Grid Company of Volga

We have audited the accompanying consolidated financial statements of OJSC Interregional Distribution Grid Company of Volga, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of 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 OJSC Interregional Distribution Grid Company of Volga 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.

Совершенствуя бизнес,
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC Interregional Distribution Grid Company of Volga 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 statement of open joint stock company Interregional Distribution Grid Company of Volga for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards were audited by another auditor who issued an audit report with an unqualified opinion dated 1 April 2014.

T.L. Okolotina
Partner
Ernst & Young LLC

1 April 2015

Details of the audited entity

Name: of open joint stock company Interregional Distribution Grid Company of Volga
Record made in the State Register of Legal Entities on 29 June 2007, State Registration Number 1076450006280.
Address: Russia 410031, Saratov, Pervomayskaya street, 42/44.

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.

OJSC Interregional Distribution Grid Company of Volga

Consolidated statement of financial position

As at 31 December 2014

(in thousands of Russian Roubles, unless otherwise stated)

	Note	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	7	42,326,360	41,845,590
Intangible assets	8	159,513	146,442
Other non-current assets	9	630,101	568,213
Total non-current assets		**43,115,974**	**42,560,245**
Current assets			
Inventories	10	1,227,333	1,184,245
Income tax receivable		80,070	838,996
Trade and other receivables	11	6,377,438	4,404,890
Prepayments	12	199,464	320,905
Cash and cash equivalents	13	1,258,536	1,056,150
Other current assets	14	20,102	18,945
Total current assets		**9,162,943**	**7,824,131**
Total assets		**52,278,917**	**50,384,376**
Equity and liabilities			
Share capital	15	17,857,780	17,857,780
Reserves		(625,919)	(647,541)
Retained earnings		9,789,624	8,999,909
Total equity		**27,021,485**	**26,210,148**
Non-current liabilities			
Deferred tax liabilities	25	3,530,596	3,012,993
Employee benefits	16	1,158,984	1,367,080
Loans and borrowings	17	12,000,000	13,900,000
Trade and other payables	18	363,017	270,782
Total non-current liabilities		**17,052,597**	**18,550,855**
Current liabilities			
Loans and borrowings	17	1,919,387	36,626
Trade and other payables	18	5,248,762	5,001,742
Provisions		762	25,746
Other taxes payable	19	1,035,924	559,259
Total current liabilities		**8,204,835**	**5,623,373**
Total liabilities		**25,257,432**	**24,174,228**
Total equity and liabilities		**52,278,917**	**50,384,376**

These consolidated interim condensed financial statements were approved by management on 1 April 2015 and were signed on its behalf by:

General Director V.A. Ryabikin

Chief Accountant I.A. Tamlenova

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 51.

OJSC Interregional Distribution Grid Company of Volga

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2014

(in thousands of Russian Roubles, unless otherwise stated)

	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
Revenue	20	46,156,063	49,320,392
Operating expenses	21	(44,186,456)	(46,930,663)
Other income/expense, net	23	125,880	54,960
Operating profit		**2,095,487**	**2,444,689**
Finance income	24	53,250	30,149
Finance costs	24	(1,009,561)	(774,499)
Profit before income tax		**1,139,176**	**1,700,339**
Income tax expense	25	(331,603)	(249,466)
Profit for the year		**807,573**	**1,450,873**
Other comprehensive income/(loss)			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability (asset)	16	127,200	(237,586)
Related income tax		(105,578)	47,517
Other comprehensive income/(loss), net of income tax		**21,622**	**(190,069)**
Total comprehensive income for the year		**829,195**	**1,260,804**
Earnings per share – basic and diluted (in Russian Roubles)	15	0.0045	0.0081

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 51.

OJSC Interregional Distribution Grid Company of Volga

Consolidated statement of cash flows

For the year ended 31 December 2014

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Operating activities			
Profit before income tax for the year		**1,139,176**	**1,700,339**
Adjustments for:			
Depreciation and amortisation	7, 8	5,007,647	4,092,233
Allowance for/(reversal) of impairment of accounts receivable		1,322	(104,285)
Finance costs	24	1,009,561	774,499
Finance income	24	(53,250)	(30,149)
Gain on disposal of property, plant and equipment		(7,308)	(8,076)
Accounts payable written-off		(63,711)	(9,760)
Other non-cash transactions		21,158	26,902
Operating profit before working capital changes and income tax paid		**7,054,595**	**6,441,703**
Working capital changes			
Increase in trade and other receivables		(2,025,858)	(893,507)
Decrease in prepayments		121,454	5,158
Increase in inventories		(43,088)	(49,870)
Increase in other current assets		(1,157)	(1,753)
(Increase)/decrease in other non-current assets		(9,913)	25,007
Increase in trade and other payables		335,584	96,542
Decrease in long-term liabilities		(178,776)	(346,233)
Increase in taxes payable other than income		476,665	268,465
Cash flows from operating activities before income taxe and interest paid		**5,729,506**	**5,545,512**
Income tax returned in cash		838,644	143,849
Interest paid		(1,145,180)	(897,250)
Net cash flows from operating activities		**5,422,970**	**4,792,111**
Investing activities			
Acquisition of property, plant and equipment		(5,124,381)	(8,596,265)
Proceeds from disposal of property, plant and equipment		10,388	–
Acquisition of intangible assets		(124,174)	(105,509)
Interest received	24	53,250	30,149
Net cash flows used in investing activities		**(5,184,917)**	**(8,671,631)**
Financing activities			
Proceeds from loans and borrowings		3,930,000	13,800,000
Repayment of loans and borrowings		(3,930,000)	(10,600,000)
Repayment of finance lease liabilities		(17,809)	(65,622)
Dividends paid	15	(17,858)	(287,059)
Net cash flows (used in)/from financing activities		**(35,667)**	**2,847,319**
Net increase/(decrease) in cash and cash equivalents		**202,386**	**(1,032,201)**
Cash and cash equivalents at beginning of year	13	**1,056,150**	**2,088,351**
Cash and cash equivalents at end of year	**13**	**1,258,536**	**1,056,150**

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 51.

OJSC Interregional Distribution Grid Company of Volga

Consolidated statement of changes in equity

For the year ended 31 December 2014

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Share capital	Reserves	Accumulated profit	Total equity
Balance at 1 January 2013		**17,857,780**	**(457,472)**	**7,840,117**	**25,240,425**
Profit for the year		–	–	1,450,873	**1,450,873**
Other comprehensive (loss)/income					
Revaluation of net liabilities (assets) for defined benefit obligations	16	–	(237,586)	–	**(237,586)**
Income tax on other comprehensive (loss)/income	16	–	47,517	–	**47,517**
Total other comprehensive loss		**–**	**(190,069)**	**–**	**(190,069)**
Total comprehensive (loss)/income		**–**	**(190,069)**	**1,450,873**	**1,260,804**
Dividends	15	–	–	(291,081)	**(291,081)**
Balance at 31 December 2013		**17,857,780**	**(647,541)**	**8,999,909**	**26,210,148**
Balance at 1 January 2014		**17,857,780**	**(647,541)**	**8,999,909**	**26,210,148**
Profit for the year		–	–	807,573	**807,573**
Other comprehensive (loss)/income					
Revaluation of net liabilities (assets) for defined benefit obligations	16	–	127,200	–	**127,200**
Income tax on other comprehensive income	16	–	(105,578)	–	**(105,578)**
Total other comprehensive income		**–**	**21,622**	**–**	**21,622**
Total comprehensive income		**–**	**21,622**	**807,573**	**829,195**
Dividends	15	–	–	(17,858)	**(17,858)**
Balance at 31 December 2014		**17,857,780**	**(625,919)**	**9,789,624**	**27,021,485**

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 51.

(in thousands of Russian Roubles, unless otherwise stated)

1. Background

(a) The Group and its operations

Open Joint-Stock Company "Interregional Distribution Grid Company of Volga" (hereafter, the "Company" or OJSC IDGC of Volga) and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 29 June 2007 based on Resolution no. 191p of 22 June 2007 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 250 of 27 April 2007) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered and actual office is 42/44 Pervomayskaya Street, Saratov, Russian Federation, 410031.

The Group's principal activity is the transmission and distribution of electricity and the connection of customers to the electricity grid.

The Group's significant subsidiaries are:

	% ownership	
Name	**31 December 2014**	**31 December 2013**
OJSC Chuvashskaya avtotransportnaya kompaniya	99.99	99.99
OJSC Sanatoriy Solnechny	99.99	99.99
OJSC Sotsialnaya Sfera-M	100	100
OJSC Energoservis Volgi	100	100

As at 31 December 2014 the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of the preference shares of JSC Russian Grids, which in turn owned 67.63% of the Company's ordinary shares.

The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

(b) Russian Business environment

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

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

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), issued by International Accounting Standards Board (IASB).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except:

- Financial investments classified as available-for-sale are stated at fair value.
- Property, plant and equipment were revalued to determine deemed cost as part of the adoption of IFRSs as at 1 January 2006.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble (“RUB”), which is the functional currency for Company and its subsidiaries and the currency in which these Consolidated Financial Statements are presented. All financial information presented in Russian roubles has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

- Note 7 Property, plant and equipment
- Note 11 Trade and other receivables
- Note 16 Employee benefits
- Note 30 Financial instruments

In preparing this consolidated financial statements judgements made by management in applying the Group’s accounting policies were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2013. The key sources of estimation uncertainty were the same too that applied to the consolidated financial statements as of and for the year ended 31 December 2013.

(e) Changes in presentation

(i) Reclassification of comparatives

Certain comparative amounts have been reclassified to conform to the current year’s presentation. Reclassification of comparatives did not influence the Group financial position.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the 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.

(ii) 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 consolidated financial statements of the acquired entities. The components of equity are added to the same components within Group entity, except that any share capital of the acquired entities is recognized as part of share premium. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(iii) Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any non-current investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the 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.

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are 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 and deposits on the date that they are originated. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Cash and cash equivalents comprise cash balances with original maturities of three months or less.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

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. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. 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 (see Note 3(h)(i) and foreign currency differences on available-for-sale instruments (see Note 3(b)(i)), 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.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

(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 date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

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 plus 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 deemed cost of property, plant and equipment at 1 January 2006, the date of transition to IFRSs, was determined by reference to its fair value at that date.

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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, and the costs of dismantling and removing of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” or “other expenses” in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation and amortisation

Depreciation and amortisation 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. Depreciation commences in the month following the acquisition or, inrespect of internally constructed assets, in the month following the month an asset is completed and ready for use. Land is not depreciated.

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

Type of property, plant and equipment	**Useful lives (in years)**
Buildings	15-50
Transmission networks	5-20
Equipment for electricity transformation	5-20
Other	1-30

(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 recognized in 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 for the current and comparative periods are 3 to 10 years.

3. Significant accounting policies (continued)

(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.

Leases, other than finance leases, are treated as operating leases, and leased assets are not recognised on the Groupance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its faignised in profit or loss on a straight line basis over the lease term.

(g) Inventories

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

(h) Impairment

(i) Financial assets

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

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3. Significant accounting policies (continued)

(h) Impairment (continued)

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, impairment losses on equity investments are not reversed through profit or loss. Any subsequent recovery in the fair value of impaired available-for-sale equity investments 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).

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

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

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

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which Group 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.

3. Significant accounting policies (continued)

(i) Employee benefits (continued)

(ii) Defined benefit post-employment plans

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

(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 benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method.

(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. The unwinding of the discount is recognised as finance cost.

(k) Revenue

(i) Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for distribution and sales of electricity 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.

3. Significant accounting policies (continued)

(k) Revenue (continued)

(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.

Revenue for connection to the power network is recognised either at the full amount at the moment of actual connection of the customer to the network or by reference to the stage of completion.

(iii) Other services

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

(l) Government subsidies

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

(m) 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.

(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.

(n) Finance income and costs

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

3. Significant accounting policies (continued)

(n) Finance income and costs (continued)

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

Foreign currency gains and losses are reported on a net basis.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint venture to the extent that it is probable that they will not reverse in the foreseeable future and there is a control over the period and amount of the disposal of the Group's assets, taxable differences from 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.

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 temporary difference 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.

(p) Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

3. Significant accounting policies (continued)

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the Financial Statements (Note 6).

(r) Changes in accounting policies

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

- *Recoverable Amount Disclosures for Non-Financial Assets* – amendments to IAS 36 *Impairment of Assets*. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal.
- *Novation of Derivatives and Continuation of Hedge Accounting* – amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. These amendments hadn't impact on the financial statement of the Group, as the Group did not carry out the innovation of its derivative instruments during the reporting 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 amendments hadn't impact on the financial statement of the Group, as the parent company of the Group does not meet the criteria for classification as an investment entity.
- *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. The interpretation had't impact on the financial statement of the Group, as it applied the principles of recognition according to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in accordance with the requirements of the clarification of IFRIC 21 in previous periods.
- *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. These amendments hadn't impact on the financial statement of the Group, as none of the Group entities has no netting agreements.
- *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.

3. Significant accounting policies (continued)

(s) 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 1 January 2017, with earlier application permitted.
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled "Clarification of Acceptable Methods of Depreciation and Amortization". Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. These amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- 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 1 January 2018, with earlier application permitted.
- 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 according to IFRS 3 *Business Combinations*. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.
- Amendment to IFRS 11 *Joint Arrangements*, entitled "Accounting for Acquisitions of Interests in Joint Operations". 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 1 January 2016, with earlier application permitted.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

The Group is analysing the impact of the changes of new standards on its consolidated financial statements. The Group has not early adopted any new or revised standards and interpretations mandatory for accounting periods commencing on or after 1 January 2015.

4. Determination of fair value

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or 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 that asset or liability.

(a) Fair value hierarchy

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

The table below analyses financial instruments carried at fair value, by valuation method. 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).

(b) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(c) Trade and other receivables

The fair value of 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. This fair value is determined for disclosure purposes.

(d) Non-derivative financial liabilities

Fair value, which is determined 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 the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

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

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

(b) 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 cash and cash equivalents, receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers.

Prepayments for connection services are routinely included in the customer service contracts.

The customer base for electricity transmission services for each of the Group's entities is limited to several distribution companies and a small number of large manufacturing enterprises. Payments are tracked regularly and electricity transmission customers are advised of any failures to submit timely payments.

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. The main component of this allowance is a specific provision that relates to individually significant exposures.

(ii) Cash and cash equivalents

The Group attempts to minimise the credit risk exposure for current and deposit accounts with banks by placing temporarily available funds only with the banks that are lendors to the Group.

5. Financial risk management (continued)

(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 approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due.

(d) Market risk

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

(i) Currency risk

The Group does not have any significant exposure to currency risk on sales, purchases and the borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Group, which is Russian roubles.

(ii) Interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. 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). The majority of interest rates on current and non-current borrowings are fixed. The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates.

(e) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the level of dividends to ordinary shareholders. Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

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

6. Operating segments

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of the Company) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

6. Operating segments (continued)

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

- Transmission Segments – Mordovia region, Chuvashia region, Orenburg region, Penza region, Samara region, Saratov region, Ulianovsk region – branches of IDGC Volga.
- Other Segments – other Group companies.

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

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

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

6. Operating segments (continued)

(i) Information about reportable segments for the year ended 31 December 2014

	Transmission								
	Saratov region	**Orenburg region**	**Samara region**	**Penza region**	**Ulianovsk region**	**Chuvashia region**	**Mordovia region**	**Other**	**Total**
Revenue									
Electricity transmission	10,185,385	9,537,602	10,219,525	6,172,379	3,740,037	3,172,770	2,216,615	–	**45,244,313**
Connection to the electricity network	25,769	264,502	56,099	31,669	30,998	32,773	46,333	–	**488,143**
Other revenue	42,249	126,205	19,625	45,593	5,865	14,462	4,735	136,784	**395,518**
Total revenue from external customers	**10,253,403**	**9,928,309**	**10,295,249**	**6,249,641**	**3,776,900**	**3,220,005**	**2,267,683**	**136,784**	**46,127,974**
Inter-segment revenue	–	399	–	–	–	–	–	128,793	**129,192**
Total revenue	**10,253,403**	**9,928,708**	**10,295,249**	**6,249,641**	**3,776,900**	**3,220,005**	**2,267,683**	**265,577**	**46,257,166**
Segment operating profit/(loss)	(152,001)	378,820	546,517	415,575	112,248	(137,641)	(17,728)	1,985	**1,147,775**
Segment finance income	6,020	7,153	5,439	3,752	2,120	2,132	1,996	1,457	**30,069**
Segment finance costs	(288,135)	(88,934)	(185,292)	(113,941)	(726)	(74,811)	(160,062)	–	**(911,901)**
Segment profit/(loss) before income tax	**(434,116)**	**297,039**	**366,664**	**305,386**	**113,642**	**(210,320)**	**(175,794)**	**3,442**	**265,943**
Segment depreciation and amortisation	1,329,446	1,356,421	1,436,229	566,034	283,586	351,281	338,948	18,971	**5,680,916**
Segment assets	17,416,285	12,560,098	17,485,367	5,644,257	4,798,506	4,295,677	3,253,441	229,762	**65,683,393**
Including property, plant and equipment	15,963,494	10,982,835	14,900,103	4,503,725	3,699,399	3,483,307	2,774,592	107,981	**56,415,436**
Segment liabilities	5,154,169	2,993,115	4,634,632	2,209,521	553,596	1,662,257	2,502,417	28,730	**19,738,437**
Capital expenditures	**1,224,704**	**1,423,061**	**1,534,676**	**577,248**	**266,925**	**346,760**	**391,742**	**21,343**	**5,786,459**

6. Operating segments (continued)

(ii) Information about reportable segments for the year ended 31 December 2013

	Transmission								
	Saratov region	Orenburg region	Samara region	Penza region	Ulianovsk region	Chuvashia region	Mordovia region	Other	Total
Revenue									
Electricity transmission	9,681,206	9,169,059	10,438,670	2,021,082	3,532,695	2,972,098	2,153,383	–	**39,968,193**
Connection to the electricity network	83,046	52,931	234,470	18,491	41,336	40,386	56,706	–	**527,366**
Electricity sales	–	–	–	8,406,316	–	–	–	–	**8,406,316**
Other revenue	77,763	132,657	18,342	18,002	7,686	13,575	10,186	9,887	**288,098**
Total revenue from external customers	**9,842,015**	**9,354,647**	**10,691,482**	**10,463,891**	**3,581,717**	**3,026,059**	**2,220,275**	**9,887**	**49,189,973**
Inter-segment revenue	–	–	–	–	–	–	–	128,819	**128,819**
Total revenue	**9,842,015**	**9,354,647**	**10,691,482**	**10,463,891**	**3,581,717**	**3,026,059**	**2,220,275**	**138,706**	**49,318,792**
Segment operating profit/(loss)	(33,692)	113,387	828,765	296,654	73,175	(213,627)	(117,877)	1,606	**948,391**
Segment finance income	2,794	3,314	2,519	1,820	997	1,056	964	954	**14,418**
Segment finance costs	(239,003)	(13,302)	(152,271)	(75,729)	(1,604)	(61,761)	(133,198)	–	**(676,868)**
Segment profit/(loss) before income tax	**(269,901)**	**103,399**	**679,013**	**222,745**	**72,568**	**(274,332)**	**(250,112)**	**2,560**	**285,940**
Segment depreciation and amortisation	1,221,781	1,190,809	1,192,477	535,236	256,230	312,102	326,490	18,196	**5,053,321**
Segment assets	17,571,278	12,123,738	16,494,808	5,637,549	4,297,295	4,052,524	3,260,387	234,695	**63,672,274**
Including property, plant and equipment	16,038,279	10,907,031	14,819,662	4,498,811	3,715,727	3,488,239	2,720,534	108,151	**56,296,434**
Segment liabilities	4,994,941	3,276,329	4,160,757	2,532,189	496,808	1,393,105	2,463,968	34,829	**19,352,926**
Capital expenditures	**1,358,485**	**2,369,343**	**2,507,564**	**883,103**	**466,838**	**443,437**	**620,966**	**18,554**	**8,668,290**

6. Operating segments (continued)

(iii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Reconciliation of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements is presented in the tables below.

Reconciliation of revenues:

	Year ended 31 December 2014	Year ended 31 December 2013
Total revenue for reportable segments	**46,257,166**	**49,318,792**
Inter-segment revenue elimination	(129,192)	(128,819)
Other adjustments	28,089	130,419
Revenue per consolidated statement of profit or loss and other comprehensive income	**46,156,063**	**49,320,392**

Reconciliation of profit before income tax:

	Year ended 31 December 2014	Year ended 31 December 2013
Total profit before income tax for reportable segments	**265,943**	**285,941**
Adjustment for property, plant and equipment	757,714	1,042,451
Retirement benefit obligations recognition	77,394	254,739
Adjustment on intangible assets	23,287	73,862
Adjustment for finance lease	20,857	43,590
Other adjustments	(6,019)	(244)
Profit before tax per consolidated statement of profit or loss and other comprehensive income	**1,139,176**	**1,700,339**

Reconciliation of depreciation and amortisation:

	Year ended 31 December 2014	Year ended 31 December 2013
Total depreciation for reportable segments	**5,680,916**	**5,053,321**
Adjustment for depreciation of property, plant and equipment	(748,621)	(1,005,886)
Adjustment for amortization of intangible assets	74,037	40,902
Other adjustments	1,315	3,896
Depreciation and amortisation per consolidated statement of profit or loss and other comprehensive income	**5,007,647**	**4,092,233**

Reconciliation of total assets:

	31 December 2014	31 December 2013
Total assets for reportable segments	**65,683,393**	**63,672,274**
Unallocated assets	945,924	1,881,303
Recognition of assets related to employee benefits	501,505	505,005
Discounting of financial assets	(1,464)	(2,076)
Inter-segment balances	(42,475)	(42,964)
Elimination of investments in subsidiaries	(101,529)	(101,529)
Adjustment for deferred tax asset	(290,075)	(327,591)
Adjustment for net book value of property, plant and equipment	(14,405,212)	(15,162,924)
Other adjustments	(11,150)	(37,122)
Total assets per consolidated statement of financial position	**52,278,917**	**50,384,376**

6. Operating segments (continued)

(iii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items (continued)

Reconciliation of property, plant and equipment:

	31 December 2014	31 December 2013
Total property, plant and equipment for reportable segments	**56,415,436**	**56,296,434**
Unallocated property, plant and equipment	138,347	162,564
Advances for acquisition of property, plant and equipment	111,609	389,675
Adjustment for net book value of property, plant and equipment	(14,405,212)	(15,162,924)
Other adjustments	66,180	159,841
Property, plant and equipment per consolidated statement of financial position	**42,326,360**	**41,845,590**

Reconciliation of total liabilities:

	31 December 2014	31 December 2013
Total liabilities of reportable segments	**19,738,437**	**19,352,926**
Unallocated deferred income tax due to differed accounting principles for deferred tax calculation	3,992,706	3,012,993
Commitment to long-term employee benefits	849,719	1,367,080
Liabilities for short-term employee benefits are not allocated by segment, and adjustment of obligations in accordance with IFRS	308,503	298,578
Charges for litigation, not allocated to segments	762	25,746
Finance lease liabilities	(785)	16,795
Intersegment balances	(42,475)	(42,964)
Other adjustments	410,565	143,074
Total liabilities per consolidated statement of financial position	**25,257,432**	**24,174,228**

Reconciliation of capital expenditures:

	31 December 2014	31 December 2013
Total capital expenditures of reportable segments	**5,786,459**	**8,668,290**
Unallocated capital expenditures	23,609	21,536
Borrowing cost adjustment	2,301	697
Advances for acquisition of property, plant and equipment	(273,968)	163,754
Other adjustments	(97,296)	72,975
Total capital expenditures per consolidated statement of financial position	**5,441,105**	**8,927,252**

The Group performs its activities in the Russian Federation. For the years ended 31 December 2014 and 31 December 2013 the group had two major customers – distribution companies in two regions of the Russian Federation – with individual turnovers over 10% of total Group revenues. Revenues from these customers are reported by the transmission segments operating in Samara and Saratov region. Total amounts of revenues for these major customers for the year ended 31 December 2014 were RUB 5,737,303 thousand in Samara (2013: RUB 8,548,021 thousand); RUB 6,330,282 thousand in Saratov (2013: RUB 7,352,206 thousand).

7. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transfor-mation	Construction in progress	Other	Total
Cost						
Balance as at 1 January 2013	**11,222,495**	**19,915,589**	**11,514,133**	**2,808,995**	**9,273,035**	**54,734,247**
Additions	37,139	8,040	26,799	8,328,342	526,932	**8,927,252**
Transfers	2,128,571	2,691,918	1,829,703	(8,332,939)	1,682,747	**–**
Disposals	(7,900)	(29,966)	(8,147)	(40,882)	(62,743)	**(149,638)**
Balance as at 31 December 2013	**13,380,305**	**22,585,581**	**13,362,488**	**2,763,516**	**11,419,971**	**63,511,861**
Balance as at 1 January 2014	**13,380,305**	**22,585,581**	**13,362,488**	**2,763,516**	**11,419,971**	**63,511,861**
Additions	1,699	1,584	2,672	5,027,196	407,954	**5,441,105**
Transfers	1,706,743	1,807,648	1,680,453	(6,121,682)	926,838	**–**
Disposals	(9,241)	(51,713)	(10,433)	(13,949)	(74,153)	**(159,489)**
Balance as at 31 December 2014	**15,079,506**	**24,343,100**	**15,035,180**	**1,655,081**	**12,680,610**	**68,793,477**
Accumulated depreciation						
Balance as at 1 January 2013	**(2,705,261)**	**(8,690,068)**	**(2,935,786)**	**–**	**(3,382,979)**	**(17,714,094)**
Depreciation for the year	(663,092)	(1,293,880)	(730,046)	–	(1,343,223)	**(4,030,241)**
Disposals	4,239	13,636	3,629		56,560	**78,064**
Balance as at 31 December 2013	**(3,364,114)**	**(9,970,312)**	**(3,662,203)**	**–**	**(4,669,642)**	**(21,666,271)**
Balance as at 1 January 2014	**(3,364,114)**	**(9,970,312)**	**(3,662,203)**	**–**	**(4,669,642)**	**(21,666,271)**
Depreciation for the year	(794,393)	(1,585,454)	(847,102)	–	(1,676,751)	**(4,903,700)**
Disposals	3,708	41,303	8,212		49,631	**102,854**
Balance as at 31 December 2014	**(4,154,799)**	**(11,514,463)**	**(4,501,093)**	**–**	**(6,296,762)**	**(26,467,117)**
Net book value						
At 1 January 2013	**8,517,234**	**11,225,521**	**8,578,347**	**2,808,995**	**5,890,056**	**37,020,153**
At 31 December 2013	**10,016,191**	**12,615,269**	**9,700,285**	**2,763,516**	**6,750,329**	**41,845,590**
At 31 December 2014	**10,924,707**	**12,828,637**	**10,534,087**	**1,655,081**	**6,383,848**	**42,326,360**

As at 31 December 2014 construction in progress includes prepayments for property, plant and equipment of RUB 111,272 thousand (as at 31 December 2013: RUB 387,626 thousand).

As at 31 December 2014 construction in progress includes construction materials of RUB 66,517 thousand (as at 31 December 2013: RUB 161,892 thousand).

Borrowing costs totalling RUB 236,151 thousand with a capitalisation rate of 8.21%-8.64% during 2014 (during 2013: RUB 225,125 thousand with a capitalization rate of 8.23%-8.66%) were included in the cost of property, plant and equipment and represent interest on loans.

7. Property, plant and equipment (continued)

Leased plant and machinery

The Group leases production and transport equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price.

As at 31 December 2014 and 31 December 2013 the net book value of leased property, plant and equipment was as follows:

	31 December 2014	31 December 2013
Cost	3,255	233,689
Accumulated depreciation	(2,135)	(57,866)
Net book value	**1,120**	**175,823**

At the end of the reporting period the Group assesses whether there is any indication that a CGU may be impaired. For those CGUs where such indication exists, the Group performed impairment testing in order to estimate the recoverable amount of that CGU.

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

Therefore the value in use for property, plant and equipment as at 31 December 2014 and 2013 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.

Each cash-generating unit (CGU) is determined by the Group based on the geographical location of the Company's branches and subsidiaries which is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets.

The following key assumptions were used in determining the recoverable amounts of each of the cash-generating units:

- Cash flows were projected based on methodological guidelines for testing of grid assets for impairment approved by the order of JSC Russian Grids no. 558p of 17 December 2014 and forecast budget for the period:
  - until 2019 for the CGUs: "Samarskie RS", "Orenburgenergo", "Penzaenergo", "Saratovskie RS", "Chuvashenergo";
  - until 2022 for the CGUs: "Mordovenergo", "Ulyanovskie RS";
- Forecasted cash flows were prepared for the period 2015-2019 for CGUs Samarskie RS", "Orenburgenergo", "Penzaenergo", "Saratovskie RS", "Chuvashenergo", and for the period 2015-2022 for CGU "Mordovenergo", "Ulyanovskie RS" based on the distribution volumes, operating and capital expenditures and tariffs approved by regulatory bodies for 2015;

7. Property, plant and equipment (continued)

Leased plant and machinery (continued)

- Source distribution tariffs for the forecasted period were taken from business plans, adjusted and harmonized by JSC Russian Grids approved by the Board of Directors of JSC "IDGC of Volga", the protocol no.12 of 29 December 2014, which were based on tariff models generated with the average annual growth rate for the distribution of electricity in accordance with the social-economic development of the Russian Federation for 2015 and the planning period of 2016-2019;
- The cash flow forecasts were discounted to their present value at the nominal weighted average cost of capital of 11.16% (after tax);
- Growth rate of the net cash flows was expected at the 2.4%-2.6% level in the post-forecasted period.

As a result of testing as at 31 December 2014 the Group there was no impairment of fixed assets.

8. Intangible assets

	Patents and licenses	Computer software	Research and development	Total
Cost				
Balance as at 1 January 2013	**266**	**276,058**	**–**	**276,324**
Additions	80	105,435	–	**105,515**
Disposals	(11)	(75,864)	–	**(75,875)**
Balance as at 31 December 2013	**335**	**305,629**	**–**	**305,964**
Balance as at 1 January 2014	**335**	**305,629**	**–**	**305,964**
Additions	–	100,133	24,040	**124,173**
Disposals	(335)	(77,100)	–	**(77,435)**
Balance as at 31 December 2014	**–**	**328,662**	**24,040**	**352,702**
Accumulated amortisation				
Balance as at 1 January 2013	**(73)**	**(173,326)**	**–**	**(173,399)**
Amortisation for the year	(62)	(61,929)	–	**(61,991)**
Disposals	6	75,862	–	**75,868**
Balance as at 31 December 2013	**(129)**	**(159,393)**	**–**	**(159,522)**
Balance as at 1 January 2014	**(129)**	**(159,393)**	**–**	**(159,522)**
Amortisation for the year	(204)	(105,956)	(4,940)	**(111,100)**
Disposals	333	77,100	–	**77,433**
Balance as at 31 December 2014	**–**	**(188,249)**	**(4,940)**	**(193,189)**
Net book value				
At 1 January 2013	**193**	**102,732**	**–**	**102,925**
At 31 December 2013	**206**	**146,236**	**–**	**146,442**
At 31 December 2014	**–**	**140,413**	**19,100**	**159,513**

Intangible assets include capitalized costs for the implementation of software products and other software products.

9. Other non-current assets

	31 December 2014	31 December 2013
Assets related to the employee benefit fund	501,505	505,005
Trade receivables	22,294	3,783
Other receivables	106,250	59,339
Available-for-sale investments	52	86
Total	**630,101**	**568,213**

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

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

	Year ended 31 December 2014	Year ended 31 December 2014
At 1 January	**505,005**	**512,114**
Return on plan assets	22,567	15,099
Contribution by employeer	71,429	103,054
Other movements	5,956	5,340
Benefits paid	(103,452)	(130,602)
At 31 December	**501,505**	**505,005**

Assets related to pension plans and defined benefit plans administer non-state pension fund of JSC "NPF electricity". These assets are not assets of the fund, as under the terms of existing agreements with the fund Group is able to use the above contributions to reduce future contributions or funding other compensation plans or transfer to another fund on their own initiative.

Information about impairment losses related to non-current accounts receivable are disclosed in note 30.

10. Inventories

	31 December 2014	31 December 2013
Raw materials and supplies	1,227,473	1,184,385
Provision for obsolescence	(140)	(140)
Total	**1,227,333**	**1,184,245**

11. Trade and other receivables

	31 December 2014	31 December 2013
Trade receivables	6,937,320	4,854,907
Taxes receivable	4,571	84,179
Other receivables	161,522	221,985
VAT receivable	106,397	118,775
Less: Allowance for impairment of trade receivables	(765,999)	(794,824)
Less: Allowance for impairment of other receivables	(66,373)	(80,132)
Total	**6,377,438**	**4,404,890**

11. Trade and other receivables (continued)

Information about impairment losses related to trade and other receivables are disclosed in note 30.

12. Prepayments

	31 December 2014	31 December 2013
Prepayments	199,477	321,545
Less: Allowance for impairment of prepayments	(13)	(640)
Total	**199,464**	**320,905**

13. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash at bank and in hand	1,249,836	1,030,623
Cash equivalents	8,700	25,527
Total	**1,258,536**	**1,056,150**

All cash and cash equivalents are denominated in Russian Roubles. Cash equivalents represent deposits with original maturities of three month or less.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

14. Other current assets

As at 31 December 2014 and 31 December 2013 other current assets represented balances of prepayments for insurance.

15. Equity

Share capital

	31 December 2014	31 December 2013
Number of ordinary shares authorised, issued and fully paid, number of shares	178,577,801,146	178,577,801,146
Par value (in RUB)	0.1	0.1
Total share capital (in RUB)	**17,857,780,115**	**17,857,780,115**

Dividends declared and paid

As at 31 December 2014 the Group had retained earnings, including the profit for the current year, of RUB 9,789,624 thousand (at 31 December 2013: RUB 8,999,909 thousand).

In June 2014 General Meeting of Shareholders of the Company by the end of 2013 year declared dividends in the amount of RUB 0.0001 per ordinary share. Total dividends amounted to RUB 17,858 thousand (2013: RUB 291,081 thousand). As at 31 December 2014 dividends were paid out.

15. Equity (continued)

Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2014	Year ended 31 December 2013
Weighted average number of ordinary shares issued, number of shares	178,577,801,146	178,577,801,146
Profit attributable to the shareholders	807,573	1,450,873
Weighted average earnings per ordinary share – basic (in RUB)	0.0045	0.0081

16. Employee benefits

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

- defined contribution pension plan (Non-Government Pension Fund of the Electric Power Industry and Non-Government Pension Fund “Professionalniy”);
- defined benefit pension plans 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 sum of the expected payments under plans long-term employee benefits for the year 2015 is RUB 156,436 thousand, including:

- defined benefit plans, including non-state pension provision of employees: RUB 144,750 thousand;
- plans of other long-term employee benefits RUB 11,686 thousand.

As at 31 December 2014 21,694 employees of the Group, who were active participants in pension and social security and 6,929 unemployed pensioners recipients of financial assistance (as at 31 December 2013: 21,881 workers and 6,792 pensioners). From among the employees of the Group as at the date of 31 December 2014 13,033 workers have the right to private pension plans (as at 31 December 2013 – 13,185 employees).

Description of the most significant risks that the plan exposes the Group below:

- Changes in government bond yields

  Decreasing of government bond yields will lead to the growth in present value of obligations under the employee benefit plan of the Group.

- The inflation risk and the risk of the wage growth

  Most of the plan employee benefits are connected with the level of the salaries of employees, the growth of inflation has a direct impact on the wage growth of employees of the Group. Higher inflation will lead to higher present value of obligations under employee benefit plans of the Group.

16. Employee benefits (continued)

- The risk of reduction of mortality rates

  The majority of the Group's liabilities include lump sum payments upon reaching a certain age or length of service, including payments upon retirement, the value of such obligations is also depend on the probability of survival of workers before the expected time of payment. In addition to these plan employee benefits the Group also provides lifelong benefits to non-working pensioners, the amount of the obligation which depends on life expectancy. Decreasing in the death rates of employees and pensioners of the Group will increase in the present value of the obligations under all employee benefit plans.

The table below summarises the amounts of defined benefit obligations recognised in the Financial Statements as at 31 December 2014 and 31 December 2013.

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

	31 December 2014	**31 December 2013**
Present value of defined benefit obligation	1,055,287	1,172,058
Present value of Other long-term employee benefit obligation	103,697	195,022
	1,158,984	**1,367,080**

The amounts recognized in profit or loss in the statement of profit or loss and other comprehensive income are as follows:

	For the year ended 31 December 2014	**For the year ended 31 December 2013**
Service cost	81,671	(204,415)
Remeasurements on present value of other long-term employee benefit obligation	(116,634)	29,546
Interest expense	97,863	84,290
	62,900	**(90,579)**

The amounts recognized in other comprehensive income in the Statement of profit or loss and other comprehensive income are as follows:

	For the year ended 31 December 2014	**For the year ended 31 December 2013**
Present value of payment obligation	**1,158,984**	**1,367,080**
Actuarial losses at beginning of year	**237,586**	**212,419**
(Gain)/loss from change in demographic assumptions	(12,893)	248,823
Gain from change in financial assumptions	(159,531)	(95,680)
Experience loss	45,224	84,443
	(127,200)	**237,586**

16. Employee benefits (continued)

Movements in the remeasurements of defined benefit liability recognized in other comprehensive income during the reporting period:

	For the year ended 31 December 2014	For the year ended 31 December 2013
At 1 January	**809,426**	**571,840**
Movement in the remeasurements	(127,200)	237,586
At 31 December	**682,226**	**809,426**

Movements in the net liability of the defined benefit obligations are follows:

	Present value of defined benefit obligation	Present value of other long-term employee benefit obligation	Total
At 1 January 2013	**1,269,164**	**122,178**	**1,391,342**
Current service cost	45,683	15,706	**61,389**
Past service cost	(290,750)	24,946	**(265,804)**
Interest expense	72,729	11,561	**84,290**
Remeasurements			
Loss from change in demographic assumptions	248,823	32,352	**281,175**
Gain from change in financial assumptions	(95,680)	(113)	**(95,793)**
Experience loss/(gain)	84,443	(2,693)	**81,750**
Contributions	(162,354)	(8,915)	**(171,269)**
At 31 December 2013	**1,172,058**	**195,022**	**1,367,080**
At 1 January 2014	**1,172,058**	**195,022**	**1,367,080**
Current service cost	60,209	21,574	**81,783**
Past service cost	–	(112)	**(112)**
Interest expense	83,132	14,731	**97,863**
Remeasurements			
(Gain)/loss from change in demographic assumptions	(12,893)	791	**(12,102)**
Gain from change in financial assumptions	(159,531)	(10,167)	**(169,698)**
Experience loss/(gain)	45,223	(107,258)	**(62,035)**
Contributions	(132,911)	(10,884)	**(143,795)**
At 31 December 2014	**1,055,287**	**103,697**	**1,158,984**

	31 December 2014	31 December 2013
Post-employment benefit obligation	(1,158,984)	(1,367,080)
Assets related to the employee benefit fund (Note 9)	501,505	505,005
Total	**(657,479)**	**(862,075)**

The weighted average duration of the defined benefit plan obligation and the other long-term benefits as at 31 December 2014 is 9.8 years and 9.8 years, respectively. The expected contributions by the Group to the defined benefit plans and the other long-term benefits in 2015 are RUB 144,750 thousand and RUB 11,686 thousand, respectively.

16. Employee benefits (continued)

Principal actuarial assumptions are as follows:

Financial actuarial assumptions

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

Financial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The average period over which the Group obligations are to be settled is 9.81 years including

- for defined benefit pension plan 9.81 years
- for other long-term defined benefit plans 9.81 years.

Demographic actuarial assumptions

	31 December 2014	31 December 2013
Expected retirement age:		
Male	60	61
Female	55	57
Employee turnover	7%	7%
Mortality table	2011_adjusted	2010_adjusted

Assumptions regarding future mortality have been based on published mortality table Russia 2011 modified with the following ratios based on Group's statistics of the mortality of plan members both during and after employment: 65% for plan males during employment, 70% for plan females during employment and 20% for plan males after employment, 25% for plan females after employment.

The expected employee turnover is based on historical data and is about 7% for employees who have been working to 32.5 years and is reduced to 3.6% for employees who have been working of 32.5 years and more.

The sensitivity of defined benefit obligation to changes in theprincipal assumptions:

	Change in assumption	Impact on defined benefit liability	
Discount rate	Increase/decrease by 0.5%	Decrease/increase by	3.86%
Future salary increases (nominal)	Increase/decrease by 0.5%	Increase/decrease by	1.12%
Future pension increases (inflation)	Increase/decrease by 0.5%	Increase/decrease by	2.91%
Employee turnover	Increase/decrease by 10%	Decrease/increase by	1.31%
Mortality rate	Increase/decrease by 10%	Decrease/increase by	1.00%

The above sensitivity analysis is based on the method of change of each actuarial assumptions were within the actuarial assumptions. When calculating the sensitivity of the present value of commitments to key actuarial assumptions were used evaluation method that is analogous to the estimation of the present value of obligation (the projected unit credit method), which is recognized in the statement of financial position.

17. Loans and borrowings

Long termborrowings

	Effective interest rate, %	Currency	Year of maturity	31 December 2014	31 December 2013
Loans and borrowings					
Including:					
Unsecured banking credit	7.0-9.0	RUB	2015-2018	12,000,000	13,900,000
Finance lease liability				–	17,809
Total long termdebt				**12,000,000**	**13,917,809**
Less: Current portion of finance lease liability				–	(17,809)
Total				**12,000,000**	**13,900,000**

Loans and borrowings represent primarily credit lines.

Current borrowings

	31 December 2014	31 December 2013
Current portion of loans and borrowings	1,900,000	–
Interest payment	19,387	18,817
Current portion of finance lease liability	–	17,809
Total	**1,919,387**	**36,626**

All loans and borrowings listed above are bank borrowings OJSC "Sberbank Rossii" with fixed interest rate. The effective interest rate is the market interest rate applicable to the loan at the date of its receipt.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 31 December 2014 the Group has lines of credit with a limit of debt totaling RUB 26.3 billion (as of 31 December 2013 – RUB 26.6 billion), while the amount of free limit on open but unused credit lines amounted to RUB 12.4 billion (as of 31 December 2014 – RUB 24.55 billion) Group does not have a limit on the use of these credit lines.

As at 31 December 2014 and 31 December 2013 all loans and borrowings were unsecured.

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	31 December 2014			31 December 2013		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	–	–	–	19,890	2,080	17,809
Between one and five years	–	–	–	–	–	–
More than five years	–	–	–	–	–	–
	–	**–**	**–**	**19,890**	**2,080**	**17,809**

The finance lease liabilities are secured by leased assets.

The Group's exposure to currency, interest rate and liquidity risk is disclosed in note 30.

18. Trade and other payables

Non-current payables

Non-current liabilities are represented by advances from customers.

Current payables

	31 December 2014	31 December 2013
Trade payables	3,897,000	3,445,871
Payables to employees	702,904	712,511
Advances from customers	546,651	749,728
Other payables	102,207	93,632
Total	**5,248,762**	**5,001,742**

The Group's exposure to currency and liquidity risk is disclosed in note 30.

19. Other taxes payable

	31 December 2014	31 December 2013
Value added tax payable	670,995	277,758
Payments to social funds	172,459	173,715
Property tax payable	105,944	17,409
Fines and other penalties payable	48	47
Other taxes payable	86,478	90,330
Total	**1,035,924**	**559,259**

20. Revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity transmission	45,244,314	39,968,193
Connection services	488,143	532,622
Electricity sale	–	8,406,316
Other revenue	423,606	413,261
Total	**46,156,063**	**49,320,392**

Other revenues are comprised of repair, construction, maintenance services, rent services and transport revenue.

In 2014 the Group discontinued of electricity and power sales following the transfer of guaranteeing supplier function.

21. Operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity transmission	17,967,526	17,882,666
Personnel costs (Note 22)	9,775,339	9,365,955
Purchased electricity	6,073,015	9,995,699
Depreciation and amortisation	5,007,647	4,093,399
Materials	1,831,486	1,936,714
Consulting services	830,755	904,127
Repair and maintainance costs	495,307	528,357
Taxes other than income tax	488,530	272,107
Operating lease	381,069	456,339
Electricity for own needs	371,563	355,255
Security services	224,026	214,487
Insurance expenses	168,691	160,308
Social expenditures and charity expenses	6,816	49,820
Bank commission	4,890	19,519
Allowance for/(reversal) of impairment of accounts receivable	1,335	(104,285)
Other	558,461	800,196
Total	**44,186,456**	**46,930,663**

22. Personnel costs

	Year ended 31 December 2014	Year ended 31 December 2013
Wages and salaries	7,639,581	7,417,902
Payment to social funds	2,209,093	2,153,597
Expense in respect of post-employment defined benefit plan	(73,335)	(205,544)
Total	**9,775,339**	**9,365,955**

23. Other (expenses)/income, net

	Year ended 31 December 2014	Year ended 31 December 2013
Reimbursement from contractors	87,687	94,725
Fines and payable written-off	63,711	4,615
Gain on the disposal of property, plant and equipment	1,716	7,065
Other expense, net	(27,234)	(51,445)
Total	**125,880**	**54,960**

24. Finance income and costs

	Year ended 31 December 2014	Year ended 31 December 2013
Finance income		
Interest income	52,638	29,518
Amortization of discount on financial assets	612	631
Total finance income	**53,250**	**30,149**
Finance costs		
Interest expense	(909,599)	(676,171)
Interest expense on defined post-employment benefits	(83,132)	(72,729)
Interest expense on defined other long-term benefits	(14,731)	(11,561)
Interest on finance lease liabilities	(2,080)	(13,943)
Loss on disposal of financial assets	(19)	(95)
Total finance cost	**(1,009,561)**	**(774,499)**
Total, net	**(956,311)**	**(744,350)**

25. Income tax expense

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax expense	420	2,444
Tax adjustments for prior periods	(80,842)	(832,649)
Deferred income tax expense	412,025	1,079,671
Income tax expense	**331,603**	**249,466**

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

Reconciliation of the amounts calculated at the current tax rate, and the amount of the actual income tax expense is disclosed below:

Reconciliation of effective tax rate:

	Year ended 31 December 2014	Year ended 31 December 2013
Profit before income tax	**1,139,176**	**1,700,339**
Income tax at applicable tax rate	227,835	340,068
Tax effect of items which are not deductible or taxable for taxation purposes	320,893	143,565
Over provided in prior years	(80,842)	(832,649)
Tax effect of change in tax base of property, plant and equipment	(136,283)	598,482
Total income tax expense	**331,603**	**249,466**

25. Income tax expense (continued)

Deferred tax assets and liabilities

For the year ended 31 December 2014 deferred tax assets and liabilities are attributable to the following items:

	31 December 2014	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2013
Accounts payable	62,273	(237)	–	62,510
Trade and other receivables	–	(595)	–	595
Employee benefit obligations	90,181	(77,498)	(105,578)	273,257
Tax loss carry-forward	187,427	(44,608)	–	232,035
Non-current assets	326	326	–	–
Deferred tax assets	**340,207**	**(122,612)**	**(105,578)**	**568,397**
Property, plant and equipment	(3,612,922)	(144,651)	–	(3,468,271)
Inventories	(17,572)	(5,436)	–	(12,136)
Non-current assets	(100,301)	682	–	(100,983)
Trade and other receivables	(140,008)	(140,008)	–	–
Deferred tax liabilities	**(3,870,803)**	**(289,413)**	**–**	**(3,581,390)**
Net deferred tax liabilities	**(3,530,596)**	**(412,025)**	**(105,578)**	**(3,012,993)**

A deferred tax asset in respect of tax losses carry-forward, the Group plans to use for year 2015-2019.

In 2014 the Group recalculated income tax for prior periods (2011-2013) related to the deductibility for tax purposes of certain amounts which were previously capitalized in the tax value of property, plant and equipment. As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 80,842 thousand (in 2013: RUB 832,649 thousand).

For the year ended 31 December 2013 deferred tax assets and liabilities are attributable to the following items:

	31 December 2013	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2012
Accounts payable	62,510	(135,760)	–	198,271
Trade and other receivables	595	(106,320)	–	106,915
Employee benefit obligations	273,257	(52,529)	47,517	278,269
Inventories	–	(3,123)	–	3,123
Tax loss carry-forward	232,034	232,034	–	–
Deferred tax assets	**568,397**	**(65,698)**	**47,517**	**586,578**
Property, plant and equipment	(3,468,271)	(1,003,277)	–	(2,464,994)
Inventories	(12,136)	(12,136)	–	–
Non-current assets	(100,983)	1,440	–	(102,423)
Deferred tax liabilities	**(3,581,390)**	**(1,013,973)**	**–**	**(2,567,417)**
Net deferred tax liabilities	**(3,012,993)**	**(1,079,671)**	**47,517**	**(1,980,839)**

26. Related parties

(a) Control relationships

As at 31 December 2014 and 31 December 2013 JSC Russian Grids was the parent company of the Company. The value of transactions and the amounts of outstanding balances with the parent company is disclosed below:

	Transaction value Year ended 31 December 2014	Transaction value Year ended 31 December 2013
Revenue		
Other sales	12,811	–
Operating expenses		
Consulting services	(234,669)	(211,645)

	31 December 2014	31 December 2013
Receivables on transactions with related parties	13,836	12,811
Payables on transactions with related parties	(13,134)	(12,487)

The party with ultimate control over IDGC of Volga is the State which holds the majority of the voting rights in JSC Russian Grids.

The majority of the Group’s related party transactions are with the subsidiaries of former RAO UES and other state controlled entities.

The Group did not recognize any bad debt allowance in respect of balances with the parent company.

(b) Transactions with entities under control of the parent

Transactions with the Parent’s subsidiaries and associates were as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue		
Rental income	1,864	733
Other sales	44,239	61,446
Operating expenses		
Electricity transmission for FGC UES	(9,797,494)	(5,295,020)
Rent	(693)	(8,232)
Repairs, maintenance and installation services	(469)	(271)
Other expenses	(68,917)	(18,819)

	31 December 2014	31 December 2013
Receivables		
From operations with FGC UES	22,965	80,171
From operations with other companies under control	95,437	72,437
Payables		
From operations with FGC UES	(1,242,970)	(710,302)
From operations with other companies under control	(2,423)	(6)

26. Related parties (continued)

(b) Transactions with entities under control of the parent (continued)

Related party transactions are based on normal market prices.

The Group did not recognize any bad debt allowance in respect of balances with the entities under common control.

(c) Transactions with other 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. The Group obtains bank loans and borrowings based on market interest rates.

Revenue from state-controlled entities for the year ended 31 December 2014 constitutes 19.6% (2013: 21.6%) of total revenue, including 19.7% (2013: 23.45%) of electricity transmission revenues.

Electricity transmission expenses occurred by operations with state-controlled entities for the year ended 31 December 2014 constitute 15.2% (2013: 21.09%) of total transmission expenses.

Interest expense accrued on loans from OJSC “Sberbank Rossii” constitute 99.8% (2013: 98%) of total interest accrued.

(d) Transactions with management and their close family members

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

Compensation is paid to members of the Board of Directors and top management for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and performance bonuses depending on results for the period according to Russian statutory financial statements and social security contributions.

Members of the Board of Directors and the top management of the Group received the following remuneration:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Members of Board of Directors	**Top management**	**Members of Board of Directors**	**Top management**
Salaries and bonuses	21,616	58,165	34,011	93,616

The amount of the pension obligations attributable to the Members of the Board of Directors and to the Top management of the Group on 31 December 2014 was RUB 8,552 thousand (31 December 2013: RUB 8,648 thousand).

27. Operating leases

Estimated amount of rent for the assets in accordance with the signed lease agreements are as follows:

	31 December 2014	31 December 2013
Less than one year	211,246	130,984
Between one year and five years	745,439	313,967
After five years	2,980,070	2,857,309
Total	**3,936,755**	**3,302,260**

The property received by the Group on the rights of operating leases involves land plots owned by the local authorities.

The land plots leased by the Group are the territories on which power lines, equipment for electricity transformation and other assets are located. Lease payments are reviewed regularly to reflect market rentals. Some contracts for land lease are concluded for 49 years, other contracts are concluded for one year with prolongation. In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated. The rent paid to the landlord of the land is increased to market rent at regular intervals, and the Group does not participate in the value of the land, it was determined that substantially all the risks and rewards of the land are with the landlord. As such, the Group determined that the leases are operating leases.

During the year ended 31 December 2014 RUB 381,069 thousand (2013: RUB 456,339 thousand) was recognised in profit or loss in respect of operating lease payments.

The Group leased out administrative buildings and other equipment under operating leases. Lease payments are determined by lease agreements and are as follows:

	31 December 2014	31 December 2013
Less than one year	21,904	21,049
Between one year and five years	49,010	62,300
After five years	40,167	188,542
Total	**111,081**	**271,891**

Lease payments are reviewed regularly to reflect market rentals.

28. Commitments

Capital commitments

As at 31 December 2014 the Group has outstanding commitments under the contracts for purchase and construction of property, plant and equipment in ampunt of RUB 838,179 thousand (31 December 2013: RUB 2,467,774 thousand).

29. Contingencies

Insurance

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

Litigation

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

Taxation contingencies

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

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Environmental matters

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

29. Contingencies (continued)

Other contingencies

The Group believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property ("last-mile") by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

30. Financial instruments

(a) Fair value hierarchy

Fair value is determined by market prices or by discounting the value of the relevant cash flows using market interest rates for identical financial instruments. As a result of the analysis, management concluded that the fair value of borrowings is not materially different from their carrying value.

(b) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is represented in the table below:

	31 December 2014	**31 December 2013**
Cash and cash equivalents	1,258,536	1,056,150
Trade and other receivables (net of allowance for impairment)	6,294,170	4,213,376
Other non-current assets (net of allowance for impairment)	52	86
Total	**7,552,758**	**5,269,612**

The Group's three most significant customers, regional distribution entities, account for RUB 1,789,294 thousand of trade receivables carrying amount at 31 December 2014 (31 December 2013: three customers RUB 1,421,625 thousand).

30. Financial instruments (continued)

(b) Credit risk (continued)

The maximum exposure to credit risk in relation to trade receivables originated from sales (excluding other receivables) at the reporting date by type of customer was:

	31 December 2014	31 December 2013
Electricity transmission	6,417,609	3,770,803
Electricity sales	285,992	726,662
Connection services	15,910	18,763
Other sales	240,103	342,462
Less: allowance for impairment of accounts receivable	(765,999)	(794,824)
Total	**6,193,615**	**4,063,866**

The aging of trade and other receivables grouped by the days overdue at the reporting date was:

	31 December 2014		31 December 2013	
	Gross	Impairment	Gross	Impairment
Not past due	4,307,580	(759)	3,592,701	(3,816)
Past due not more 3 months	1,168,716	(89)	436,231	(33,263)
Past due more than 3 months and not more than 6 months	372,781	(4,971)	109,283	(25,427)
Past due more than 6 months and not more than 1 year	406,294	(55,781)	357,060	(224,312)
Past due more than one year	871,171	(770,772)	593,057	(588,138)
Total	**7,126,542**	**(832,372)**	**5,088,332**	**(874,956)**

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

	31 December 2014	31 December 2013
Balance at 1 January	**874,956**	**987,900**
Charge of additional allowance for doubtful debtors	71,377	130,916
Reversal of the allowance for doubtful debtors	(70,035)	(235,292)
Accounts receivable written off through allowance for bad debts	(43,926)	(8,568)
Balance at 31 December	**832,372**	**874,956**

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

30. Financial instruments (continued)

(c) Liquidity risk (continued)

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

As at 31 December 2014:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Unsecured loans and borrowings	13,919,387	16,794,143	1,167,837	1,834,634	5,796,339	7,995,333	–
Trade and other payables	3,921,410	3,921,411	3,889,127	32,253	31	–	–
Total	**17,840,797**	**20,715,554**	**5,056,964**	**1,866,887**	**5,796,370**	**7,995,333**	**–**

As at 31 December 2013:

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Financial liabilities							
Unsecured loans and borrowings	13,918,817	17,708,866	579,598	570,075	3,822,719	12,736,474	–
Finance lease liabilities	17,809	19,889	14,163	5,726	–	–	–
Trade and other payables	3,529,461	3,561,551	3,558,351	3,200	–	–	–
Total	**17,466,087**	**21,290,306**	**4,152,112**	**579,001**	**3,822,719**	**12,736,474**	**–**

(d) Foreign exchange risk

The Group primarily operates within the Russian Federation. The majority of the Group's operations are denominated in RUB.

(e) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The majority of interest rates on long term and short term borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

(f) Fair values sensitivity analysis for fixed rate instruments

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

30. Financial instruments (continued)

(g) Capital management

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

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.
For the Group`s debt-to-equity ratio at the end of the reporting and comparative periods was as follows:

	31 December 2014	**31 December 2013**
Total liabilities	25,257,432	24,174,228
Equity	27,021,485	26,210,148
Debt-to-equity ratio	**93%**	**92%**

For the year ended 31 December 2014 and for the year ended 31 December 2013 earnings before interest, tax, depreciation and amortization (EBITDA) were equal to the following:

	Year ended 31 December 2014	**Year ended 31 December 2013**
EBITDA	7,156,384	6,568,237

There were no changes in the Group's approach to capital management during the year.
No Group's entity is subject to externally imposed capital requirements.

(h) Fair values

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

31. Events after the reporting period

In February 2015 tax authorities by the tax inspection charged additional tax in the amount of RUB 987,301 thousand (including fine and penalties). Currently, the decision is appealed. Management believes that this decision of the tax authorities will be cancelled.