JSC “FGC UES”

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU

FOR THE YEAR ENDED 31 DECEMBER 2014

AND AUDITORS’ REPORT

CONTENTS

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Auditors' Report

To the Shareholders and Board of Directors

Joint-Stock Company "Federal Grid Company of Unified Energy System" (JSC "FGC UES")

We have audited the accompanying consolidated financial statements of JSC "FGC UES" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards 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 procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The 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 entity's 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 express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: JSC "Federal Grid Company of Unified Energy System"

Registered by the Registration chamber of the Leningrad region on 25 June 2002, Registration No. 00/03124.

Entered in the Unified State Register of Legal Entities on 20 August 2002 by the Tax Inspectorate of Tosnensky area of the Leningrad region of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1024701893336, Certificate series 47 No. 000872082.

5A Akademika Chelomeya Street, Moscow, Russian Federation, 117630.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the EU.

Altukhov K.V.

Director (power of attorney dated 16 March 2015 No. 04/15)

JSC "KPMG"

22 April 2015

Moscow, Russian Federation

Consolidated Statement of Financial Position
(in millions of Russian Rouble unless otherwise stated)

	Notes	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	795,029	749,710
Intangible assets	7	8,285	11,228
Investments in associates and joint ventures	8	2,109	1,440
Available-for-sale investments	9	14,384	20,442
Deferred income tax assets	16	437	7,162
Other non-current assets	10	4,110	6,168
Total non-current assets		**824,354**	**796,150**
Current assets			
Cash and cash equivalents	11	42,068	21,627
Bank deposits	12	185	39,070
Accounts receivable and prepayments	13	55,912	48,694
Income tax prepayments		1,516	2,016
Inventories	14	10,446	7,990
Other current assets	10	694	2,955
Total current assets		**110,821**	**122,352**
TOTAL ASSETS		**935,175**	**918,502**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	15	637,333	633,571
Treasury shares	15	(4,719)	(4,725)
Share premium		10,501	10,501
Reserves	15	226,382	184,916
Accumulated deficit		(297,237)	(275,024)
Equity attributable to shareholders of FGC UES		**572,260**	**549,239**
Non-controlling interest		971	(942)
Total equity		**573,231**	**548,297**
Non-current liabilities			
Deferred income tax liabilities	16	1,954	512
Non-current debt	17	233,291	257,964
Deferred income		1,130	-
Retirement benefit obligations	18	6,456	7,912
Total non-current liabilities		**242,831**	**266,388**
Current liabilities			
Accounts payable to shareholders of FGC UES	15	8	3,773
Current debt and current portion of non-current debt	17,19	29,686	29,624
Accounts payable and accrued charges	20	89,316	70,376
Income tax payable		103	44
Total current liabilities		**119,113**	**103,817**
Total liabilities		**361,944**	**370,205**
TOTAL EQUITY AND LIABILITIES		**935,175**	**918,502**

Authorised for issue and signed on behalf of the Management Board:

22 April 2015

Chairman of the Management Board A.E. Murov

Head of Accounting and Financial Reporting – Chief Accountant A.P. Noskov

Consolidated Statement of Comprehensive Income
(in millions of Russian Rouble unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Revenues	21	173,353	157,970
Other operating income	21	8,233	6,155
Operating expenses	22	(126,137)	(133,811)
Impairment and revaluation loss on property, plant and equipment, net	6	(70,775)	(292,860)
Operating loss		**(15,326)**	**(262,546)**
Finance income	23	5,070	4,027
Finance costs	24	(6,249)	(2,109)
Impairment of available-for-sale investments	9	(6,027)	(28,757)
Impairment of promissory notes	10	-	(540)
Share of profit of associates and joint ventures	8	19	11
Loss before income tax		**(22,513)**	**(289,914)**
Income tax benefit	16	1,912	55,143
Loss for the period		**(20,601)**	**(234,771)**
Other comprehensive income / (loss)			
Items that will not be reclassified subsequently to profit or loss			
Change in revaluation reserve for property, plant and equipment	6	50,562	(155,532)
Remeasurements of retirement benefit obligations	18	1,699	(176)
Income tax relating to items that will not be reclassified	16	(10,253)	31,150
Total items that will not be reclassified to profit or loss		**42,008**	**(124,558)**
Items that are or may be reclassified subsequently to profit or loss			
Change in fair value of available-for-sale investments	9	(6,488)	(30,175)
Impairment of available-for-sale investments recycled to profit or loss	9	6,027	28,757
Foreign currency translation difference	8	650	26
Income tax relating to items that may be reclassified	16	6	284
Total items that are or may be reclassified to profit or loss		**195**	**(1,108)**
Other comprehensive income / (loss) for the period, net of income tax		**42,203**	**(125,666)**
Total comprehensive income /(loss) for the period		**21,602**	**(360,437)**
Loss attributable to:			
Shareholders of FGC UES	25	(21,581)	(233,101)
Non-controlling interest		980	(1,670)
Total comprehensive income/(loss) attributable to:			
Shareholders of FGC UES		19,686	(358,767)
Non-controlling interest		1,916	(1,670)
Loss per ordinary share for loss attributable to shareholders of FGC UES – basic and diluted (in Russian Rouble)	25	**(0.017)**	**(0.186)**

The accompanying notes are an integral part of these Consolidated Financial Statements

Consolidated Statement of Cash Flows
(in millions of Russian Rouble unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**(22,513)**	**(289,914)**
Adjustments to reconcile loss before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	22	43,365	56,758
(Gain) / loss on disposal of property, plant and equipment	22	(429)	1,295
Amortisation of intangible assets	22	3,773	878
Impairment and revaluation loss of property, plant and equipment, net	6	70,775	292,860
Impairment of available-for-sale investments	9	6,027	28,757
Impairment of promissory notes	10	-	540
Share of result of associates	8	(19)	(11)
Accrual of allowance for doubtful debtors	22	2,887	1,573
Share-based compensation	15, 22	6	192
Finance income	23	(5,070)	(4,027)
Finance costs	24	6,249	2,109
Other non-cash operating (income)/ expense		(78)	10
Operating cash flows before working capital changes and income tax paid		**104,973**	**91,020**
Working capital changes:			
Increase in accounts receivable and prepayments		(7,946)	(12,952)
Increase in inventories		(2,430)	(995)
(Increase) / decrease in other non-current assets		(69)	264
(Decrease) / increase in accounts payable and accrued charges		(4,472)	1,799
Decrease in retirement benefit obligations		(330)	(71)
Income tax paid		-	(273)
Net cash generated by operating activities		**89,726**	**78,792**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(73,612)	(122,143)
Proceeds from disposal of property, plant and equipment		3,525	623
Purchase of intangible assets		(830)	(2,787)
Purchase of promissory notes		-	(26,879)
Redemption of promissory notes		2,923	48,403
Investment in bank deposits		(688)	(40,374)
Redemption of bank deposits		39,573	2,612
Dividends received		1	23
Interest received		4,336	3,064
Net cash used in investing activities		**(24,772)**	**(137,458)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from share issuance	15	-	3,762
Proceeds from non-current borrowings		1	110,000
Repayment of current and non-current borrowings		(24,582)	(40,151)
Repayment of lease		(150)	(150)
Dividends paid		(436)	-
Interest paid		(22,279)	(17,224)
Government grants received		2,933	-
Net cash (used in) / generated by financing activities		**(44,513)**	**56,237**
Net increase / (decrease) in cash and cash equivalents		**20,441**	**(2,429)**
Cash and cash equivalents at the beginning of the period	11	**21,627**	**24,056**
Cash and cash equivalents at the end of the period	11	**42,068**	**21,627**

Consolidated Statement of Changes in Equity
(in millions of Russian Rouble unless otherwise stated)

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**Accumu-lated deficit**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2014		**633,571**	**10,501**	**(4,725)**	**184,916**	**(275,024)**	**549,239**	**(942)**	**548,297**
Comprehensive income for the period									
Loss for the period		-	-	-	-	(21,581)	**(21,581)**	980	**(20,601)**
Other comprehensive income / (loss), net of related income tax									
Change in revaluation reserve for property, plant and equipment	15	-	-	-	39,713	(199)	**39,514**	936	**40,450**
Change in fair value of available-for-sale investments	9, 15	-	-	-	(5,276)	-	**(5,276)**	-	**(5,276)**
Impairment of available-for-sale investments recycled to profit or loss	9, 15	-	-	-	4,821	-	**4,821**	-	**4,821**
Remeasurements of retirement benefit obligations	15, 18	-	-	-	1,558	-	**1,558**		**1,558**
Foreign currency translation difference	8, 15	-	-	-	650	-	**650**	-	**650**
Total other comprehensive income		-	-	-	***41,466***	***(199)***	***41,267***	***936***	***42,203***
Total comprehensive income for the period		-	-	-	41,466	(21,780)	**19,686**	1,916	**21,602**
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	15	3,762	-	-	-	-	**3,762**	-	**3,762**
Share-based compensation	15	-	-	6	-	-	**6**	-	**6**
Dividends declared		-	-	-	-	(433)	**(433)**	(3)	**(436)**
Total transactions with shareholders of FGC UES		3,762	-	6	-	(433)	**3,335**	(3)	**3,332**
As at 31 December 2014		**637,333**	**10,501**	**(4,719)**	**226,382**	**(297,237)**	**572,260**	**971**	**573,231**

Consolidated Statement of Changes in Equity
(in millions of Russian Rouble unless otherwise stated)

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**Accumu-lated deficit**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2013		**630,193**	**10,501**	**(4,917)**	**311,784**	**(43,125)**	**904,436**	**733**	**905,169**
Comprehensive loss for the period									
Loss for the period		-	-	-	-	(233,101)	**(233,101)**	(1,670)	**(234,771)**
Other comprehensive loss, net of related income tax									
Change in revaluation reserve for property, plant and equipment	15	-	-	-	(125,629)	1,202	**(124,427)**	-	**(124,427)**
Change in fair value of available-for-sale investments	9, 15	-	-	-	(24,139)	-	**(24,139)**	-	**(24,139)**
Impairment of available-for-sale investments recycled to profit or loss	9, 15	-	-	-	23,006	-	**23,006**	-	**23,006**
Remeasurements of retirement benefit obligations	15, 18	-	-	-	(132)	-	**(132)**		**(132)**
Foreign currency translation difference	8, 15	-	-	-	26	-	**26**	-	**26**
Total other comprehensive loss		-	-	-	***(126,868)***	***1,202***	***(125,666)***	-	***(125,666)***
Total comprehensive loss for the period		-	-	-	**(126,868)**	**(231,899)**	**(358,767)**	**(1,670)**	**(360,437)**
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	15	3,378	-	-	-	-	**3,378**	-	**3,378**
Share-based compensation	15	-	-	192	-	-	**192**	-	**192**
Dividends declared		-	-	-	-	-	**-**	(5)	**(5)**
Total transactions with shareholders of FGC UES		**3,378**	**-**	**192**	**-**	**-**	**3,570**	**(5)**	**3,565**
As at 31 December 2013		**633,571**	**10,501**	**(4,725)**	**184,916**	**(275,024)**	**549,239**	**(942)**	**548,297**

Note 1. JSC “FGC UES” and its operations

Joint-Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or the “Company”) was established in June 2002 for the purpose of operating and managing the electricity transmission grid infrastructure of the Russian Unified National Electric Grid (the “UNEG”).

FGC UES and its subsidiaries (the “Group”) act as the natural monopoly operator for the UNEG. The Group’s principal operating activities consist of providing electricity transmission services, providing connection to the electricity grid, maintaining the electricity grid system, technical supervision of grid facilities and investment activities in the development of the UNEG. The majority of the Group’s revenues are generated via tariffs for electricity transmission, which are approved by the Russian Federal Tariff Service (the “FTS”) based on the Regulatory Asset Base (“RAB”) regulation. FGC UES's main customers are distribution grid companies (“IDGCs”), certain large commercial end customers and retail electricity supply companies.

On 14 June 2013 the Government of the Russian Federation (the “RF”) transferred its stake in FGC UES to OJSC “Russian Grids” (former OJSC “IDGC Holding”), the holding company of an electricity distribution group, controlled by the Government of the RF. As at 31 December 2014, FGC UES was 80.13% owned and controlled by OJSC “Russian Grids”. The remaining shares are traded on Moscow Interbank Currency Exchange and as Global Depository Receipts on the London Stock Exchange.

The registered office of the Company is located at 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation.

Relationships with the state. The Government of the RF is the ultimate controlling party of FGC UES. The Government directly affects the Group's operations via regulation over tariff by the FTS and its investment program is subject to approval by both the FTS and the Ministry of Energy. Ultimately the Government supports the Group due to its strategic position in the Russian Federation. The Government's economic, social and other policies could have a material impact on the Group’s operations.

Business environment. The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. (Note 26).

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements (“Consolidated Financial Statements”) reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Note 2. Basis of preparation

Statement of compliance. These Consolidated Financial Statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”) and its interpretations as adopted by the European Union (the “EU”).

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the RF (“RAR”). The accompanying Consolidated Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The Russian Rouble (“RR”) is functional currency for FGC UES and the currency in which these Consolidated Financial Statements are presented. All financial information presented in RR have been rounded to the nearest million, unless otherwise stated.

(in millions of Russian Rouble unless otherwise stated)

Note 2. Basis of preparation (continued)

New accounting developments 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 these pronouncements when they become effective.

New or amended standard	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	These amendments require a bearer plant, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16 *Property, Plant and Equipment*, instead of IAS 41 *Agriculture*. The amendments are effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted.	None. The Group does not have any bearer plants.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*

Note 2. Basis of preparation (continued)

Critical accounting estimates and assumptions Management makes a number of estimates and assumptions that are continually evaluated and may differ from the related actual results. The estimates and assumptions that have the most significant effect on the amounts recognised in these Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Carrying value of property, plant and equipment (Note 6). The Group uses the revaluation model for property, plant and equipment. The last external valuation was performed as at 31 December 2014.

Carrying value of investment in OJSC “INTER RAO UES” (Note 9). As at 31 December 2014 the Group owns 18.57% of the voting shares of OJSC “INTER RAO UES” (“INTER RAO”). Management has assessed the level of influence that the Group has on INTER RAO, taking into account its limitation to obtain any additional financial information which may be an indicator of such influence, and determined that it does not have significant influence. Consequently, this investment is classified as available-for-sale investment.

Decline in the fair value of available-for-sale equity investments (Note 9). The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price and trend in share price movements during the period of analysis. As at 31 December 2014, the decline in fair value of INTER RAO shares below cost is considered significant and prolonged and therefore the Group recorded an impairment of RR 5,620 million in the Consolidated Statement of the Comprehensive Income.

Carrying value of LLC “ENERGO-finance” promissory notes (Note 10). As at 31 December 2012 management assessed the recoverable amount of long-term promissory notes issued by LLC “ENERGO-finance” and guaranteed by Rusenergo Fund Ltd, which invests in the Russian utilities stock market. The recoverability of these promissory notes depends on the performance of the underlying Russian utilities’ stocks. Actual 2012 stock market returns significantly underperformed resulting in reduction of net assets of Rusenergo Fund Ltd and worsening its future cash flow projections. Therefore, management concluded that these promissory notes were not recoverable as at 31 December 2012 and accordingly were fully impaired. As at 31 December 2014, there were no changes in the financial position of Rusenergo Fund Ltd, therefore the Group did not reverse related impairment loss.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group’s tax positions cannot be sustained, an appropriate amount is accrued in the consolidated financial sstatements. The possible tax claims in respect of certain open tax positions of the Group companies are disclosed in Note 26.

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 6 – Property, plant and equipment;
- Note 10 – Promissory notes;
- Note 17 – Non-current debt;
- Note 27 – Financial instruments and financial risk.

Note 3. Summary of significant accounting policies

Changes in accounting policies. The Group has adopted the following amendment to a standard with a date of initial application of 1 January 2014:

- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).

As a result of the amendments to IAS 36, the Group has expanded its disclosures of recoverable amounts when they are based on fair value less costs of disposals and recognised an impairment (see Note 6).
Certain comparative amounts have been reclassified to conform with the current year’s presentation.

Principles of consolidation. Subsidiaries are entities (including special purpose entities) controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in the consolidated financial statements. Any consideration for the acquisition is accounted for in the consolidated financial statements as an adjustment to retained earnings within equity.

Associates and joint ventures. Associates and joint ventures are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates and joint ventures includes goodwill identified on acquisition and is reduced by accumulated impairment losses, if any. The Group discontinues the use of the equity method of accounting from the date when it ceases to have significant influence in the associate.

The Group’s share of the post-acquisition profits or losses of associates and joint ventures is recorded in profit or loss, and its share of other comprehensive income of associates and joint ventures is recognised in the Group’s other comprehensive income. When the Group’s share of losses in an associate and joint ventures equals or exceeds its interest in the associate and joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates and joint ventures.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Classification of financial assets. The Group holds financial assets of the following measurement categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. The Group’s financial liabilities are carried at amortised cost.

Note 3. Summary of significant accounting policies (continued)

Initial recognition of financial instruments. The Group’s financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. The Group classifies investments as available-for-sale at the time of purchase. Available-for-sale investments are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the period.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments.

Any change in fair value of equity instruments is initially accumulated in other comprehensive income. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. If asset is considered to be impaired at the reporting date, the cumulative impairment loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss) is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss.

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Roubles at the official exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

As at 31 December 2014, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar was RR 56.26:US Dollar 1.00 (31 December 2013: RR 32.73:US Dollar 1.00); between the Russian Rouble and Euro: RR 68.34:Euro 1.00 (31 December 2013: RR 40.23:Euro 1.00).

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which is determined using the fair value at the end of the reporting period. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and increase the revaluation reserve in equity; the increase is recognised in current period profits to the extent that it reverses previously recognised impairment loss of the same assets.

Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve in equity; all other decreases are recognised in profit or loss for the period. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the assets, and the net amount is restated to the revalued amount of the asset.

The revaluation reserve in respect of an item of property, plant and equipment is transferred directly to retained earnings when the item is derecognised (on the retirement or disposal of the asset).

Renewals and improvements are capitalised and the assets replaced are retired. The cost of minor repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

Note 3. Summary of significant accounting policies (continued)

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The useful lives are reviewed at each financial year end and, if expectations differ from previous estimates, the changes are recognised prospectively.

The useful lives, in years, of assets by type of facility are as follows:

	Useful lives
Buildings	50-80
Electric power transmission grids	20-50
Substations	15-30
Other	5-50

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised as current period loss to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Intangible assets. All of the Group’s intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.
Research costs are recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of origination and are subject to insignificant changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Bank deposits. Bank deposits comprise cash deposited at banks with a maturity date of more than three months from the acquisition date. Bank deposits are carried at amortised cost using the effective interest method.

Promissory notes. Promissory notes are financial assets with fixed or determinable cash flows recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added tax (VAT). Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Note 3. Summary of significant accounting policies (continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories mostly include repair materials and spare parts for transmission assets. Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis and disclosed as an asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Income taxes. Income taxes have been provided for in these Consolidated Financial Statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits/losses for the current and prior periods. Taxes other than on income are recorded as operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at each end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Note 3. Summary of significant accounting policies (continued)

Trade accounts payable and accrued charges. Trade accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract. Accounts payable are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Advances received. Advances received are primarily a deferred income for the future connection services and are stated at nominal amount.

Debt. Debt is recognised initially at its fair value plus transaction costs that are directly attributable to its issue. Fair value is determined using the prevailing market rates of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

Borrowing costs are expensed in the period in which they are incurred if not related to purchase or construction of qualifying assets. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. The commencement date for capitalisation is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Pension and post-employment benefits. In the normal course of business the Group makes mandatory social security contributions to the Pension Fund of the RF on behalf of its employees. These contributions are expensed when incurred and included in employee benefit expenses and payroll taxes in profit or loss.

In addition, the Group maintains a number of post-employment and other long-term benefit plans which are defined benefit in nature. These plans include life pension, lump sum upon retirement, financial support after retirement, jubilee and death benefits and cover majority of the Group’s employees. Under the pension plan amount of pension benefits that an employee will receive after retirement dependents on his date of birth, number of years of service, position, salary and presence of awards. The Group settles its liability to provide life pension through a non-state pension fund. However, the assets held in the non-state pension fund do not meet definition of plan assets in accordance with IAS 19(2011). These assets are accounted for as other non-current assets. Other benefits, apart from life pension payable via the non-state pension fund, are provided when they are due directly by the Group.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

Share-based compensation. The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of FGC UES. The fair value of options granted to employees is recognised as an employee benefit expense, with a corresponding increase in equity, over the period that employees become unconditionally entitled to the options (vesting period). At the end of each reporting period the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in the profit or loss, with a corresponding adjustment to equity.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Note 3. Summary of significant accounting policies (continued)

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in debts. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

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

Non-controlling interest. Non-controlling interest represents minority's proportionate share of the equity and comprehensive income of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of non-controlling interests. The Group uses the 'economic entity' approach to the recognition of non-controlling interest. Any gains or losses resulting from the purchases and sales of the non-controlling interests are recognised in the consolidated statement of changes in equity.

Revenue recognition. Revenue amounts are presented exclusive of value added tax. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue from sales of electricity is recognised on the delivery of electricity. Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network and is recognised when the customer is connected to the grid network.

Government grants. Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Share capital. Ordinary shares with discretionary dividends are classified as equity upon completion of share issue and registration of the issue in the Federal Financial Markets Service. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting period.

(in millions of Russian Rouble unless otherwise stated)

Note 4. Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation.

The principal subsidiaries as at 31 December 2014 and 31 December 2013 are presented below:

	31 December 2014		31 December 2013	
Name	**Ownership, %**	**Voting, %**	**Ownership, %**	**Voting, %**
Transmission companies:				
OJSC "The Kuban trunk grids"	49.0	49.0	49.0	49.0
OJSC "The Tomsk trunk grids"	52.0	59.9	52.0	59.9
Other companies				
OJSC "Nurenergo"	77.0	77.0	77.0	77.0
OJSC "Mobile gas-turbine electricity plants"	100.0	100.0	100.0	100.0
OJSC "Research and development centre of FGC UES"	100.0	100.0	100.0	100.0
OJSC "Dalenergosetproject"	100.0	100.0	100.0	100.0
OJSC "Specialised electricity transmission service company of the UNEG"	100.0	100.0	100.0	100.0
OJSC "Engineering and construction management centre of Unified Energy System"	100.0	100.0	100.0	100.0
LLC "Index energetiki – FGC UES"	100.0	100.0	100.0	100.0

Transmission companies. OJSC "The Kuban trunk grids" and OJSC "The Tomsk trunk grids" own the UNEG assets which are maintained and operated by the Company.

OJSC "Nurenergo" performs electricity distribution and sale activity in the Republic of Chechnya. Due to the difficult operating environment in the Republic of Chechnya, OJSC "Nurenergo" has negative net assets.

OJSC "Mobile gas-turbine electricity plants". The primary activity of the company is generating and sale of electricity provided by mobile gas-turbine electricity plants used in power deficient points of the power system or in peak periods as temporary source of additional capacity.

OJSC "Research and development centre of FGC UES" is a research and development project institution in the sphere of electric power.

OJSC "Dalenergosetproject" is a grid engineering company.

OJSC "Specialised electricity transmission service company of the UNEG". The main activities of this company are technical inspection, maintenance and regular and emergency repairs of power grids and other electric power facilities of the UNEG.

OJSC "Engineering and construction management centre of Unified Energy System". The main activity of this company is functioning as a customer-developer in capital construction projects associated with the reconstruction and technical modernisation of electricity supply facilities and infrastructure.

LLC "Index energetiki – FGC UES" ("Index Energetiki") owns minority shares in OJSC "INTER RAO UES" and OJSC "Russian Grids" (former OJSC "IDGC Holding").

Note 5. Balances and transactions with related parties

Government-related entities. In the normal course of business the Group enters into transactions with government-related entities – entities, controlled, jointly controlled or significantly influenced by the Government of the RF. Large portion of the Group's primary activity – transmission services are rendered to government-related entities at the regulated tariffs. The Group borrows funds from government-related banks at the prevailing market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

During the years ended 31 December 2014 and 31 December 2013 the Group had the following significant transactions with government-related entities:

	Year ended 31 December 2014	Year ended 31 December 2013
Transmission revenue	136,232	131,629
Electricity sales	2,758	1,863
Relocation of mobile gas-turbine electricity plants to Sochi	-	1,825
Connection services	1,616	76
Purchased electricity for production needs	(7,375)	(6,683)

(in millions of Russian Rouble unless otherwise stated)

Note 5. Balances and transactions with related parties (continued)

Significant balances with government-related entities are presented below:

	31 December 2014	31 December 2013
Cash and cash equivalents	41,474	8,485
Bank deposits	130	38,912
Other non-current assets	2,665	4,240
Other current assets	47	2,241
Trade receivables (net of allowance for doubtful debtors of RR 3,236 million as at 31 December 2014 and RR 2,244 million as at 31 December 2013)	31,778	21,377
Available-for-sale investments	14,384	20,442
Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress)	1,119	1,574
Accounts payable to the shareholders of FGC UES	(8)	(3,773)
Non-current debt	(519)	(614)
Current debt	(141)	(136)
Accounts payable and accrued charges	(21,220)	(20,827)

As at 31 December 2013 and 2014 the Group had long-term undrawn committed financing facilities with government-related banks of RR 105,000 million with the interest rates not exceeding 14.95% and the maturity dates from 2018 to 2026. There were no short-term undrawn committed financing facilities with government-related banks as at 31 December 2013 and 2014.

Tax balances and charges are disclosed in Notes 16, 20 and 22. Tax transactions are disclosed in the Consolidated Statement of Comprehensive Income.

Directors’ compensation. Compensation is paid to the members of the Management Board for their services in full time management position. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements. Also, additional medical coverage is provided to the members of Management Board and their close family members.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Fees, compensation or allowances, are not paid to the members of the Board of Directors who are government employees.

Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the year ended 31 December 2014 and 31 December 2013 was as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Short-term compensation, including salary and bonuses	250	264
Termination benefits	16	241
Post-employment benefits and other long-term benefits	12	5
Share-based compensation	1	66
Total	**279**	**576**

The amount of the short-term compensation to members of the Management Board represents remuneration accrued during the respective period.

No remuneration was provided to the members of the Board of Directors for the years ended 31 December 2014 and 31 December 2013.

(in millions of Russian Rouble unless otherwise stated)

Note 6. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2014	20,912	495,652	341,136	306,514	43,829	1,208,043
Additions	258	433	297	108,800	2,206	111,994
Transfers	3,795	86,613	49,018	(147,102)	7,676	-
Disposals	(46)	(113)	(1,129)	(1,745)	(1,401)	(4,434)
Elimination of accumulated depreciation and impairment	(4,425)	(195,619)	(187,890)	(84,636)	(27,852)	(500,422)
Reversal of impairment provision	1,034	14,934	25,379	17,578	4,922	63,847
Revaluation increase	3,074	78,719	25,054	408	6,744	113,999
Decrease in revaluation reserve	(1,524)	(59,499)	(2,032)	-	(382)	(63,437)
Revaluation loss	(2,933)	(48,461)	(27,583)	(52,052)	(3,532)	(134,561)
Balance as at 31 December 2014	20,145	372,659	222,250	147,765	32,210	795,029
Including PPE under finance lease	-	-	-	-	1,432	1,432
Accumulated depreciation and impairment						
Balance as at 1 January 2014	(3,423)	(157,012)	(158,450)	(117,237)	(22,211)	(458,333)
Depreciation charge	(335)	(20,354)	(17,902)	-	(4,774)	(43,365)
Transfers	(673)	(18,286)	(12,166)	32,653	(1,528)	-
Impairment loss	-	(5)	-	(52)	(5)	(62)
Disposals	6	38	628	-	666	1,338
Elimination of accumulated depreciation and impairment	4,425	195,619	187,890	84,636	27,852	500,422
Balance as at 31 December 2014	-	-	-	-	-	-
Including PPE under finance lease	-	-	-	-	-	-
Net book value as at 1 January 2014	17,489	338,640	182,686	189,277	21,618	749,710
Net book value as at 31 December 2014	20,145	372,659	222,250	147,765	32,210	795,029

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2013	19,131	554,868	285,543	315,161	31,350	1,206,053
Additions	1,029	140	1,433	152,855	4,932	160,389
Transfers	1,589	76,338	75,326	(161,229)	7,976	-
Disposals	(7)	(282)	(2,125)	(273)	(180)	(2,867)
Decrease in revaluation due to impairment	(830)	(135,412)	(19,041)	-	(249)	(155,532)
Balance as at 31 December 2013	20,912	495,652	341,136	306,514	43,829	1,208,043
Including PPE under finance lease	-	-	2,273	-	914	3,187
Accumulated depreciation and impairment						
Balance as at 1 January 2013	(989)	(55,206)	(43,656)	(1,465)	(8,202)	(109,518)
Depreciation charge	(628)	(27,370)	(23,577)	-	(5,329)	(56,904)
Impairment loss	(1,807)	(74,498)	(91,994)	(115,772)	(8,789)	(292,860)
Disposals	1	62	777	-	109	949
Balance as at 31 December 2013	(3,423)	(157,012)	(158,450)	(117,237)	(22,211)	(458,333)
Including PPE under finance lease	-	-	(1,170)	-	(196)	(1,366)
Net book value as at 1 January 2013	18,142	499,662	241,887	313,696	23,148	1,096,535
Net book value as at 31 December 2013	17,489	338,640	182,686	189,277	21,618	749,710

Note 6. Property, plant and equipment (continued)

Borrowing costs of RR 16,835 million for the year ended 31 December 2014 were capitalised within additions (for the year ended 31 December 2013: RR 17,177 million). A capitalisation rate of 6.27% was used for the year ended 31 December 2013 (for the year ended 31 December 2013: 7.5%) to determine the amount of borrowing costs eligible for capitalisation, representing the weighted average of the borrowing costs applicable to the borrowings of the Group that were outstanding during the periods.

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2014 such advances amounted to RR 13,773 million, net of impairment of RR 13,604 million (as at 31 December 2013: RR 28,659 million, net of impairment RR 17,790 million).

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment. Land plots are classified together with items of property, plant and equipment located on them.

Revaluation. In 2014, management commissioned an independent appraiser for revaluation of property, plant and equipment as at 31 December 2014. The fair value of property, plant and equipment was determined to be RR 795,029 million, which has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used (see Note 2).

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 of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted for each cash generating unit. The Group’s Transmission segment (Note 29) was considered as a single cash generating unit. This resulted in depreciated replacement cost values being decreased by RR 791,263 million in arriving at the above value.

The following key assumptions were used in performing the cash flow testing of Transmission segment:

- Forecast period is determined as 16 years – from 2015 to 2030;
- A nominal after-tax discount rate of 12.6% in 2015, 11.32% in 2016 and 10.03% in 2017-2030 was determined based on the weighted average cost of capital.
- Revenue projections are based on following assumptions:
  - Approved Regulatory Asset Base tariff calculation for 2015-2019;
  - Key parameters for tariff-setting (rates of return for “old” and “new” capital (10%); normal useful live for calculation of return of capital (35 years); Net Working Capital to revenue ratio (7.9%); level of economy on controllable costs (3%) in 2020-2030 were based on 2019 data;
  - Decrease of the volume of “old” capital employed under RAB methodology –down to nil;
  - Fixed volume of contracted capacity from 2016 onwards;
  - Revenue included fees from technological connection services.
- The amount of expenditure for the period from 2014 through 2030 required for the maintenance of the current property, plant and equipment is assumed to be equal to the amount of such expenditure determined as allowable for the purpose of tariff regulation.
- Terminal value was determined based on Gordon growth model with terminal growth rate of 2.76% (in line with long-term consumer price index forecast published by Ministry of Economic Development)

If the discount rate would be 0.5% higher, the recoverable amount of property, plant and equipment included in Transmission segment would be 5.4% lower.

(in millions of Russian Rouble unless otherwise stated)

Note 6. Property, plant and equipment (continued)

Revaluation results. Accumulated depreciation and impairment at 31 December 2014 are eliminated against the gross carrying amount of the property, plant and equipment and the net amount of PPE is restated to the revalued amount. The results of revaluation of PPE as well as elimination are shown in the table above.

Historical Cost. For each class of property, plant and equipment stated at revalued amount in these Consolidated Financial Statements, the carrying amount that would have been recognised had the assets been carried under the historical cost basis is as follows:

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Net book value as at 31 December 2014	18,713	274,793	247,829	223,140	26,553	791,028
Net book value as at 31 December 2013	15,597	222,834	238,904	247,851	25,832	751,018
Net book value as at 31 December 2012	15,278	235,457	257,819	344,791	24,711	878,056

Impairment. For the year ended 31 December 2013 the Group recognised a net decrease in carrying value of property, plant and equipment in the amount of RR 448,392 million, which consisted of an impairment of RR 293,254 million and revaluation decrease of RR 155,532 million related to result of value-in–use calculation, a specific impairment of RR 169 million related to property, plant and equipment of OJSC “Nurenergo”, a specific impairment of RR 111 million related to property, plant and equipment of OJSC “Energy Main Computer Center”, and RR 674 million reversal of impairment related to construction in progress.

Leased property, plant and equipment. Included in property, plant and equipment are certain items under finance leases. As at 31 December 2014 the net book value of leased property, plant and equipment was RR 1,432 million (as at 31 December 2013: RR 1,821 million). The leased equipment is pledged as security for the lease obligations.

Operating leases. The Group leases a number of land areas owned by local governments under operating lease. The expected lease payments due are determined based on the lease agreements and are payable as follows:

	31 December 2014	31 December 2013
Under one year	780	707
Between one and five years	1,997	1,796
Over five years	14,729	9,462
Total	**17,506**	**11,965**

The above lease agreements are usually signed for a period of 1 to 49 years and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

As at 31 December 2014 the carrying value of property, plant and equipment leased out under operating lease was RR 8,232 million (as at 31 December 2013: RR 5,822 million).

(in millions of Russian Rouble unless otherwise stated)

Note 7. Intangible assets

	Corporate information management system (SAP R/3)	Other intangible assets	Total
Cost as at 1 January 2013	4,851	8,212	13,063
Accumulated amortisation	(1,359)	(2,385)	(3,744)
Carrying value as at 1 January 2013	3,492	5,827	9,319
Additions	617	2,385	3,002
Disposals – cost	-	(215)	(215)
Amortisation charge	(220)	(658)	(878)
Carrying value as at 31 December 2013	3,889	7,339	11,228
Cost as at 31 December 2013	5,468	10,382	15,850
Accumulated amortisation	(1,579)	(3,043)	(4,622)
Carrying value as at 31 December 2013	3,889	7,339	11,228
Cost as at 1 January 2014	5,468	10,382	15,850
Accumulated amortisation	(1,579)	(3,043)	(4,622)
Carrying value as at 1 January 2014	3,889	7,339	11,228
Additions	298	998	1,296
Transfers	91	(91)	-
Disposals – cost	(345)	(121)	(466)
Amortisation charge	(2,038)	(1,735)	(3,773)
Carrying value as at 31 December 2014	1,895	6,390	8,285
Cost as at 31 December 2014	5,512	11,168	16,680
Accumulated amortisation	(3,617)	(4,778)	(8,395)
Carrying value as at 31 December 2014	1,895	6,390	8,285

The Corporate information management system (SAP R/3) consists of several modules (parts) and related licences. As at 31 December 2014 only certain modules (parts) were placed in operation and are subject to amortisation. These modules are amortised during 5 years, on a straight-line basis. SAP R/3 includes development costs of RR 930 million as at 31 December 2014 (as at 31 December 2013: RR 3,072 million).

Other intangible assets include capitalised development costs that meet the definition of an intangible asset of RR 739 million as at 31 December 2014 (as at 31 December 2013: RR 2,358 million).

(in millions of Russian Rouble unless otherwise stated)

Note 8. Investments in associates and joint ventures

The movements in the carrying value of investments in associates and joint ventures are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Carrying value as at 1 January	1,440	1,403
Share of result of associates and joint ventures	19	11
Translation difference	650	26
Carrying value as at 31 December	**2,109**	**1,440**

The carrying value of investments in associates and joint ventures is as follows:

	31 December 2014	31 December 2013
JSC UES "GruzRosEnergo"	1,724	1,064
Other associates	385	376
Total investments in associates	**2,109**	**1,440**

Note 9. Available-for-sale investments

	1 January 2014	Change in fair value	Impairment charge	31 December 2014
OJSC "INTER RAO UES"	19,379	-	(5,620)	13,759
OJSC "Russian Grids"	1,063	(31)	(407)	625
Total	**20,442**	**(31)**	**(6,027)**	**14,384**

	1 January 2013	Change in fair value	Impairment charge	31 December 2013
OJSC "INTER RAO UES"	48,136	-	(28,757)	19,379
OJSC "Russian Grids"	2,481	(1,418)	-	1,063
Total	**50,617**	**(1,418)**	**(28,757)**	**20,442**

For the year ended 31 December 2014 the change in the fair value of these available-for-sale investments in the total amount of RR 6,058 million was recognised in other comprehensive income (for the year ended 31 December 2013: RR 30,175 million). The amount of RR 6,027 million was reclassified from other comprehensive income to profit or loss for the year ended 31 December 2014 (for the year ended 31 December 2013: RR 28,757 million).

Valuation of available-for sale investments is made on a recurring basis using quoted market prices (Level 1 inputs) at the end of each reporting period.

Note 10. Other non-current and other current assets

	31 December 2014	31 December 2013
Long-term trade receivables (net of allowance for doubtful debtors of RR 505 million as at 31 December 2014 and RR 905 million as at 31 December 2013)	2,933	4,482
Long-term promissory notes	354	874
Total financial assets	**3,287**	**5,356**
VAT recoverable	23	82
Other non-current assets	800	730
Total other non-current assets	**4,110**	**6,168**

Other current assets include short-term promissory notes in the total amount of RR 625 million as at 31 December 2014 (31 December 2013: RR 2,896 million).

Included in short-term non-bank promissory notes are promissory notes of LLC "ENERGO-finance" which are fully impaired. The amount of impairment provision was RR 12,022 million as at 31 December 2014 and 31 December 2013.

All promissory notes are denominated in Russian Rouble. Fair value of promissory notes approximates their carrying value.

(in millions of Russian Rouble unless otherwise stated)

Note 11. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash at bank and in hand	11,336	17,435
Cash equivalents	30,732	4,192
Total cash and cash equivalents	**42,068**	**21,627**

Cash at bank and in hand	Rating	Rating agency	31 December 2014	31 December 2013
OJSC “Sberbank”	Ba2	Moody’s	9,880	1,440
OJSC “Gazprombank”	BB+	Fitch Ratings	893	3,225
OJSC “Alfa-Bank”	BB	Standard & Poor's	461	9,632
OJSC "Bank “ROSSIYA”	AA++	Expert RA	1	2,988
Cash in hand			17	19
Other banks			84	131
Total cash at bank and in hand			**11,336**	**17,435**

Cash equivalents include short-term investments in certificates of deposit:

Bank deposits	Interest rate	Rating	Rating agency	31 December 2014	31 December 2013
OJSC “Gazprombank”	11.75%-29.5%	BB+	Fitch Ratings	19,516	2,000
OJSC “Sberbank”	10.4%-30%	Ba2	Moody’s	11,185	1,820
OJSC “Alfa-Bank”	6.50%	BB	Standard & Poor's	-	340
Total certificates of deposit				**30,701**	**4,160**

There were no certificates of deposit denominated in foreign currency included in cash equivalents as at 31 December 2014 and 31 December 2013.

Note 12. Bank deposits

	Interest rate	Rating	Rating agency	31 December 2014	31 December 2013
OJSC “Sberbank”	17.03-18.31%	Ba2	Moody’s	130	100
OJSC “Gazprombank”	13.00%	BB+	Fitch Ratings	30	38,462
OJSC "Bank “ROSSIYA”	17.25%	AA++	Expert RA	25	-
OJSC “Alfa-Bank”	6.5%-7.00%	BB	Standard & Poor's	-	158
OJSC “VTB bank”	6.76%-6.86%	BB+	Standard & Poor's	-	350
Total bank deposits				**185**	**39,070**

The carrying amount of bank deposits approximates their fair value.

There were no bank deposits denominated in foreign currency as at 31 December 2014 and 31 December 2013.

(in millions of Russian Rouble unless otherwise stated)

Note 13. Accounts receivable and prepayments

	31 December 2014	31 December 2013
Trade receivables (net of allowance for doubtful debtors of RR 8,397 million as at 31 December 2014 and RR 5,689 million as at 31 December 2013)	38,240	26,554
Other receivables (net of allowance for doubtful debtors of RR 1,466 million as at 31 December 2014 and RR 789 million as at 31 December 2013)	8,046	3,854
Total financial assets	**46,286**	**30,408**
VAT recoverable	7,578	15,553
Advances to suppliers (net of allowance for doubtful debtors of RR 1,981 million as at 31 December 2014 and RR 1,979 million as at 31 December 2013)	1,946	2,652
Tax prepayments	102	81
Total accounts receivable and prepayments	**55,912**	**48,694**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Tax prepayments will be settled against future tax liabilities.

Management has determined the provision for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. Management believes that the Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value of receivables approximates their fair value.

The movement of the provision for doubtful debtors is shown below:

Year ended 31 December 2014	**Long-term trade receivables**	**Short-term trade receivables**	**Other short-term receivables**	**Advances to suppliers**	**Total**
As at 1 January	**905**	**5,689**	**789**	**1,979**	**9,362**
Provision accrual	-	3,306	190	4	3,500
Provision reversal	-	(491)	(123)	-	(614)
Debt written-off	-	(17)	(33)	(3)	(53)
Amortisation of discount	(317)	(178)	-	-	(495)
Transfer from other financial assets	-	-	649	-	649
Reclassifications	(83)	88	(6)	1	-
As at 31 December	**505**	**8,397**	**1,466**	**1,981**	**12,349**

Year ended 31 December 2013	**Long-term trade receivables**	**Short-term trade receivables**	**Other short-term receivables**	**Advances to suppliers**	**Total**
As at 1 January	**580**	**4,839**	**689**	**2,020**	**8,128**
Provision accrual	831	1,775	105	1	2,712
Provision reversal	-	(1,096)	(3)	(40)	(1,139)
Debt written-off	-	(7)	(2)	(2)	(11)
Amortisation of discount	(328)	-	-	-	(328)
Reclassifications	(178)	178	-	-	-
As at 31 December	**905**	**5,689**	**789**	**1,979**	**9,362**

(in millions of Russian Rouble unless otherwise stated)

Note 13. Accounts receivable and prepayments (continued)

As at 31 December 2014 the overdue accounts receivable for which the provision had not been recorded amounted to RR 26,543 million (as at 31 December 2013: RR 17,500 million).

The ageing of trade and other receivables that were not impaired at the reporting date was as follows:

	31 December 2014	31 December 2013
Neither past due nor impaired	**19,742**	**12,908**
Past due:		
Less than 3 months	11,279	6,684
3 to 6 months	7,439	5,997
6 to 12 months	6,007	2,838
1 year to 3 years	1,819	1,928
3 years to 5 years	-	4
More than 5 years	-	49
Total	**46,286**	**30,408**

Note 14. Inventories

	31 December 2014	31 December 2013
Spare parts	2,796	2,559
Repair materials	2,641	2,324
Other inventories	5,009	3,107
Total inventories	**10,446**	**7,990**

The cost of inventories is shown net of an obsolescence provision for RR 57 million as at 31 December 2014 (as at 31 December 2013: RR 83 million). As at 31 December 2014 and 31 December 2013 the Group had no inventories pledged as security under loan and other agreements.

Note 15. Equity

Share capital

	Number of shares issued and fully paid		Share capital	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Ordinary shares	1,274,665,323,063	1,267,141,015,996	637,333	633,571

As at 31 December 2014 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Additional issue of shares. In April 2013, the Company completed and registered an additional issue of 6,754,357,256 shares with a nominal value of RR 0.5 per share. The total consideration received amounted to RR 3,250 million in cash and other assets of RR 127 million.

In February 2014, the Company completed and registered an additional share issue of 7,524,307,067 ordinary shares with a nominal value of RR 0.5 per share which were placed for a consideration of RR 3,762 million in cash. As a result of the share issue, the interest of OJSC “Russian Grids” in the Company decreased from 80.6 to 80.13 per cent. Cash proceeds from the share issue will be used for financing of the investment program of the Group.

The prepayment of RR 3,762 million received for shares to be issued was included as at 31 December 2013 in the Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES.

Treasury shares. As at 31 December 2014 the Group held through a subsidiary 13,727,165 thousand ordinary shares in treasury at the total cost of RR 4,719 million (as at 31 December 2013: RR 4,725 million).

In 2014, treasury shares decreased by RR 6 million (2013: RR 192 million) with the corresponding recognition of expense relating to share-based compensation (see below), since management plans to use treasury shares for the share option plan.

Reserves. Reserves included Revaluation reserve for property, plant and equipment and available-for-sale investments. Foreign currency translation reserve and remeasurement reserve for retirement benefit obligations. The Foreign currency translation reserve relates to the exchange differences arising on translation of net assets of a foreign associate.

(in millions of Russian Rouble unless otherwise stated)

Note 15. Equity (continued)

Reserves comprised the following:

	31 December 2014	31 December 2013
Revaluation reserve (net of tax) for:		
- property, plant and equipment (Note 6)	225,563	185,850
- available-for-sale investments (Note 9)	-	455
Remeasurement reserve for retirement benefit obligations (Note 18)	93	(1,465)
Foreign currency translation reserve	726	76
Total reserves	**226,382**	**184,916**

Reserves for the year ended 31 December 2014 (net of tax):

	Revaluation reserve for:				
	property, plant and equipment (Note 6)	**available-for-sale investments (Note 9)**	**Remeasure-ment reserve for retirement benefit obligations (Note 18)**	**Foreign currency translation reserve (Note 8)**	**Total reserves**
As at 1 January 2014	**185,850**	**455**	**(1,465)**	**76**	**184,916**
Change in revaluation reserve for property, plant and equipment	39,713	-	-	-	**39,713**
Change in fair value of available-for-sale investments	-	(5,276)	-	-	**(5,276)**
Accumulated loss on available-for-sale investments recycled to profit or loss	-	4,821	-	-	**4,821**
Remeasurements of retirement benefit obligations	-	-	1,558	-	**1,558**
Foreign currency translation difference	-	-	-	650	**650**
As at 31 December 2014	**225,563**	**-**	**93**	**726**	**226,382**

Reserves for the year ended 31 December 2013 (net of tax):

	Revaluation reserve for:				
	property, plant and equipment (Note 6)	**available-for-sale investments (Note 9)**	**Remeasure-ment reserve for retirement benefit obligations (Note 18)**	**Foreign currency translation reserve (Note 8)**	**Total reserves**
As at 1 January 2013	**311,479**	**1,588**	**(1,333)**	**50**	**311,784**
Change in revaluation reserve for property, plant and equipment	(125,629)	-	-	-	**(125,629)**
Change in fair value of available-for-sale investments	-	(24,139)	-	-	**(24,139)**
Accumulated loss on available-for-sale investments recycled to profit or loss	-	23,006	-	-	**23,006**
Remeasurements of retirement benefit obligations	-	-	(132)	-	**(132)**
Foreign currency translation difference	-	-	-	26	**26**
As at 31 December 2013	**185,850**	**455**	**(1,465)**	**76**	**184,916**

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2014, the net profit of FGC UES, as reported in the published statutory financial statements, was RR 5,137 million (net loss for the year ended 31 December 2013: RR 25,898 million). The Annual General Meeting in June 2014 approved the decision to declare dividends for the first quarter of 2014 in the total amount of RR 436 million (RR 0.0003 per ordinary share).

(in millions of Russian Rouble unless otherwise stated)

Note 15. Equity (continued)

Share-based compensation. In February 2011, the Board of Directors approved an Option program ("the Program") in which the members of the Management Board and other employees of the Company can participate. In March 2011, 13,569,041,046 options to purchase the Company's ordinary shares were allocated under the Program. In July 2012, additional 549,086,611 options were allocated.

Options granted vest over the period of three years and are exercisable during two years from the vesting date. In case of terminating employment at the initiative of the Company due to breaching certain employment duties by the employee the Program participant will lose his right to purchase the shares.

All options were granted with an exercise price of the RR 0.4065 per share. The total grant date fair value of stock options granted allowing updated forfeiture rate was RR 2,859 million, including RR 38 million related to options granted in July 2012. No options were granted in 2013 and 2014.

Accounts payable to shareholders of FGC UES. Accounts payable to shareholders of FGC UES include dividends payable and payables for shares issued:

	31 December 2014	31 December 2013
Dividends payable	8	11
Prepayments for shares to be issued	-	3,762
Total accounts payable to shareholders of FGC UES	**8**	**3,773**

Note 16. Income tax

Income tax expense comprises the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax charge	(168)	(258)
Deferred income tax credit	2,080	55,401
Total income tax benefit	**1,912**	**55,143**

During the years ended 31 December 2014 and 31 December 2013 most entities of the Group were subject to tax rate of 20 percent on taxable profit.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

Loss before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Loss before income tax	**(22,513)**	**(289,914)**
Theoretical income tax credit at the statutory tax rate of 20 percent	4,503	57,983
Tax effect of items which are not deductible for taxation purposes	(2,298)	(655)
Movement in unrecognised deferred tax assets	(293)	(2,185)
Total income tax benefit	**1,912**	**55,143**

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities were measured at 20 percent as at 31 December 2014 and 31 December 2013, the rates expected to be applicable when the asset or liability will reverse.

(in millions of Russian Rouble unless otherwise stated)

Note 16. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2014:

	31 December 2014	Movements for the year: Recognised in profit or loss	Movements for the year: Recognised in other comprehensive income	1 January 2014
Deferred income tax liabilities				
Property, plant and equipment	5,814	(6,032)	10,112	1,734
Investments in associates	77	2	-	75
Available-for-sale investments	1,325	(845)	(6)	2,176
Other deferred tax liabilities	1,080	713	-	367
Total deferred income tax liabilities	**8,296**	**(6,162)**	**10,106**	**4,352**
Deferred income tax assets				
Property, plant and equipment	(1,439)	3,366	-	(4,805)
Long-term promissory notes	(4,102)	(291)	-	(3,811)
Available-for-sale investments	(2,385)	(360)		(2,025)
Accounts receivable and prepayments	(1,517)	(132)	-	(1,385)
Intangible assets	(419)	149	-	(568)
Retirement benefit obligation	(488)	(4)	141	(625)
Current and non-current debt	(123)	17	-	(140)
Accounts payable and accruals	(566)	(30)	-	(536)
Other deferred tax assets	(589)	(25)	-	(564)
Tax losses	(2,077)	1,099	-	(3,176)
Unrecognised deferred tax assets	6,926	293	-	6,633
Total deferred income tax assets	**(6,779)**	**4,082**	**141**	**(11,002)**
Deferred income tax (assets) / liabilities, net	**1,517**	**(2,080)**	**10,247**	**(6,650)**

Unrecognised deferred tax assets in the amount of RR 6,926 million include deferred income tax assets on tax losses carried forward and deferred income tax assets on temporary differences arising in respect of loss-making subsidiaries. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Tax losses carried forward in respect of which deferred tax assets were not recognised are presented by companies in the table below:

	31 December 2014	31 December 2013
OJSC "Mobile gas-turbine electricity plants"	3,292	3,825
OJSC "Nurenergo"	3,690	3,452
Others	357	415
Total tax losses carried forward	**7,339**	**7,692**

The tax losses expire in 10 years after their origination. The Group's tax losses expire mostly with term over 5 years (in 2020-2024) – RR 6,505 million, RR 3,584 million expire with terms from 2 to 5 years (during 2016-2019) and 296 expire during the year 2015.

(in millions of Russian Rouble unless otherwise stated)

Note 16. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2013:

		Movements for the year		
	31 December 2013	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**1 January 2013**
Deferred income tax liabilities				
Property, plant and equipment	1,734	(46,837)	(31,105)	79,676
Investments in associates	75	1	-	74
Available-for-sale investments	2,176	(3,726)	(284)	6,186
Other deferred tax liabilities	367	307	-	60
Total deferred income tax liabilities	**4,352**	**(50,255)**	**(31,389)**	**85,996**
Deferred income tax assets				
Property, plant and equipment	(4,805)	(3,343)	-	(1,462)
Long-term promissory notes	(3,811)	(282)	-	(3,529)
Available-for-sale investments	(2,025)	(2,025)		-
Accounts receivable and prepayments	(1,385)	53	-	(1,438)
Intangible assets	(568)	25	-	(593)
Retirement benefit obligation	(625)	7	(45)	(587)
Current and non-current debt	(140)	16	-	(156)
Accounts payable and accruals	(536)	(1)	-	(535)
Other deferred tax assets	(564)	(44)	-	(520)
Tax losses	(3,176)	(1,737)	-	(1,439)
Unrecognised deferred tax assets	6,633	2,185	-	4,448
Total deferred income tax assets	**(11,002)**	**(5,146)**	**(45)**	**(5,811)**
Deferred income tax (assets) / liabilities, net	**(6,650)**	**(55,401)**	**(31,434)**	**80,185**

(in millions of Russian Rouble unless otherwise stated)

Note 17. Non-current debt

	Effective interest rate	Due	31 December 2014	31 December 2013
Certified interest-bearing non-convertible bearer bonds:				
with fixed rates	7.5-8.75%	2019-2028	122,836	147,621
with floating rates	CPI+1-2.5%	2027-2048	111,383	111,121
Stock Exchange authorised certified interest-bearing non-convertible bearer bonds	8.10%	2015	10,155	10,153
Loan participation notes (LPNs)	8.45%	2019	17,943	17,943
Finance lease liabilities	9.50%	2018	614	700
Total debt			**262,931**	**287,538**
Less: current portion of non-current bonds and LPNs			(29,545)	(29,488)
Less: current portion of finance lease liabilities			(95)	(86)
Total non-current debt			**233,291**	**257,964**

All debt instruments are denominated in Russian Rouble.

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

As at 31 December 2014 the estimated fair value of non-current debt (including the current portion) with floating rates (bonds Series 22) was RR 9,746 million (as at 31 December 2013: RR 10,139 million), which was measured using the market prices for quoted FGC UES bonds (Level 1 inputs) as at 31 December 2014. The carrying amount of non-current debt (including the current portion) with floating rates was RR 10,000 million.

The fair value of other non-current debt (including the current portion) with floating rates and finance lease liabilities amounted to RR 69,771 million. The carrying amount of other non-current debt (including the current portion) with floating rates and finance lease liabilities was RR 100,614 million (as at 31 December 2013: RR 100,700 million).

An increase of 1% in discount rate at the reporting date would have decreased the estimated fair value by RR 4,532 million. A decrease of 1% in discount rate at the reporting date would have increased the estimated fair value by RR 5,257 million. This analysis assumes that all other variables remain constant.

As at 31 December 2014 the Group had long-term undrawn committed financing facilities of RR 157,500 million (as at 31 December 2013: RR 157,500 million) which could be used for the general purposes of the Group.

Finance lease. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2014	**150**	**607**	**-**	**757**
Less future finance charges	(55)	(88)	-	(143)
Present value of minimum lease payments as at 31 December 2014	**95**	**519**	**-**	**614**
Minimum lease payments as at 31 December 2013	**150**	**757**	**-**	**907**
Less future finance charges	(64)	(143)	-	(207)
Present value of minimum lease payments as at 31 December 2013	**86**	**614**	**-**	**700**

Leased assets with carrying amount disclosed in Note 6 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

(in millions of Russian Rouble unless otherwise stated)

Note 18. Retirement benefit obligations

The Group’s post-employment benefits policy includes the employee pension scheme and other various post-employment, retirement and jubilee payments. The post-employment and retirement benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules. The program’s core element is the corporate pension scheme implemented by the Group in cooperation with the Non-State Pension Fund of Electric Power Industry.

The Group also pays various other long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

Additionally, financial aid in the form of defined benefits is provided to former employees who have state, industry or corporate awards. Such financial aid is provided both to employees entitled and not entitled to non-state pensions.

The most recent actuarial valuation was performed as at 31 December 2014.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2014 and 31 December 2013.

The amounts recognised in the Consolidated Statement of Financial Position are determined as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Present value of defined benefit obligation	6,234	7,649
Present value of other long-term employee benefit obligation	222	263
Total net defined benefit liability	**6,456**	**7,912**

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

	Year ended 31 December 2014	**Year ended 31 December 2013**
Defined benefit obligations at 1 January	**7,912**	**7,294**
Included in profit or loss		
Current service cost	466	467
Past service cost	(347)	2
Interest expense	573	513
	692	982
Remeasurements of defined benefit liability		
Remeasurements:		
Loss from change in demographic assumptions	316	909
Gain from change in financial assumptions	(1,350)	(1,036)
Experience (gain)/losses	(693)	354
	(1,727)	227
Benefits paid by the plan	(421)	(591)
Defined benefit obligations at 31 December	**6,456**	**7,912**

Amounts recognized in profit or loss:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Service cost	120	469
Remeasurements of other long-term employee benefit obligations	(29)	51
Interest expense	573	513
Total	**664**	**1,033**

(in millions of Russian Rouble unless otherwise stated)

Note 18. Retirement benefit obligations (continued)

Amounts recognized in other comprehensive income:

	Year ended 31 December 2014	Year ended 31 December 2013
Loss from change in demographic assumptions	308	894
Gain from change in financial assumptions	(1,316)	(1,009)
Experience (gains)/losses	(691)	291
Total	**(1,699)**	**176**

The movement of remeasurements in other comprehensive income are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
At 1 January	1,722	1,546
Movement of remeasurements	(1,699)	176
At 31 December	**23**	**1,722**

The significant actuarial assumptions are as follows:

Financial actuarial assumptions:	Year ended 31 December 2014	Year ended 31 December 2013
Discount rate (nominal)	13.00%	8.00%
Future financial support benefit increases	7.00%	4.50%
Future salary increases (nominal)	7.00%	4.50%

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 12.02 years.

Demographic actuarial assumptions:

	Year ended 31 December 2014	Year ended 31 December 2013
Expected retirement age		
Male	60	60
Female	56	56
Employee turnover	5.1%	5.5%
Mortality table	1998_adjusted	1998_adjusted

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

	Change in assumption		Impact on defined benefit liability	
Discount rate	Increase / decrease by	0.5%	Decrease/ Increase by	3.76%
Future salary increases (nominal)	Increase / decrease by	0.5%	Increase / decrease by	2.01%
Future pension increases (nominal)	Increase / decrease by	0.5%	Increase / decrease by	1.96%
Employee turnover	Increase / decrease by	10%	Decrease/ Increase by	1.94%
Mortality level	Increase / decrease by	10%	Decrease/ Increase by	0.93%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the consolidated statement of financial position.

The Group expects to contribute to the plan for the next annual reporting period RR 456 million.

(in millions of Russian Rouble unless otherwise stated)

Note 19. Current debt and current portion of non-current debt

	Effective interest rate	31 December 2014	31 December 2013
Third party non-bank loans	17.0%	46	50
Current portion of non-current borrowings (Note 17)		29,640	29,574
Total current debt and current portion of non-current debt		**29,686**	**29,624**

As at 31 December 2014 and 2013 the Group had no short-term undrawn committed financing facilities.

Note 20. Accounts payable and accrued charges

	31 December 2014	31 December 2013
Accounts payable to construction companies and suppliers of property, plant and equipment	58,002	36,456
Trade payables	17,942	18,340
Accrued liabilities	64	4
Other creditors	1,769	1,111
Total financial liabilities	**77,777**	**55,911**
Advances received	7,060	10,306
Accounts payable to employees	2,154	2,470
Taxes other than on income payable	1,825	1,344
Other provisions for liabilities and charges	500	345
Total accounts payable and accrued charges	**89,316**	**70,376**

Movement in provision for legal claims:

Carrying amount at 1 January 2014	**345**
Additional amounts charged to profit or loss	3,947
Unused amounts reversed	(3,792)
Carrying amount at 31 December 2014	**500**

Note 21. Revenues and other operating income

	Year ended 31 December 2014	Year ended 31 December 2013
Transmission fee	159,780	152,430
Connection services	7,028	996
Electricity sales	5,591	3,665
Grids repair and maintenance services	954	879
Total revenue	**173,353**	**157,970**

Other operating income primarily includes income from non-core activities.

	Year ended 31 December 2014	Year ended 31 December 2013
Penalties and fines	2,453	1,202
Government grants	1,803	-
Rental income	1,168	744
Communication services	880	785
Research and development services	328	321
Design works	276	360
Insurance compensation	231	440
Relocation of mobile gas-turbine electricity plants to Sochi	-	1,825
Other income	1,094	478
Total other operating income	**8,233**	**6,155**

(in millions of Russian Rouble unless otherwise stated)

Note 22. Operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Depreciation of property, plant and equipment	43,365	56,758
Employee benefit expenses and payroll taxes	26,606	27,939
Purchased electricity for production needs	14,047	14,151
Taxes, other than on income	7,149	4,302
Amortisation of intangible assets	3,773	878
Other materials	3,639	2,021
Electricity transit	3,599	2,199
Accrual of allowance for doubtful debtors	2,887	1,573
Repairs and maintenance of equipment	2,768	3,078
Materials for repair	2,289	2,877
Business trips and transportation expenses	2,026	2,336
Security services	1,764	2,006
Subcontract works	1,691	3,268
Rent	1,612	1,828
Information system maintenance	1,116	1,322
Insurance	1,071	1,023
Consulting, legal and auditing services	938	908
Communication service	726	772
Utilities and maintenance of buildings	711	594
Disposal of intangible assets	455	20
Research and development	417	203
Movement in provision for legal claims	155	(5)
(Gain)/loss on disposal of property, plant and equipment	(429)	1,295
Other expenses	3,762	2,465
Total	**126,137**	**133,811**

Employee benefit expenses and payroll taxes include the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Wages and salaries	21,447	22,182
Social security contributions to the Pension Fund	3,849	3,872
Social security contributions to other state non-budgetary funds	1,213	1,173
Pension costs – defined benefit plans (Note 18)	91	520
Share-based compensation (Note 15)	6	192
Total employee benefit expenses and payroll taxes	**26,606**	**27,939**

Note 23. Finance income

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	4,988	3,977
Foreign currency exchange differences	65	23
Dividends	1	23
Other finance income	16	4
Total finance income	**5,070**	**4,027**

(in millions of Russian Rouble unless otherwise stated)

Note 24. Finance costs

	Year ended 31 December 2014	Year ended 31 December 2013
Interest expense	22,442	18,697
Net interest on defined benefit liability	573	513
Foreign currency exchange differences	67	37
Other finance costs	2	39
Total finance cost	**23,084**	**19,286**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(16,835)	(17,177)
Total finance cost recognised in profit or loss	**6,249**	**2,109**

Note 25. Loss per ordinary share for profit attributable to shareholders of FGC UES

	Year ended 31 December 2014	Year ended 31 December 2013
Weighted average number of ordinary shares (millions of shares)	1,260,938	1,253,587
Loss attributable to shareholders of FGC UES (millions of RR)	(21,581)	(233,101)
Weighted average loss per share – basic and diluted (in RR)	**(0.017)**	**(0.186)**

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Note 26. Contingencies, commitments and operating risks

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

Insurance. The Group held limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group.

As at 31 December 2014 the Group's subsidiary, OJSC ”Nurenergo” was engaged in a number of litigations involving claims amounting in total to RR 12,363 million (as at 31 December 2013: RR 7,015 million), for collection of amounts payable for electricity purchased by OJSC ”Nurenergo”. The amount is recorded within accounts payable. No additional provision has been made as the Group's management believes that these claims are unlikely to result in any further liabilities.

During 2012-2014 OJSC “Nurenergo” was involved in a number of litigations aiming to commence a bankruptcy procedure in respect of subsidiary. Last court decision by the Sixteenth Commercial Court of Appeal held on November, 28th, 2014, granted an appeal to the company and dismissed the bankruptcy case.

Tax contingency. Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.
Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts as transfer pricing tax audits under new rules started recently, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

As at 31 December 2014 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

(in millions of Russian Rouble unless otherwise stated)

Note 26. Contingencies, commitments and operating risks (continued)

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 233,101 million as at 31 December 2014 (as at 31 December 2013: RR 234,096 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 58,002 million as at 31 December 2014 (as at 31 December 2013: RR 36,456 million) (Note 20).

Note 27. Financial instruments and financial risks

Financial risk factors. The Group's ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk. Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another. The Group's financial management policy aims to minimise or eliminate possible negative consequences of the risks for the financial results of the Group. The Group could use derivative financial instruments from time to time for such purposes as part of its risk management strategy.

Financial instruments by categories:

31 December 2014	**Loans and receivables**	**Investments available for sale**	**Other financial liabilities**	**Total**
Financial assets				
Available-for-sale investments (Note 9)	-	14,384	-	14,384
Long-term promissory notes (Note 10)	354	-	-	354
Other non-current assets (Note 10)	2,933	-	-	2,933
Cash and cash equivalents (Note 11)	42,068	-	-	42,068
Bank deposits (Note 12)	185	-	-	185
Short-term promissory notes (Note 10)	625	-	-	625
Loans given	69	-	-	69
Accounts receivable (Note 13)	46,286	-	-	46,286
Total financial assets	**92,520**	**14,384**	**-**	**106,904**
Financial liabilities				
Non-current debt (Note 17)	-	-	233,291	233,291
Accounts payable to the shareholders of FGC UES (Note 15)	-	-	8	8
Current debt and current portion of non-current debt (Note 19)	-	-	29,686	29,686
Accounts payable and accrued charges (Note 20)	-	-	77,777	77,777
Total financial liabilities	**-**	**-**	**340,762**	**340,762**

(in millions of Russian Rouble unless otherwise stated)

Note 27. Financial instruments and financial risks (continued)

31 December 2013	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Available-for-sale investments (Note 9)	-	20,442	-	20,442
Long-term promissory notes (Note 10)	874	-	-	874
Other non-current assets (Note 10)	4,482	-	-	4,482
Cash and cash equivalents (Note 11)	21,627	-	-	21,627
Bank deposits (Note 12)	39,070	-	-	39,070
Short-term promissory notes (Note 10)	2,896	-	-	2,896
Loans given	59	-	-	59
Accounts receivable (Note 13)	30,408	-	-	30,408
Total financial assets	**99,416**	**20,442**	**-**	**119,858**
Financial liabilities				
Non-current debt (Note 17)	-	-	257,964	257,964
Accounts payable to the shareholders of FGC UES (Note 15)	-	-	3,773	3,773
Current debt and current portion of non-current debt (Note 19)	-	-	29,624	29,624
Accounts payable and accrued charges (Note 20)	-	-	55,911	55,911
Total financial liabilities	**-**	**-**	**347,272**	**347,272**

(a) Market risk

(i) Foreign exchange risk. The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk. The Group's operating profits and cash flows from operating activity are not largely dependent on the changes in market interest rates. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group does not account for any fixed-rate borrowings as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity. There is no significant impact on the Group's profit or loss or equity from the change in interest rates for variable rate borrowings as most of the Group's interest on borrowings is being capitalised in property, plant and equipment.

(iii) Price risk. Equity price risk arises from available-for-sale investments. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's investment program needs. Transactions in equity products are monitored and authorised by the Group's corporate finance department. The total amount of investments available-for-sale exposed to the market risk equals RR 14,384 million. As at 31 December 2014, if equity prices at that date had been 10% higher (lower), with all other variables held constant, the Group's before tax, and profit before tax would increase (decrease) by RR 1,439 million. As at 31 December 2014, if equity prices at that date had been 10% higher (lower), with all other variables held constant, the Group's before tax, and profit before tax would increase (decrease) by RR 1,439 million.

(in millions of Russian Rouble unless otherwise stated)

Note 27. Financial instruments and financial risks (continued)

(b) Credit risk.

The amounts exposed to credit risk are as follows:

31 December 2014	Long-term promissory notes (Note 10)	Other non-current assets (Note 10)	Cash and cash equivalents (Note 11)	Bank deposits (Note 12)	Short-term promissory notes (Note 10)	Loans given	Accounts receivable (Note 13)
Not overdue, not impaired	354	2,933	42,068	185	625	63	19,743
Not overdue, but impaired:	-	-	-	-	-	-	-
- gross amount		*505*	-	-	-	-	*1,706*
- less impairment provision		*(505)*	-	-	-	-	*(1,706)*
Overdue, but not impaired	-	-	-	-	-	5	26,543
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	-	-	-	12,022	-	*8,157*
- less impairment provision	-	-	-	-	(12,022)	-	*(8,157)*
Total amount	**354**	**2,933**	**42,068**	**185**	**625**	**68**	**46,286**

31 December 2013	Long-term promissory notes (Note 10)	Other non-current assets (Note 10)	Cash and cash equivalents (Note 11)	Bank deposits (Note 12)	Short-term promissory notes (Note 10)	Loans given	Accounts receivable (Note 13)
Not overdue, not impaired	874	4,482	21,627	39,070	1,319	38	12,908
Not overdue, but impaired:	-	-	-	-	-	-	-
- gross amount	89	*905*	-	-	12,022	-	*217*
- less impairment provision	(89)	*(905)*	-	-	(12,022)	-	*(217)*
Overdue, but not impaired	-	-	-	-	1,577	21	17,500
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	-	-	-	451	-	*6,261*
- less impairment provision	-	-	-	-	(451)	-	*(6,261)*
Total amount	**874**	**4,482**	**21,627**	**39,070**	**2,896**	**59**	**30,408**

As at 31 December 2014 the amount of financial assets, which were exposed to credit risk, was RR 92,520 million (as at 31 December 2013: RR 99,416 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The Group's trade debtors are quite homogenous as regards their credit quality and concentration of credit risk. They are primarily comprised of large, reputable customers, most of which are controlled by, or related to the Government of the RF. Historical data, including payment histories during the recent credit crisis, would suggest that the risk of default from such customers is very low.

Credit risk is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors. The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Promissory notes are generally from Russian banks with minimum credit rating not below BB+ by Standard & Poor's or B1 by Moody's. Although some of the banks and companies have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

(c) Liquidity risk. Liquidity risk is managed at the Group level and includes maintaining the appropriate volume of monetary funds, conservative approach to excess liquidity management, and access to financial resources by securing credit facilities and limiting the concentrations of cash in banks. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

(in millions of Russian Rouble unless otherwise stated)

Note 27. Financial instruments and financial risks (continued)

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
As at 31 December 2014					
Non-current and current debt and interest payable (Notes 17, 19)	59,586	40,949	97,357	250,322	448,214
Accounts payable to the shareholders of FGC UES (Note 15)	8	-	-	-	8
Accounts payable and accrued charges (Note 20)	77,777	-	-	-	77,777
Total as at 31 December 2014	**137,371**	**40,949**	**97,357**	**250,322**	**525,999**
As at 31 December 2013					
Non-current and current debt and interest payable (Notes 17, 19)	51,506	44,987	117,433	390,724	604,650
Accounts payable to the shareholders of FGC UES (Note 15)	3,773	-	-	-	3,773
Accounts payable and accrued charges (Note 20)	55,911	-	-	-	55,911
Total as at 31 December 2013	**111,190**	**44,987**	**117,433**	**390,724**	**664,334**

(d) Fair value. Management believes that the fair value of financial assets and liabilities carried at amortised cost is not significantly different from their carrying amounts, except for non-current and current debt (Notes 18 and 20). The carrying value of trade payables and trade receivables less provision for doubtful debtors is assumed to approximate their fair value due to their short-term nature. The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 9). The fair value of the available-for-sale investments is determined by the quoted prices (Level 1 inputs) in active markets for identical financial assets. There are no significant unobservable inputs used in measuring fair values of financial assets and liabilities.

Note 28. Capital risk management

The Group’s management of the capital of its entities aims to comply with the capital requirements established by the legislation of the Russian Federation for joint stock companies, in particular:

- share capital cannot be lower than RR 100 thousand;
- in case the share capital of an entity is greater than statutory net assets of the entity, such entity must reduce its share capital to the value not exceeding its statutory net assets;
- in case the minimum allowed share capital exceeds the entity’s statutory net assets, such entity is subject for liquidation.

As at 31 December 2014 several companies of the Group namely OJSC “Nurenergo”, OJSC “Mobile gas-turbine electricity plants”, OJSC “The Kuban trunk grids”, were not in compliance with all requirements mentioned above. Management of the Group is currently implementing measures to ensure compliance with all legislation requirements within a short period. Management considers that a breach of above mentioned requirements will not have material effect on the Group’s consolidated financial statements. The Group’s capital management objectives are to ensure that its operations be continued at a profit for the shareholders and with benefits for other stakeholders, and to maintain the optimal capital structure with a view to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group can adjust the dividends paid to the shareholders or their contributions to the authorised capital by issuing new shares or by selling assets to reduce debts.

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the Russian Accounting Regulations. The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. As at 31 December 2014 the Company’s gearing ratio calculated under Russian Accounting Regulations was 0.31 (as at 31 December 2013: 0.34).

(in millions of Russian Rouble unless otherwise stated)

Note 29. Segment information

The Group operates within one operating segment. The Group’s single primary activity is provision of electricity transmission services within the Russian Federation which is represented as Transmission segment.

The Board of Directors of the Company has been determined as chief operating decision maker (the “CODM”) of the Group which generally analyses information relating to Transmission segment. The Board of Directors does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission segment performance is return on equity ratio (ROE). It is calculated based on the statutory financial statements prepared according to Russian Accounting Regulations (RAR) as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAR. The other information provided to the CODM is also based on statutory financial statements prepared according to RAR.

	Transmission segment – based on statutory financial statements prepared according to RAR	
	Year ended 31 December 2014	**Year ended 31 December 2013**
Revenue from external customers	168,748	154,928
Intercompany revenue	237	289
Total revenue	**168,985**	**155,217**
Depreciation and amortisation *	80,669	71,320
Interest income	6,305	5,139
Interest expenses	5,595	1,505
Current income tax	82	103
Profit / (loss) for the year	3,198	(35,614)
Capital expenditure	128,721	162,313

	31 December 2014	**31 December 2013**
Total reportable segment assets	1,248 887	1,234,158
Total reportable segment liabilities	427,207	422,779

* Depreciation charge under RAR is based on useful lives determined by statutory regulations.

	Year ended 31 December 2014	**Year ended 31 December 2013**
Total revenue from segment (RAR)	**168,985**	**155,217**
Reclassification between revenue and other income	(1,336)	(1,008)
Non-segmental revenue	5,941	4,050
Elimination of intercompany revenue	(237)	(289)
Total revenue (IFRS)	**173,353**	**157,970**

(in millions of Russian Rouble unless otherwise stated)

Note 29. Segment information (continued)

	Year ended 31 December 2014	Year ended 31 December 2013
Profit /(loss) for the year (RAR)	**3,198**	**(35,614)**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	38,511	14,285
Impairment and revaluation of impairment of property, plant and equipment, net	(68,211)	(293,326)
Financial instruments		
Reversal of re-measurement of available-for-sale investments and investments in associates	6,324	30,555
Impairment of available-for-sale investments	(6,027)	(28,757)
Discounting of promissory notes	125	(350)
Reversal of impairment of promissory notes	-	697
Consolidation		
Reversal of impairment of investments in subsidiaries	171	262
Reversal of impairment of intercompany promissory notes	2,427	9,983
Reversal of re-measurement of treasury shares	637	1,524
Other		
Adjustment to allowance for doubtful debtors	(5,345)	8,087
Accrual of retirement benefit obligations	(280)	(682)
Write-off of research and development to expenses	243	116
Share of result of associates	19	11
Share-based compensation	(6)	(193)
Deferred tax adjustment	11,311	63,511
Other adjustments	1,951	(1,297)
Non-segmental other operating loss	(5,649)	(3,584)
Loss for the year (IFRS)	**(20,601)**	**(234,771)**

	31 December 2014	31 December 2013
Total reportable segment liabilities (RAR)	**427,207**	**422,779**
Netting of VAT recoverable and payable	(1,805)	(3,165)
Netting of advances and payables	(2,860)	(478)
Recognition of finance lease liabilities	614	700
Accrual of retirement benefit obligations	6,132	7,377
Deferred tax liabilities adjustment	(32,332)	(24,780)
(Reversal) / accrual of payables recognised in another accounting period	(28)	1,050
Non-segmental liabilities	23,395	23,157
Elimination of intercompany balances	(58,379)	(56,435)
Total liabilities (IFRS)	**361,944**	**370,205**

(in millions of Russian Rouble unless otherwise stated)

Note 29. Segment information (continued)

	31 December 2014	31 December 2013
Total reportable segment assets (RAR)	**1,248,887**	**1,234,158**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	181,050	145,588
Impairment and revaluation of property, plant and equipment, net	(465,268)	(448,309)
Recognition of property, plant and equipment under finance lease	647	718
Financial instruments		
Adjustment to cost of investments in associates	1,137	468
Adjustment to cost of available-for-sale investments	13,477	12,074
Discounting of promissory notes	(428)	(553)
Consolidation		
Reversal of impairment of investments in subsidiaries	8,447	8,276
Reversal of impairment of promissory notes	36,017	33,590
Reversal of re-measurement of treasury shares	(604)	(1,241)
Unrealised profit adjustment	(5,898)	(5,094)
Elimination of investments in subsidiaries	(23,406)	(23,407)
Elimination of intercompany balances	(58,379)	(56,435)
Other		
Write-off of research and development to expenses	(2,252)	(2,495)
Adjustment to allowance for doubtful debtors	5,250	10,598
Deferred tax assets adjustment	(12,793)	(4,947)
Netting of VAT recoverable and payable	(1,805)	(3,165)
Netting of advances and payables	(2,860)	(478)
Other adjustments	(496)	(327)
Non-segmental assets	14,452	19,483
Total assets (IFRS)	**935,175**	**918,502**

The main differences between financial information prepared in accordance with IFRS and the financial information reported to the chief operating decision-maker related to profit or loss, and assets and liabilities results from the differences in the accounting methods under IFRS and RAR. Financial information on segments reported to the CODM under RAR does not reflect the adjustments made in accordance with IFRS.

Non-segmental revenue, non-segmental other operating loss, non-segmental assets and non-segmental liabilities represent corresponding revenue, loss (profit), assets and liabilities of components (subsidiaries) that are not determined as segments by the CODM.

Information on revenue for separate services and products of the Group is presented in Note 21. The Group performs most of its activities in the Russian Federation and does not have any significant revenue from foreign customers or any non-current assets located in foreign countries.

The major customers of the Group are government-related entities. The amounts of revenue from such entities are disclosed in Note 5. The Group has no other major customers with turnover over 10 percent of the Group revenue.