Consolidated financial statements

Kubanenergo OJSC and its subsidiaries

for the year ended 31 December 2014

with independent auditor's report

Совершенствуя бизнес,
улучшаем мир

Contents

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Independent auditor's report

To the shareholders and Board of Directors of Kubanenergo OJSC

We have audited the accompanying consolidated financial statements of Kubanenergo OJSC and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2014, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Other matters

The consolidated financial statements of Kubanenergo OJSC and its subsidiaries for 2013 were audited by another auditor who issued an audit report dated 18 April 2014 with an unmodified opinion.

The consolidated financial statements of Kubanenergo OJSC and its subsidiaries for 2012 were audited by another auditor who issued an audit report dated 22 April 2013 with a modified opinion with respect to the fact that the auditors had not attended the physical count of inventory of kRUB 923,009 as at 31 December 2010 because they were appointed as auditor after that date.

A.B. Kalmykova
Partner
Ernst & Young LLC

6 April 2015

Details of the audited entity

Name: Kubanenergo OJSC
Record made in the State Register of Legal Entities on 17 September 2002, State Registration Number 1022301427268.
Address: Russia 350033, Krasnodar City, Stavropolskaya Street, 2.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of self-regulatory organization of auditors Non Profit partnership "Russian Audit Chamber" ("SRO NP APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

(in thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Revenue	6	29,528,154	33,763,376
Operating expenses	7	(37,026,765)	(34,373,668)
Other operating incomes	8	642,346	247,836
Results from operating activities		**(6,856,265)**	**(362,456)**
Finance income	10	646,640	485,240
Finance costs	10	(884,323)	(343,277)
Net finance income/(costs)		**(237,683)**	**141,963**
Loss before income tax		**(7,093,948)**	**(220,493)**
Income tax benefit/(expense)	11	1,039,359	(416,367)
Loss for the year		**(6,054,589)**	**(636,860)**
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		(8,003)	(267,702)
Related income tax		1,601	53,540
Other comprehensive loss for the year, net of income tax		**(6,402)**	**(214,162)**
Total comprehensive loss for the year		**(6,060,991)**	**(851,022)**
Loss attributable to:			
Shareholders of the Company		(6,054,589)	(636,860)
Total comprehensive loss attributable to:			
Shareholders of the Company		(6,060,991)	(851,022)
Loss per share – basic and diluted (in Russian Roubles)	20	**(21.40)**	**(2.94)**

These consolidated financial statements were approved by management on 6 April 2015 and were signed on its behalf by:

General Director — A.I. Gavrilov

Chief Accountant — I.V. Skiba

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

OJSC Kubanenergo
Consolidated statement of financial position
as at 31 December 2014
(in thousands of Russian roubles, unless otherwise stated)

	Notes	31 December 2014	31 December 2013	1 January 2013
Assets				
Non-current assets				
Property, plant and equipment	12	39,397,334	38,465,178	27,411,467
Intangible assets	13	123,763	280,850	257,305
Investments and other assets	14	142,556	150,368	154,799
Trade and other receivables	17	20,911	17,880	8,667
Deferred tax assets	15	2,232,601	1,213,750	1,576,577
Total non-current assets		**41,917,165**	**40,128,026**	**29,408,815**
Current assets				
Inventories	16	1,468,700	1,360,419	1,021,980
Trade and other receivables	17	4,335,665	5,862,988	4,206,661
Income tax receivable		4,407	4,334	4,455
Cash and cash equivalents	18	7,071,753	12,624,404	4,298,307
Total current assets		**12,880,525**	**19,852,145**	**9,531,403**
Total assets		**54,797,690**	**59,980,171**	**38,940,218**
Equity and liabilities				
Equity				
Share capital	19	28,286,813	28,286,813	14,294,283
Share premium		6,481,916	6,481,916	3,428,746
Reserves		(262,831)	(256,429)	(42,267)
Accumulated losses		(12,400,524)	(6,345,935)	(5,709,075)
Total equity attributable to owners of the Company		**22,105,374**	**28,166,365**	**11,971,687**
Non-current liabilities				
Loans and borrowings	21	14,900,000	17,237,000	5,917,000
Finance lease liabilities		–	–	3,853
Trade and other payables	23	1,020,677	591,091	262,360
Employee benefits	22	635,229	577,735	304,064
Government grants		89,719	–	–
Total non-current liabilities		**16,645,625**	**18,405,826**	**6,487,277**
Current liabilities				
Loans and borrowings	21	2,521,892	402,725	10,025,584
Finance lease liabilities		–	–	11,704
Trade and other payables	23	11,198,481	11,919,405	8,797,791
Provisions	24	2,310,293	1,085,850	1,645,956
Government grants		16,025	–	–
Income tax liabilities		–	–	219
Total current liabilities		**16,046,691**	**13,407,980**	**20,481,254**
Total liabilities		**32,692,316**	**31,813,806**	**26,968,531**
Total equity and liabilities		**54,797,690**	**59,980,171**	**38,940,218**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

OJSC Kubanenergo
Consolidated statement of cash flows
for the year ended 31 December 2014
(in thousands of Russian roubles, unless otherwise stated)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Cash flows from operating activities			
Loss for the year		**(6,054,589)**	**(636,860)**
Adjustments for:			
Depreciation and amortisation	12, 13	2,241,475	1,558,373
Impairment losses on property, plant and equipment	12	4,597,557	–
Allowance for impairment of accounts receivable	7	490,269	37,027
Allowance for obsolescence of inventories		3,377	2,417
Impairment of advances on CIP	7	(185,052)	332,406
Provision for unused vacation		29,090	56,900
Provision for legal processes	7	1,951,688	914,555
Finance costs	10	884,323	343,277
Finance income	10	(646,640)	(485,240)
Loss on disposal of property, plant and equipment	7	139,875	69,447
Loss on disposal of intangible assets	7, 13	194,460	–
Income tax expense/(benefit)		(1,039,359)	416,367
Other non-cash transaction		269	130
Cash flows from operating activities before changes in working capital and provisions		**2,606,743**	**2,608,799**
Change in trade and other accounts receivable		762,987	(2,009,332)
Change in finance assets related to employee benefits fund		16,834	10,776
Change in inventories		(111,658)	(340,856)
Change in trade and other accounts payable		207,981	3,915,222
Change in government grands		105,744	–
Change in employee benefit liabilities		5,428	(16,009)
Change in provisions		(727,245)	(1,474,661)
Cash flows from operations before income tax and interest paid		**2,866,814**	**2,693,939**
Income tax return/(paid)		22,700	(228)
Interest paid (including capitalized interest)		(1,801,081)	(1,539,419)
Net cash flows from operating activities		**1,088,433**	**1,154,292**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(7,063,703)	(12,078,964)
Proceeds from disposal of property, plant and equipment		6,239	49,903
Interest received		634,429	475,330
Net cash flows used in investing activities		**(6,423,035)**	**(11,553,731)**
Cash flows from financing activities			
Proceeds from loans and borrowings		401,983	11,722,660
Repayment of loans and borrowings		(620,032)	(10,027,267)
Repayment of finance lease liabilities		–	(15,557)
Proceeds from issue of share capital		–	17,045,700
Net cash flows from financing activities		**(218,049)**	**18,725,536**
Net increase/(decrease) in cash and cash equivalents		**(5,552,651)**	**8,326,097**
Cash and cash equivalents at the beginning of the year	18	**12,624,404**	**4,298,307**
Cash and cash equivalents at the end of the year	18	**7,071,753**	**12,624,404**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

(in thousands of Russian roubles, unless otherwise stated)

	Equity attributable to owners of the Company				
	Share capital	Share premium	Reserves	Accumulated losses	Total equity
Balance at 1 January 2013	**14,294,283**	**3,428,746**	**(42,267)**	**(5,709,075)**	**11,971,687**
Loss for the year	–	–	–	(636,860)	(636,860)
Other comprehensive loss for the year					
Remeasurement of the defined benefit liability	–	–	(267,702)	–	(267,702)
Income tax on other comprehensive income	–	–	53,540	–	53,540
Total other comprehensive loss for the year	–	–	(214,162)	–	(214,162)
Total comprehensive loss for the year	–	–	(214,162)	(636,860)	(851,022)
Transactions with owners, recorded directly in equity					
Share issue (Note 19)	13,992,530	3,053,170	–	–	17,045,700
Total transactions with owners, recorded directly in equity	13,992,530	3,053,170	–	–	17,045,700
Balance at 31 December 2013	28,286,813	6,481,916	(256,429)	(6,345,935)	28,166,365

	Equity attributable to owners of the Company				
	Share capital	Share premium	Reserves	Accumulated losses	Total equity
Balance at 1 January 2014	**28,286,813**	**6,481,916**	**(256,429)**	**(6,345,935)**	**28,166,365**
Loss for the year	–	–	–	(6,054,589)	(6,054,589)
Other comprehensive loss for the year					
Remeasurement of the defined benefit liability	–	–	(8,003)	–	(8,003)
Income tax on other comprehensive income	–	–	1,601	–	1,601
Total other comprehensive loss for the year	–	–	(6,402)	–	(6,402)
Total comprehensive loss for the year	–	–	(6,402)	(6,054,589)	(6,060,991)
Balance at 31 December 2014	28,286,813	6,481,916	(262,831)	(12,400,524)	22,105,374

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

(in thousands of Russian roubles, unless otherwise stated)

1 Background

(a) The Group and its operations

In 1993 the Krasnodar Production Association of Power and Electrification "Krasnodarenergo" was reorganized into Kuban Power and Electrification Open Joint Stock Company (hereinafter referred to as OJSC "Kubanenergo" or "the Company") in accordance with Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992, with Decree No. 923 of the President of the Russian Federation "On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization Conditions" dated 15 August 1992, with Decree No. 1334 of the President of the Russian Federation dated 5 November 1992 "On Implementation in the Electric-Power Industry of Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992".

The Company's registered office is located at 2, Stavropolskaya St., Krasnodar, Krasnodar Region, Russia, 350033.

The Company's principal activities are electric power transmission and technological connection services.

The Kubanenergo Group (hereinafter referred to as "the Group") comprises OJSC "Kubanenergo" and its subsidiaries presented below:

Subsidiary	Principal activity	Ownership, % 31 December 2014	Ownership, % 31 December 2013
OJSC "Ozdorovitelniy kompleks "Plamya"	Recreation	100	100
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100
OJSC "Energoservis Kubani"	Repair service	100	100

(b) Group formation

In the past few years the Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the companies can raise the capital required to maintain and expand current capacity.

On 1 July 2008 the Unified Energy System of Russia (hereinafter referred to as "RAO UES") ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint Stock Company Interregional Distribution Grid Companies Holding, a newly formed state-controlled entity, which was renamed to Joint Stock Company Russian Grids in April of 2013.

As at 1 January 2013, the Government of the Russian Federation owned 56.58 % of the voting ordinary shares and 7.01% of the preference shares of JSC Russian Grids, which in turn owned 63.01% of the Company.

As at 31 December 2014 and as at 31 December 2013, the Government of the Russian Federation owned 86.32% of the voting ordinary shares and 7.01% of preference shares of JSC Russian Grids, which in turn owned 92.24% of the Company.

(c) Relations with the state and current regulations

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations also through state tariffs.

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

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Based (RAB) tariffs setting system is being implemented in the Russian Federation.

(d) Russian business environment

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

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements (hereinafter "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Group additionally prepares IFRS consolidated financial statements in Russian language in accordance with Federal Law No.208-FZ "On consolidated financial reporting".

(b) Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for property, plant and equipment at 1 January 2011 that were measured at carrying amounts included in the consolidated IFRS financial statements of JSC Russian Grids as part of the Group's first time adoption of IFRSs as at 1 January 2011 (Note 12).

(c) Functional and presentation currency

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

(d) Going concern

These consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2014 a net working capital deficit of the Group was counted in the amount of RUB 3,166,166 thousand (as at 31 December 2013 there was not a net working capital deficit).

The Group controls the level of liquidity on a regular basis. Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines (see Note 21). During 2015 the Group plans to obtain long term bank loans amounted to RUB 3,500,000 million that will be directed for the refinancing the short-term part of the previously raised loans and credits.

In order to increase the efficiency of working capital management the Group is focused on an increased collection of trade receivables, including reducing doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables for electricity transmission and for the settlement of disputes with customers. The issues regarding collection of receivables are considered by the Management Board on a quarterly basis.

Management anticipates that any repayments of loans and borrowings and settlement of trade and other payables required will be met out of operating or financing cash flows. Therefore, management believes that there is no significant uncertainty regarding Group's ability to continue as going concern.

(e) Use of estimates and judgements

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

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

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

- Note 15 "Deferred tax assets";
- Note 25 "Impairment of trade and other receivables".

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 12 "Determination of recoverable amount of property, plant and equipment";
- Note 22 "Employee benefits";
- Note 24 "Provisions";
- Note 27 "Commitments and contingencies".

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Non-derivative financial assets

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

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

Non-derivative financial assets of the Group comprise cash and cash equivalents and receivables.

Cash and cash equivalents and receivables

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

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

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables, finance lease liabilities.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Trade accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract.

(c) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to its carrying amounts included in the consolidated IFRS financial statements of the Company's parent – JSC Russian Grids.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

The Group writes-off the amortisation cost of fixed assets during useful life systematically by means of depreciation's charging.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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

The estimated useful lives of the Group's property, plant and equipment are as follows:

- buildings 1-83 years;
- transmission networks 4-79 years;
- equipment for electricity transmission 1-42 years;
- other assets 1-50 years.

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

(e) Intangible assets

(i) Initial recognition

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

(ii) Subsequent expenditure

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

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

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

- licenses and certificates 1-10 years;
- software 1-15 years.

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

(f) Leased assets

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

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

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

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

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

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of CGU. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

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

(i) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit post-employment plans

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

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

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

(iii) Short-term benefits

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

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

(j) Provisions

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

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in profit or loss when the customer acceptance of the volume of electricity transmitted obtained. The tariffs for electricity transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

(ii) Connection services

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

Revenue is recognized when electricity is activated and the customer is connected to the grid network, or, for contracts where connection services are performed in stages, revenue is recognized upon stages of completion.

(iii) Other revenue

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

(l) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

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

(m) Finance income and costs

Finance income comprises interest income on funds invested, discount on financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

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

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

(n) Income tax

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

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

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

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

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

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. A deferred tax asset is recognised for unused tax losses, tax credits and deductable temporary differences to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(p) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Management Board, which is the Group's chief operating decision making body.

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

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

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

(q) Related parties

The Group disclosed the information about the Company's ultimate control party which the Government of the Russian Federation represented by the Federal Agency for State Property Management.

If the Group had related party transactions, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary to understand the potential effect of the transactions on the consolidated financial statements.

Disclosures shall include: the amount of the transactions; the amount of outstanding balances, including commitments, and details of any guarantees given or received; provisions for doubtful debts related to the amount of outstanding balances; and the expenses recognized during the period in respect of bad or doubtful debts due from related parties.

The Group disclosed above mentioned information separately for each of the following categories: the companies with significant influence over the Group; key management personnel; other related parties.

The Group is exempt from the above mentioned requirements on disclosure of information about transactions with entities that are related parties if these related parties are the entities the Government of the Russian Federation has control, joint control or significant influence over. In respect of the transactions with such related parties the nature and amount of each individually significant transaction or for similar transactions that are collectively significant. entities:

- a share of revenues from sales to government-related entities of the total Group revenues (the proceeds from the transfer of electricity are disclosed separately);
- a share of electricity transmission expenses for government-related entities of the total Group cost of the electricity transmission;
- significant loans from government-related entities.

Also the Group disclosed the amount of remuneration to the key management personnel and the nature of the remuneration.

(r) Changes in accounting policies

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

- *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36 *Impairment of Assets*. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal.
- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*. Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.
- *Investment Entities* – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*, under which a mandatory consolidation exception for certain qualifying investment entities is introduced according to IFRS 10.
- *Levies* (IFRIC 21). The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.
- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation*. The amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The Group has not the contractual bases concerning the offsetting of financial assets and financial liabilities.
- *Defined Benefit Plans: Employee Contributions* – Amendments to IAS 19 *Employee Benefits*. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

(s) New standard and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. The Group has not yet analysed the likely impact of the new standards on its financial position or performance. The Group plans to adopt the following pronouncements when they become effective:

- IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The Group is currently assessing the impact of this standard on its financial statements. Management of the Group will not expect the amendments to have a material impact on the consolidated financial statements.
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*, entitled *Clarification of Acceptable Methods of Depreciation and Amortization*. Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. These amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. Management of the Group will not expect the amendments to have a material impact on the consolidated financial statements.
- IFRS 9 *Financial Instruments* was issued in phases and ultimately replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment IFRS 9 replaces the 'incurred loss' model used in IAS 39, with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The Group is currently assessing the impact of the standard on the consolidated financial statements. The Group does not intend to adopt this standard early.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitled "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". These narrow scope amendments clarify, that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. Management of the Group will not expect the amendments to have a material impact on the consolidated financial statements.
- Amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of IFRS 3 *Business Combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. Management of the Group will not expect the amendments to have a material impact on the consolidated financial statements.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(t) Change in the comparable information

As at 31 December 2014 the principle of items' group and the content of these items in part of operating expenses and other operating income have been revised by the Group, as the Group considers that this presentation of information is more appropriate and provides to users the opportunities to estimate the trends in financial information for predictive purpose and making economic decisions.

Reclassification of items of operating expenses and monetary items in the consolidated financial statements was executed as a result of approving the new Chart of accounts and changes in accounting policy of IFRS since 1 January 2014.

(in thousands of Russian roubles, unless otherwise stated)

For the year ended 31 December 2013 the following comparative amounts were reclassified in accordance with the current year amounts:

- other incomes were reclassified in the amount of RUB 54,870 thousand for 2013 from the item "Other operating income" to operating expenses:
  - income on the value of inventory as a result of property, plant and equipment disposal in the amount of RUB 1,525 thousand were reclassified from other operating income to loss on disposal of property, plant and equipment;
  - loss on disposal of property, plant and equipment was reclassified in the amount of RUB 70,610 thousand from the item "Other operating income" to operating expenses;
  - compensation of the actual expenses on non-contractual consumption of electricity relating to last years was reclassified in the amount of RUB 17,263 thousand from other operating incomes to the item «incomes and loses of last years» of operating expenses.

Besides, in 2014 the Group has made the decision to allocate information about non-monetary articles on estimated reserves in the consolidated statement of cash flows.

The following tables summarise the impacts of the above changes on the Group's consolidated financial statements as at 31 December 2013 and for year ended 31 December 2013.

Consolidated statement of profit or loss and other comprehensive income

Year ended 31 December 2013	As previously reported	Effect of changes in presentation	As restated
Operating expenses	(34,318,798)	(54,870)	(34,373,668)
Other operating income	192,966	54,870	247,836
Results from operating activities	**(362,456)**	–	**(362,456)**

Consolidated statement of cash flows

Year ended 31 December 2013	As previously reported	Effect of changes in presentation	As restated
Adjustments for:			
Allowance for impairment of accounts receivable	–	37,027	37,027
Allowance for obsolescence of inventories	–	2,417	2,417
Impairment of advances on CIP	–	332,406	332,406
Provision for unused vacation	–	56,900	56,900
Provision for legal processes	–	914,555	914,555
Loss on disposal of property, plant and equipment	70,610	(1,163)	69,447
Cash flows from operating activities before changes in working capital and provisions	**1,266,657**	**1,342,142**	**2,608,799**
Change in trade and other accounts receivable	(2,022,072)	12,740	(2,009,332)
Change in inventories	(338,439)	(2,417)	(340,856)
Change in trade and other accounts payable	4,353,132	(437,910)	3,915,222
Change in finance assets related to employee benefits fund	10,776	–	10,776
Change in employee benefit liabilities	(16,009)	–	(16,009)
Change in provisions	(560,106)	(914,555)	(1,474,661)
Cash flows from operations before income tax and interest paid	**2,693,939**	–	**2,693,939**

(in thousands of Russian roubles, unless otherwise stated)

4 Determination of fair values

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

(a) Trade and other receivables

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

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Operating segments

The Group has one reportable segment, as described below, which is the Group's strategic business unit. This strategic business unit offers electricity transmission services including technological connection services in separate geographical regions of the Russian Federation (Krasnodar region and Republic of Adygeya) and is managed in common. The "other" segment includes insignificant operating segments such as rent services and repair and maintenance services. None of them meets any of the quantitative thresholds for determining reportable segments in 2014 or 2013.

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

Segment capital expenditures are the total costs incurred during the year to acquire property, plant and equipment.

Key segment items presented to and analysed by the Management Board are presented in the tables below:

(i) Information about reportable segments

For the year ended 31 December 2014:

	Kubanenergo	Other	Total
Revenue from external customers	29,391,472	66,883	**29,458,355**
Inter-segment revenue	1,912	5,726	**7,638**
Total segment revenue	**29,393,384**	**72,609**	**29,465,993**
Operating expenses	(29,918,777)	(78,083)	**(29,996,860)**
including depreciation	*(2,472,261)*	*(4,929)*	***(2,477,190)***
Segment operating loss	**(525,393)**	**(5,474)**	**(530,867)**
Other incomes	3,039,430	1,796	**3,041,226**
Other expenses	(5,083,520)	(2,957)	**(5,086,477)**
Finance income	634,424	–	**634,424**
Finance costs	(1,801,081)	(216)	**(1,801,297)**
Segment loss before income tax	**(3,736,140)**	**(6,851)**	**(3,742,991)**

(in thousands of Russian roubles, unless otherwise stated)

For the year ended 31 December 2013:

	Kubanenergo	Other	Total
Revenue from external customers	33,902,179	55,352	33,957,531
Inter-segment revenue	1,579	4,365	5,944
Total segment revenue	33,903,758	59,717	33,963,475
Operating expenses	(32,201,425)	(66,005)	(32,267,430)
including depreciation	*(1,712,219)*	*(5,260)*	*(1,717,479)*
Segment operating loss	1,702,333	(6,288)	1,696,045
Other incomes	1,601,417	2,199	1,603,616
Other expenses	(4,753,161)	(6,059)	(4,759,220)
Finance income	475,329	1	475,330
Finance costs	(1,535,351)	(65)	(1,535,416)
Segment loss before income tax	(2,509,433)	(10,212)	(2,519,645)

As at 31 December 2014:

	Kubanenergo	Other	Total
Segment assets	**61,714,585**	**71,759**	**61,786,344**
including property, plant and equipment	*47,499,351*	*50,410*	*47,549,761*
Segment liabilities	**32,093,486**	**25,723**	**32,119,209**
Capital expenditures	**8,278,427**	**1,696**	**8,280,123**

As at 31 December 2013:

	Kubanenergo	Other	Total
Segment assets	**64,537,179**	**66,603**	**64,603,782**
including property, plant and equipment	*43,293,640*	*53,738*	*43,347,378*
Segment liabilities	**31,283,747**	**14,764**	**31,298,511**
Capital expenditures	**11,299,972**	**4,085**	**11,304,057**

(ii) Reconciliation of reportable segments revenues, loss before income tax, assets and liabilities

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Total segment revenues	29,465,993	33,963,475
Adjustment on revenue from electricity transmission	69,132	(194,155)
Inter-segment revenue elimination	(7,638)	(5,944)
Reclassification from other income	667	–
Revenues per consolidated statement of profit or loss and other comprehensive income	29,528,154	33,763,376

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2014	Year ended 31 December 2013
Total segment loss before income tax	(3,742,991)	(2,519,645)
Adjustments for:		
Impairment loss on property, plant and equipment, recognised in according to IFRS	(4,597,557)	–
Borrowing costs capitalised to property plant and equipment	966,080	1,221,381
Revenue from electricity transmission	417,949	(21,308)
Depreciation and loss from property plant and equipment disposal	370,792	478,779
Accrual of provision for unused vacations and bonuses	10,998	(21,964)
Incomes of future periods written-off	4,912	(1,124)
Recognition of employee benefits	(57,303)	(10,401)
Impairment of accounts receivable	(485,060)	373,189
Impairment of advances on CIP	–	23,454
Finance lease	–	21,713
Reversal of impairment of property, plant and equipment recognised according RAS	–	241,540
Other adjustments	18,232	(6,107)
Loss before income tax for the year per consolidated statement of profit or loss and other comprehensive income	(7,093,948)	(220,493)

(in thousands of Russian roubles, unless otherwise stated)

Reconciliation of reportable segment total assets is presented below:

	31 December 2014	31 December 2013
Total segment assets	**61,786,344**	**64,603,782**
Adjustments for:		
Deferred tax	1,118,146	179,059
Recognition of assets related to employee benefit fund	142,555	150,367
Impairment of trade and other receivables	96,501	581,561
Inter-segment balances	(7,915)	(2,435)
Deferred expenses	(32,613)	(90,679)
Inter-segment investments	(62,921)	(62,921)
Trade receivables written-off	(82,435)	(590,452)
Net book value of property, plant and equipment	(8,153,416)	(4,892,731)
Other	(6,556)	104,620
Total assets per consolidated statement of financial position	**54,797,690**	**59,980,171**

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2014	31 December 2013
Total segment liabilities	**32,119,209**	**31,298,511**
Adjustments for:		
Long term employee benefits	635,229	577,735
Accrual of provision for unused vacations and bonuses	71,335	82,333
Additional accrual of trade payable	16,884	–
Inter-segment balances	(7,915)	(2,435)
Deferred tax	(124,947)	(126,581)
Incomes of future periods written-off	(16,386)	(11,474)
Other adjustments	(1,093)	(4,283)
Total assets per consolidated statement of financial position	**32,692,316**	**31,813,806**

The Group performs its activities in the Russian Federation.

For the year ended 31 December 2014 the Group had two major customers – distribution companies in Krasnodarskiy area of the Russian Federation with individual turnover over 10% of the total Group revenues. The total amount of revenues for these major customers for the year ended 31 December 2014 was RUB 24,287,879 thousand or 82.3% of the Group's total revenues (2013: RUB 27,172,400 thousand or 80.5%).

6 Revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity transmission	28,531,785	30,309,948
Connection services	847,766	3,335,847
Rental income	22,268	19,752
Repairs and maintenance	6,377	4,531
Government grants	667	–
Other revenue	119,291	93,298
	29,528,154	**33,763,376**

In 2014 the Group did not recognise revenue for the electricity transmission services provided to distribution selling entities in total amount of RUB 6,683 thousand (in 2013: RUB 194,155 thousand) due to unresolved disagreements with these customers. These disagreements are currently being considered in court. The Group will make decision on revenue recognition after the litigations will be resolved based on the final court decision.

In 2014 the Group recognised revenue for the electricity transmission services provided to distribution selling entities in total amount of RUB 74,796 thousand (in 2013: RUB zerol thousand) related to the prior years disagreements which were resolved in favor of the Group.

(in thousands of Russian roubles, unless otherwise stated)

7 Operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Electricity transmission	12,831,831	14,900,834
Purchased electricity for compensation of technological losses	5,566,431	8,298,460
Personnel costs (Note 9)	5,151,891	4,719,721
Impairment loss on property, plant and equipment (Note 12)	4,597,557	–
Depreciation and amortization (Notes 12, 13)	2,241,475	1,558,373
Legal claims	1,951,688	914,555
Other material expenses	996,445	832,632
Impairment of trade and other receivables	490,269	37,027
Repairs, maintenance and installation services of equipment	377,313	379,494
Maintenance and repair of electronetwork objects	348,513	73,426
Business trip expenses	329,712	546,064
Expenses connected with the maintenance of property	306,249	366,876
Taxes other than income tax	238,622	176,539
Security services	233,550	175,434
Loss on disposal of intangible assets	194,460	–
Incomes and loses of last years	169,765	202,482
Other services of the third-party organizations	149,749	61,639
Loss on disposal of property, plant and equipment	139,875	69,447
Rent	107,364	75,616
Electricity and heat power for own needs	89,231	82,449
Managing services	76,485	76,485
Insurance	75,068	73,848
Fines and penalty fee under economic contracts	64,654	33,050
Connection services	58,459	61,647
Software and maintenance expenses	41,796	51,230
Consulting, legal and audit services	11,493	13,873
Transport services	9,511	13,502
Impairment of capital advances	(185,052)	332,406
Other expenses	362,361	246,559
	37,026,765	**34,373,668**

8 Other operating incomes

	Year ended 31 December 2014	Year ended 31 December 2013
Incomes in a type of fines and penalty fee	363,073	66,070
Non-contractual consumption of electricity	176,303	59,880
Insurance compensation received	65,363	76,485
Incomes from non-paid receiving of fixed assets	24,871	33,218
Write-off of trade payable	8,127	8,271
Incomes from non-paid receiving of material and production stocks, including surplus by results of inventory	4,609	3,912
	642,346	**247,836**

9 Personnel costs

	Year ended 31 December 2014	Year ended 31 December 2013
Wages and salaries	3,711,320	3,363,930
Contributions to PFR	817,765	809,687
Payroll taxes, except contributions to PFR	298,645	260,213
Financial support, compensations, grants and other social payments	276,529	258,970
Expense in respect of post-employment defined benefit plan (Note 22)	32,376	5,505
Medical and personal insurance of employees and their families	15,256	21,416
	5,151,891	**4,719,721**

(in thousands of Russian roubles, unless otherwise stated)

10 Finance income and costs

	Year ended 31 December 2014	Year ended 31 December 2013
Finance income		
Interest income on cash held in banks	634,429	475,330
Interest income on defined benefit plan	9,022	6,345
Other finance income	3,189	3,565
	646,640	**485,240**
Finance costs		
Interest expenses on loans and borrowings	(806,055)	(314,035)
Financial expense related to employee benefits	(44,063)	(21,979)
Interest expenses on long-term trade payable	(29,162)	–
Effect of discounting of financial instruments	(5,043)	(3,195)
Interest on finance lease liabilities	–	(4,068)
	(884,323)	**(343,277)**

11 Income tax

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax benefit		
Current year	–	–
Over provided in prior years	22,109	–
	22,109	**–**
Deferred tax benefit/(expense)		
Origination and reversal of temporary differences	1,017,250	(416,367)
	1,017,250	**(416,367)**
	1,039,359	**(416,367)**

Reconciliation of effective tax rate

	Year ended 31 December 2014	%	Year ended 31 December 2013	%
Loss before income tax	**(7,093,948)**	**100**	**(220,493)**	**100**
Income tax at applicable tax rate	1,418,790	(20)	44,099	(20)
Non-deductible expenses	(401,540)	6	(460,466)	209
Over provided in prior years	22,109	(1)	–	–
	1,039,359	**(15)**	**(416,367)**	**189**

In 2014 and 2013 the Group's applicable tax rate is the income tax rate of 20%.

(in thousands of Russian roubles, unless otherwise stated)

12 Property, plant and equipment

The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to their carrying amounts included in the consolidated IFRS financial statements of the parent – JSC Russian Grids.

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
Balance as at 1 January 2013	3,604,844	7,041,399	8,281,749	4,065,625	13,265,197	**36,258,814**
Additions	14,755	21,277	604,135	561,356	11,484,276	**12,685,799**
Transfers	389,941	2,494,100	1,264,269	151,852	(4,300,162)	–
Reclassifications	15,953	(15,186)	20,866	(21,633)	–	–
Disposals	(4,936)	(63,563)	(4,434)	(4,272)	(47,020)	**(124,225)**
Balance as at 31 December 2013	**4,020,557**	**9,478,027**	**10,166,585**	**4,752,928**	**20,402,291**	**48,820,388**
Balance as at 1 January 2014	4,020,557	9,478,027	10,166,585	4,752,928	20,402,291	**48,820,388**
Additions	7,891	4,406	49,262	179,108	7,704,632	**7,945,299**
Transfers	2,928,539	18,341,307	2,159,326	1,025,666	(24,454,838)	–
Reclassifications	1,133	(9,575)	(6,027)	14,469	–	–
Disposals	(15,519)	(19,194)	(42,403)	(43,206)	(146,210)	**(266,532)**
Balance as at 31 December 2014	**6,942,601**	**27,794,971**	**12,326,743**	**5,928,965**	**3,505,875**	**56,499,155**
Depreciation and impairment						
Balance as at 1 January 2013	(896,551)	(2,464,272)	(2,293,697)	(1,893,609)	(1,299,218)	**(8,847,347)**
Impairment of property, plant and equipment	(24,295)	(111,683)	(66,350)	(13,657)	215,985	–
Charge for the year	(129,529)	(376,560)	(547,226)	(482,964)	–	**(1,536,279)**
Disposals	1,884	20,147	2,977	3,408	–	**28,416**
Reclassifications	(2,752)	2,539	(5,710)	5,923	–	–
Balance as at 31 December 2013	**(1,051,243)**	**(2,929,829)**	**(2,910,006)**	**(2,380,899)**	**(1,083,233)**	**(10,355,210)**
Balance as at 1 January 2014	(1,051,243)	(2,929,829)	(2,910,006)	(2,380,899)	(1,083,233)	**(10,355,210)**
Reallocation of impairment charge	(79,746)	(847,501)	(67,599)	(37,764)	1,032,610	–
Charge of impairment of property, plant and equipment	(597,188)	(2,567,641)	(941,708)	(234,783)	(256,237)	**(4,597,557)**
Charge for the year	(173,608)	(716,203)	(740,595)	(559,328)	–	**(2,189,734)**
Disposals	6,659	8,159	10,639	13,381	1,842	**40,680**
Reclassifications	(320)	4,248	1,086	(5,014)	–	–
Balance as at 31 December 2014	**(1,895,446)**	**(7,048,767)**	**(4,648,183)**	**(3,204,407)**	**(305,018)**	**(17,101,821)**
Carrying amounts						
At 1 January 2013	**2,708,293**	**4,577,127**	**5,988,052**	**2,172,016**	**11,965,979**	**27,411,467**
At 31 December 2013	**2,969,314**	**6,548,198**	**7,256,579**	**2,372,029**	**19,319,058**	**38,465,178**
At 31 December 2014	**5,047,155**	**20,746,204**	**7,678,560**	**2,724,558**	**3,200,857**	**39,397,334**

As at 31 December 2014 construction in progress includes prepayments for property, plant and equipment of RUB 248,252 thousand (as at 31 December 2013: RUB 1,532,093 thousand), which are stated net of impairment provision of RUB 173,312 thousand (as at 31 December 2013: RUB 367,356 thousand).

The amount of capitalised interest for the year ended 31 December 2014 was RUB 965,810 thousand (2013: RUB 1,221,381 thousand). The capitalization rate for general purpose borrowings for the year ended 31 December 2014 was 10.1% (2013: 9.6%).

No property, plant and equipment are pledged as security for loans and borrowings as at 31 December 2014 and as at 31 December 2013.

Determination of recoverable amount of property plant and equipment

As at 31 December 2014 and as at 31 December 2013 management of the Group identified impairment indicators for the Company's main cash-generating unit and performed an impairment test. The majority of the CGU's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2014 and 2013 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

The following key assumptions were used by management in determining the recoverable amount of cash-generating unit as at 31 December 2013:

- cash flows were projected based on actual operating results for 2013 and the Company's business plan for 2014. Cash flows for the period 2014-2022 were projected as follows:
  - transmission tariffs were estimated using a limitation of tariffs growth rate of 4.5% for 2014 in accordance with the level of tariff growth for distribution grid companies set by the Government of Russian Federation. For the period from 2015 until 2022 management has used the tariff's growth level of 4.7% in accordance with forecasted conditions, which are used in the business plan for JSC Russian Grids;
  - forecasted transmission volumes were determined based on the Group's annual business plan for 2014-2018 years. Since 2019 the transmission volumes were determined considering the annual growth rate of 2.0% in accordance with expectations of the Group's management;
  - operating costs were assumed to increase in line with consumer price index. For tariff setting purposes under RAB regulation optimisation of operating costs by 3.0% was assumed for each projected period.
- the cash flow forecasts were discounted to their present value at the nominal weighted average after tax cost of capital of 11.32%;
- terminal growth rate of the net cash flows was expected at the level of 2.4% in the post-forecasted period.

As at 31 December 2013 as a result of impairment testing the impairment losses were not identified.

(in thousands of Russian roubles, unless otherwise stated)

The following key assumptions were used by management in determining the recoverable amount of cash-generating unit as at 31 December 2014:

- cash flows were projected based on methodical instruction on testing power grid assets for impairment (approved by the order no. 558p of JSC "Rosseti" dated 17 December 2014) and forecast data until 2019;
- the forecast cash flows have been identified for the period 2015-2019, based on the best estimate of the Group's management in respect of the electricity transmission volumes, operating expenses and capital expenditure, and tariffs approved by regulatory authorities for 2015;
- distribution tariffs for the forecast period were estimated based on business plans, adjusted and agreed by JSC "Rosseti" (approved by the Board of Directors, Minute no. 148/2014 dated 22 December 2014), which were based on tariff models using average increase of rate on electricity transmission services (in accordance with forecast on social and economic development for 2015 and planning period of 2016-2017). Tariff growth rate in 2017-2019 are limited by forecast inflation growth rate of MED (until 2030);
- forecasted electricity transmission volumes were determined on the basis of the Company's annual business plans for 2015-2019 (approved by Board of directors of OJSC Kubanenergo, an extract from the protocol on 29 December 2014 № 201/2014);
- the cash flows forecasts were discounted to their present value using a nominal average cost of capital in the amount of 11.16%;
- the growth rate of the net cash flows in the post-forecast period amounted to 2.6% for each cash-generating unit;
- the indicator of a ratio of level of capital investments to the sum of depreciation in a forecast and post-forecast period amounted 42,44%.

As at 31 December 2014 as a result of impairment testing the impairment loss on property, plant and equipment in the amount of RUB 4,597,557 thousand was recognised.

Sensitivity analysis of impairment loss on property, plant and equipment to a change in the level of investments

A change in the level of investments on 10%, 20% and 30% as at 31 December 2014 would have increased/ (decreased) cost of the value in use for property, plant and equipment and impairment loss on property, plant and equipment respectively. The following table summarise the impacts of the above changes:

	Change in the level of investments as at 31 December 2014					
	Increase on 10%	**Decrease on 10%**	**Increase on 20%**	**Decrease on 20%**	**Increase on 30%**	**Decrease on 30%**
Cost of the value in use for property, plant and equipment	38,782,301	39,909,952	38,218,477	40,473,775	37,654,651	41,037,601
Impairment loss on property, plant and equipment	5,161,397	4,033,746	5,725,221	3,469,923	6,289,047	2,906,097
Change in impairment loss on property, plant and equipment	**563,825**	**(563,826)**	**1,127,649**	**(1,127,649)**	**1,691,475**	**(1,691,475)**

Sensitivity analysis of impairment loss on property, plant and equipment to a ratio of capital investments' level to the sum of depreciation

A change in a ratio of capital investments' level to the sum of depreciation in the range from 70% until 100% for year ended 31 December 2014 would have increased cost of the value in use for property, plant and equipment and impairment loss on property, plant and equipment respectively. The following table summarise the impacts of the above changes:

	A ratio of capital investments' level to the sum of depreciation for year ended 31 December 2014			
	70%	**80%**	**90%**	**100%**
Cost of the value in use for property, plant and equipment	35,865,614	34,580,135	33,294,655	32,009,175
Impairment loss on property, plant and equipment	8,078,084	9,363,563	10,649,043	11,934,523
Change in impairment loss on property, plant and equipment	**3,480,512**	**4,765,991**	**6,051,471**	**7,336,951**

(in thousands of Russian roubles, unless otherwise stated)

Sensitivity analysis of impairment loss on property, plant and equipment to a change in the necessary gross revenue

A change in the necessary gross revenue (further in the text – NGR) to the basic indicator on 3% and 5% for year ended 31 December 2014 would have increased/ (decreased) cost of the value in use for property, plant and equipment and impairment loss on property, plant and equipment respectively. The following table summarise the impacts of the above changes:

	Change in the NGR to the basic indicator for year ended 31 December 2014			
	Increase on 3%	**Decrease on 3%**	**Increase on 5%**	**Decrease on 5%**
Cost of the value in use for property, plant and equipment	41,807,752	36,884,497	43,448,836	35,243,414
Impairment loss on property, plant and equipment	2,135,946	7,059,201	494,862	8,700,284
Change in impairment loss on property, plant and equipment	**(2,461,626)**	**2,461,626**	**(4,102,710)**	**4,102,710**

Sensitivity analysis of impairment loss on property, plant and equipment to a change in the nominal average cost of capital

A change in the nominal average cost of capital until 10% and 12% as at 31 December 2014 would have increased/ (decreased) cost of the value in use for property, plant and equipment and impairment loss on property, plant and equipment respectively. The following table summarise the impacts of the above changes:

	Nominal average cost of capital as at 31 December 2014	
	10%	**12%**
Cost of the value in use for property, plant and equipment	40,935,317	38,247,752
Impairment loss on property, plant and equipment	3,008,381	5,695,946
Change in impairment loss on property, plant and equipment	**(1,589,191)**	**1,098,374**

Sensitivity analysis of impairment loss on property, plant and equipment to a change in the level of operating expenses

A change in the level of operating expenses on 5% and 10% for year ended 31 December 2014 would have increased/ (decreased) cost of the value in use for property, plant and equipment and impairment loss on property, plant and equipment respectively. The following table summarise the impacts of the above changes:

	Change in the level of operating expenses for year ended 31 December 2014			
	Increase on 5%	**Decrease on 5%**	**Increase on 10%**	**Decrease on 10%**
Cost of the value in use for property, plant and equipment	35,669,623	43,022,628	31,980,687	46,699,133
Impairment loss on property, plant and equipment	8,274,075	921,070	11,963,011	–
Change in impairment loss on property, plant and equipment	**3,676,503**	**(3,676,503)**	**7,365,439**	**(4,597,572)**

Leased plant and machinery

The Group leases production equipment and transport under a number of finance lease agreements.

As at 31 December 2014 and as at 31 December 2013 all assets were purchased by the Group.

(in thousands of Russian roubles, unless otherwise stated)

13 Intangible assets

	Software	Certificates and licenses	Research and development works	Other	Total
Cost					
Balance as at 1 January 2013	264,312	986	–	–	265,298
Additions	33,157	4,454	7,000	1,028	45,639
Disposals	–	–	–	–	–
Balance as at 31 December 2013	297,469	5,440	7,000	1,028	310,937
Balance as at 1 January 2014	297,469	5,440	7,000	1,028	310,937
Additions	82,668	–	4,054	2,392	89,114
Disposals	(196,904)	(145)	–	(177)	(197,226)
Balance as at 31 December 2014	183,233	5,295	11,054	3,243	202,825
Amortisation					
Balance as at 1 January 2013	(7,827)	(166)	–	–	(7,993)
Charge for the year	(20,918)	(949)	–	(227)	(22,094)
Disposals	–	–	–	–	–
Balance as at 31 December 2013	(28,745)	(1,115)	–	(227)	(30,087)
Balance as at 1 January 2014	(28,745)	(1,115)	–	(227)	(30,087)
Charge for the year	(50,395)	(1,235)	–	(111)	(51,741)
Disposals	2,603	–	–	163	2,766
Balance as at 31 December 2014	(76,537)	(2,350)	–	(175)	(79,062)
Carrying amounts					
As at 1 January 2013	256,485	820	–	–	257,305
As at 31 December 2013	268,724	4,325	7,000	801	280,850
As at 31 December 2014	106,696	2,945	11,054	3,068	123,763

The amount of intangible assets's amortisation is recognised in the operating expenses in the consolidated statement of Profit or Loss and Other Comprehensive Income.

As at 31 December 2014 according to results of inventory the balance cost of software has been written off in the amount of RUB 194,460 thousand and was recognised in the operating expenses.

(in thousands of Russian roubles, unless otherwise stated)

14 Investments and other assets

	31 December 2014	31 December 2013
Assets related to employee benefit fund	142,555	150,367
Other non-current assets	1	1
	142,556	**150,368**

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

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Property, plant and equipment	816,313	138,641	–	–	816,313	138,641
Intangible assets	–	77	(3,388)	–	(3,388)	77
Inventories	1,116	596	–	–	1,116	596
Trade and other receivables	302,396	304,564	–	–	302,396	304,564
Provisions	462,059	217,170	–	–	462,059	217,170
Employee benefits	72,249	85,473	–	–	72,249	85,473
Trade and other payables	109,547	13,315	–	–	109,547	13,315
Tax loss carry-forwards	465,786	439,222	–	–	465,786	439,222
Other	6,523	14,692	–	–	6,523	14,692
Tax assets/(liabilities)	**2,235,989**	**1,213,750**	**(3,388)**	–	**2,232,601**	**1,213,750**
Set off of tax	(3,388)	–	3,388	–	–	–
Net tax assets	**2,232,601**	**1,213,750**	–	–	**2,232,601**	**1,213,750**

The tax losses expire in 2019-2022 years. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised because the management of Group believes that it is probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Movements in deferred taxes during the year

	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive loss	31 December 2014
Property, plant and equipment	138,641	677,672	–	816,313
Intangible assets	77	(3,465)	–	(3,388)
Inventories	596	520	–	1,116
Trade and other receivables	304,564	(2,168)	–	302,396
Provisions	217,170	244,889		462,059
Employee benefits	85,473	(14,825)	1,601	72,249
Trade and other payables	13,315	96,232	–	109,547
Tax loss carry-forwards	439,222	26,564	–	465,786
Other	14,692	(8,169)	–	6,523
Net deferred tax assets	**1,213,750**	**1,017,250**	**1,601**	**2,232,601**

(in thousands of Russian roubles, unless otherwise stated)

	1 January 2013	Recognised in profit or loss	Recognised in other comprehensive loss	31 December 2013
Property, plant and equipment	312,169	(173,528)	–	138,641
Intangible assets	(8)	85		77
Inventories	(333)	929	–	596
Trade and other receivables	221,598	82,966	–	304,564
Finance lease liability	3,111	(3,111)	–	–
Loans and borrowings	(336)	336	–	–
Provisions	329,191	(112,021)	–	217,170
Employee benefits	29,853	2,080	53,540	85,473
Trade and other payables	98,660	(85,345)	–	13,315
Tax loss carry-forwards	566,941	(127,719)	–	439,222
Other	15,731	(1,039)	–	14,692
Net deferred tax assets	**1,576,577**	**(416,367)**	**53,540**	**1,213,750**

16 Inventories

	31 December 2014	31 December 2013
Raw materials	831,317	726,074
Allowance for impairment of raw materials	(4,763)	(6,650)
Other materials	648,017	641,602
Allowance for impairment of other materials	(5,871)	(607)
	1,468,700	**1,360,419**

As at 31 December 2014 and 31 December 2013 no inventories were pledged under the bank loan agreements.

17 Trade and other receivables

	31 December 2014	31 December 2013
Non-current		
Trade receivables of external organizations	–	88
Other receivables of external organizations	5,503	3,232
	5,503	**3,320**
VAT recoverable	7,377	5,798
Prepayments	8,031	8,762
	20,911	**17,880**
Current		
Trade receivables of external organizations	4,227,070	4,606,056
Trade receivables impairment allowance of external organizations	*(957,278)*	*(648,142)*
Trade receivables of related parties (Note 28)	783	11
Total trade receivables, net balance	**3,270,575**	**3,957,925**
Other receivables of external organizations	678,910	281,434
Other receivables impairment allowance of external organizations	*(232,103)*	*(79,435)*
Other receivables of related parties (Note 28)	203,733	203,536
Other receivables impairment allowance of related parties (Note 28)	*(168,076)*	*(168,076)*
Total other receivables, net balance	**482,464**	**237,459**
	3,753,039	**4,195,384**
Prepayments	63,979	107,715
Prepayments impairment allowance	*(44,281)*	*(57,774)*
Total prepayments, net balance	**19,698**	**49,941**
VAT on advances received	458,349	382,413
VAT on prepayments for property plant and equipment	44,444	275,232
VAT recoverable	15,356	105,607
VAT prepaid	179	810,283
Other taxes prepaid	44,600	44,128
	4,335,665	**5,862,988**

The Group's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 25.

(in thousands of Russian roubles, unless otherwise stated)

18 Cash and cash equivalents

	31 December 2014	31 December 2013
Cash at accounts in the banks, related with government	5,443,883	11,113,986
Cash at accounts in the banks, no related with government, and in hand	1,627,816	1,510,193
Cash equivalents	54	225
	7,071,753	**12,624,404**

All cash and cash equivalents are denominated in RUB.

As at 31 December 2014 cash at accounts in the government-related banks include balances in the amount of RUB 5,309,178 thousand (31 December 2013: RUB 11,089,748 thousand), which represent minimum required balances on the accounts in order to get additional finance income at interest rates of 7.74%-23.0% и 4.19%-6.7% for the period from 31 December 2014 till 18 March 2015 and from 31 December 2013 till 2 June 2014, respectively. The requirement to maintain minimum level of cash balances does not restrict the Company's ability to use cash at any time, however, in case of breaking requirement on minimum required balances no interest income is accrued.

19 Equity

	Ordinary shares	
	Year ended 31 December 2014	**Year ended 31 December 2013**
	RUB 100	**RUB 100**
Share capital		
Number of shares		
Par value		
In issue at 1 January	**282,868,130**	**142,942,830**
Issued during the year	–	139,925,300
In issue at 31 December – fully paid	**282,868,130**	**282,868,130**
Share capital		
Par value at 1 January	**28,286,813**	**14,294,283**
Increase for the year	–	13,992,530
Par value at 31 December	**28,286,813**	**28,286,813**

Issue of additional shares

On 18 March 2013 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 214,877,270 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 121.82. During the year ended 31 December 2013 139,925,300 shares were subscribed and paid. JSC Russian Grids had purchased 139,922,020 shares and 3,280 shares were purchased by 3rd parties. The amounts of RUB 13,992,530 thousand and RUB 3,053,170 thousand were recognized as share capital and share premium within equity for the year ended 31 December 2013. Increase in Share capital was formally registered as at 17 January 2014. The additional shares were issued to raise capital for investment project of Sochi resort development as well as for energy saving and efficiency increase programs.

Dividends

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

During the reporting periods and up to the date of approval of the consolidated financial statements the Company declared no dividends.

(in thousands of Russian roubles, unless otherwise stated)

20 Loss per share

	Year ended 31 December 2014	Year ended 31 December 2013
In shares		
Issued shares at 1 January	**282,868,130**	**132,007,887**
Effect of shares issued	–	84,248,927
Weighted average number of shares for the six months ended 31 Decemder	**282,868,130**	**216,256,814**

	Year ended 31 December 2014	Year ended 31 December 2013
Weighted average number of ordinary shares for the period (thousand of shares)	282,868	216,257
Loss attributable to the owners of the Company	(6,054,589)	(636,860)
Loss per share – basic and diluted (in RUB)	**(21.40)**	**(2.94)**

21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risks, refer to Note 25.

	31 December 2014	31 December 2013
Non-current liabilities		
Unsecured bank loans	14,900,000	17,237,000
	14,900,000	**17,237,000**
Current liabilities		
Unsecured bank loans	2,517,000	400,000
Unsecured borrowings	4,892	2,725
	2,521,892	**402,725**

Terms and conditions of outstanding loans and borrowings were as follows:

	Nominal interest rate (fixed),%			Carrying amount	
	31 December 2014	31 December 2013	Year of maturity	31 December 2014	31 December 2013
OJSC Sberbank*	8.80-9.39%	8.80-9.39%	2015-2016	8,600,000	8,600,000
OJSC Gazprombank*	12.20-20.00%	9.45-10.50%	2015-2018	8,417,000	8,637,000
JSC Rosenergobank	9.70-11.00%	11.30%	2016	400,000	400,000
Other	Interest-free – 8.50%	8.50%	2015	4,892	2,725
Total				**17,421,892**	**17,639,725**

* Loans and borrowings from the government – related entities.

The carrying amounts of loans and borrowings approximate their fair value.

As at 31 December 2014 and as at 31 December 2013 OJSC "Ozdorovitelniy kompleks "Plamya" (subsidiary) had delayed the debt on the loan agreement, signed with the person Boksgorn A.V., in the amount of RUB 2,909 thousand and 2,693 thousand respectively. In November 2014 the lessor had filed a lawsuit the claim with the requirement to return money.

During 2013 the Group has been breaching loan covenants of the following loans:

- The Rosenergobank loan of RUB 400,000 thousand related to monthly net credit bank accounts turnover; and
- One of the Sberbank loans of RUB 1,600,000 thousand repayable in 2015 related to the minimum quarterly receipt of revenue on the bank accounts.

(in thousands of Russian roubles, unless otherwise stated)

As a result, the lenders had received the right to demand earlier repayment of the loans. However, as at 31 December 2013 Management had obtained from the banks waivers and classified the loans in these financial statements in accordance with their contractual maturity.

During the year ended 31 December 2014 the loan obtained from CJSC Rosenergobank in the amount of RUB 400 000 thousand was repaid timely.

As at 31 December 2014 there were not violations of restrictive conditions on credit agreements.

As at 31 December 2014 the Group had unused credit line in the amount of RUB 3,500,00 thousand in OJSC "Gazprombank" received at the interest rate of 25% according to the contract No. 0713-085 on 8 November 2013. As at 31 December 2013 the remains of unused credit lines were absent.

22 Employee benefits

The Group has defined benefit pension plan which consists of defined post-employment benefits and cover most full-time and retired employees. Defined post-employment benefits consist of several plans providing for lump-sum payments upon retirement, financial support for pensioners, death benefits, jubilee benefits.

Non-state pension provision of employees OJSC "Kubanenergo" is defined through the Non-state Pension Fund of the Electric Power (further in the text – NPF) and on the basis of Agreement of Non-state pension provision. The main element of this program is the Corporate pension plan, which defined post-employment benefits and is defined benefit pension plan. The program extends on the employees having the pension bases, who were born till 1967. According to the program of non-state pension provision the size of the guaranteed non-state pension depends on length of each employee's working life at the enterprise, on the size of an average monthly salary and also existence of awards.

As at 31 December 2014 the Group has 8,197 employees who are the active participants of pension and social security and also has 2,656 unemployed pensioners who are the recipients of financial support (as at 31 December 2013: 8,435 employees and 2,609 pensioners respectively). As at 31 December 2014 the 2,709 people among employees of the Group have the right for non-state pension provision (as at 31 December 2013: 2,970 employees).

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

The defined benefit obligations recognized in the consolidated statement of financial position:

	31 December 2014	31 December 2013
Present value of defined benefit obligations	635,229	577,735
	635,229	**577,735**

Amounts recognized in expenses in the consolidated statement of profit or loss and other comprehensive income:

	Year ended 31 December 2014	Year ended 31 December 2013
Current service cost	32,376	5,505
Interest expenses on benefit obligation	44,063	21,979
	76,439	**27,484**

Interest expenses on benefit obligation are recognized in finance costs for year ended 31 December 2014 and for year ended 31 December 2013.

Current service cost is recognized in the «personnel costs» as part of operating expenses for year ended 31 December 2014 and for year ended 31 December 2013.

Amounts recognized in other comprehensive loss of the consolidated statement of profit or loss and other comprehensive income:

	Year ended 31 December 2014	Year ended 31 December 2013
(Gain)/loss arising from demorgaphic assumptions	(26,718)	27,474
(Gain)/loss arising from financial assumptions	(33,461)	(36,758)
(Gain)/loss arising from experience adjustment	68,182	276,986
	8,003	**267,702**

(in thousands of Russian roubles, unless otherwise stated)

Movements in the present value of the Group's employee benefit obligations are as follows:

	Movements in the present value of the Group's employee benefit obligations	
	Year ended 31 December 2014	**Year ended 31 December 2013**
As at 1 January	**577,735**	**304,064**
Current service cost	32,376	5,505
Past service cost	–	–
Interest on obligation	44,063	21,979
Effect of remeasurement of the defined benefit liability		
(Gain)/loss arising from demographic assumptions	(26,718)	27,474
(Gain)/loss arising from financial assumptions	(33,461)	(36,758)
(Gain)/loss arising from experience adjustment	68,182	276,986
Benefits paid by the plan	(26,948)	(21,515)
As at 31 December	**635,229**	**577,735**

Changes in value of assets related to employee benefit fund are as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**
As at 1 January	**150,367**	**154,798**
Return on plan assets	9,022	6,345
Benefits paid	(17,188)	(11,203)
Other movements	354	427
As at 31 December	**142,555**	**150,367**

Net present value of the Group's employee benefit obligations are as follows:

	31 December 2014	**31 December 2013**
Employee benefits	(635,229)	(577,735)
Financial assets related to employee benefit fund	142,555	150,367
	492,674	**427,368**

Movements in remeasurement of the defined benefit liability in other comprehensive loss are as follows:

	Year ended 31 December 2014	**Year ended 31 December 2013**
Remeasurement as at 1 January	**320,536**	**52,834**
Movements of remeasurement	8,003	267,702
Remeasurement as at 31 December	**328,539**	**320,536**

Principal actuarial assumptions:

	31 December 2014	**31 December 2013**
Financial assumptions		
Discount rate	12.0%	8.0%
Salary increase	7.3%	5.0%
Inflation rate	7.0%	5.0%
Demographic assumptions		
Expected retirement age		
Male	60	60
Female	55	55
Employee turnover	13.12%	11.32%

(in thousands of Russian roubles, unless otherwise stated)

The weight average duration of the defined benefit plan obligation as at 31 December 2014 is 3.8 years (as at 31 December 2014: 5.3 years). The expected contributions in 2015 by the Group to the defined benefit plans are RUB 28,612 thousand. The contributions to other long-term benefits are not expected, because as at 31 December 2014 the other long-term payments are absent.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is presented below:

	Change in assumption	Impact on defined benefit liability
Discount rate	Increase/decrease by 0.5 p. p.	Decrease/Increase by 1.34%
Future salary increases (nominal)	Increase/decrease by 0.5 p. p.	Increase/decrease by 0.82%
Future pension increases (nominal)	Increase/decrease by 0.5 p. p.	Increase/decrease by 0.57%
Employee turnover	Increase/decrease by 10%	Decrease/Increase by 1.56%
Mortality level	Increase/decrease by 10%	Decrease/Increase by 0.49%

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 statement of financial position.

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows.

	31 December 2014	31 December 2013
Longevity at age 60 for current pensioners		
Males	19	14
Females	25	20
Longevity at age 60 for current members		
Males	23	19
Females	27	23

23 Trade and other accounts payable

	31 December 2014	31 December 2013
Non-current		
Trade payables for external organizations	200,841	9,878
Other payables for external organizations	12,930	3,704
	213,771	**13,582**
Advances received from external organizations	806,906	577,509
	1,020,677	**591,091**
Current		
Trade payables for external organizations	4,089,285	6,089,685
Trade payables for related parties (Note 28)	3,724,895	3,012,130
Payables to employees	673,216	434,246
Other payables for external organizations	130,385	147,825
Other payables for related parties (Note 28)	138,570	105,484
	8,756,351	**9,789,370**
Advances received from external organizations	2,190,358	1,927,223
Advances received from related parties (Note 28)	133	127
	10,946,842	**11,716,720**
Taxes payable		
VAT	112,939	429
Payments to social funds	66,637	105,611
Property tax	34,856	31,209
Personal income tax	33,484	42,209
Other taxes payable	3,571	4,046
Fines on taxes	152	19,181
	251,639	**202,685**
	11,198,481	**11,919,405**

(in thousands of Russian roubles, unless otherwise stated)

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

Payables to employees are represented as follows:

	31 December 2014	31 December 2013
Salaries and wages payable	123,623	175,007
Unused vacation provision	274,579	259,239
Annual bonus provision	275,014	–
	673,216	434,246

24 Provisions

	Year ended 31 December 2014	Year ended 31 December 2013
Balance at 1 January	1,085,850	1,645,956
Provisions raised during the year	2,243,227	914,555
Provisions reversed during the year	(291,539)	–
Provisions used during the year	(727,245)	(1,474,661)
Balance at 31 December	**2,310,293**	**1,085,850**

Provisions relate to the legal proceedings against the Group and unsettled disagreements with distribution selling entities regarding compensation of technological losses.

Also as at 31 December 2014 the Group has recognized a provision on tax disputes in the amount of RUB 139,406 thousand. The disagreements with tax authority arose regarding a definition of the taxpayer of a land tax for the land plots which according to dividing balance were transferred to the allocated company from the moment of reorganization of the Group's Parent Company in prior periods.

25 Financial risk management

Overview

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

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

The Group does not have any exposure to foreign currency risk as no sales, purchases and borrowings are denominated in a currency other than the functional currency of Group entities, which is the RUB.

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

The Group's risk management policies deal with identifying and analysing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Revision Committee oversees how management monitors compliance with the Group's internal control procedures.

(in thousands of Russian roubles, unless otherwise stated)

Credit risk

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set by contract and depends on the amount of capacity to be connected.

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

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

Exposure to credit risk

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

	Carrying amount	
	31 December 2014	31 December 2013
Trade and other receivables	3,758,542	4,198,704
Cash and cash equivalents	7,071,753	12,624,404
	10,830,295	**16,823,108**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	31 December 2014	31 December 2013
Electricity transmission customers	4,119,950	4,402,707
Connection services customers	87,397	190,520
Other sales	20,506	12,928
Less impairment allowance	(957,278)	(648,142)
	3,270,575	**3,958,013**

Impairment losses

The table below analyses the Group's trade and other receivables into relevant groups based on the due periods:

	31 December 2014		31 December 2013	
	Gross	Impairment	Gross	Impairment
Not past due	2,271,666	(412,799)	2,313,710	(3,872)
Past due less than 90 days	1,494,045	(24,202)	1,832,055	(33,970)
Past due 90-180 days	391,240	(155,292)	52,639	(30,936)
Past due 180-365 days	144,613	(5,141)	127,107	(115,914)
Past due more than 1 year	814,435	(760,023)	768,846	(710,961)
	5,115,999	**(1,357,457)**	**5,094,357**	**(895,653)**

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

	Year ended 31 December 2014	Year ended 31 December 2013
Balance at 1 January	**895,653**	**930,236**
Increase during the year	629,587	81,382
Amounts written off against trade receivables	(41,535)	(38,302)
Decrease due to reversal	(126,248)	(77,663)
Balance at 31 December	**1,357,457**	**895,653**

Liquidity risk

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

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

The Group incurred losses during the years ending 31 December 2014 and 31 December 2014 in amount of RUB 6,054,589 thousand and RUB 636,860 thousand, respectively.

During 2013 the Group expected to refinance the majority of its short-term loans and borrowings with the same banks and generated positive operating cash flows primarily as a result of increased tariffs for transmission and optimization of costs and working capital.

Management anticipates that settlement of trade and other payables will be met out of operating cash flows. Management believes that there is no significant uncertainty regarding Group's ability to continue as going concern and going concern basis is appropriate for these financial statements.

(in thousands of Russian roubles, unless otherwise stated)

The contractual maturities of financial liabilities presented including estimated interest payments.

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2014							
Loans and borrowings	17,421,892	22,308,147	4,688,189	12,971,465	700,000	3,948,493	–
Trade and other payables	8,970,122	9,008,819	8,789,273	216,358	705	705	1,778
Total	**26,392,014**	**31,316,966**	**13,477,462**	**13,187,823**	**700,705**	**3,949,198**	**1,778**

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2013							
Loans and borrowings	17,639,725	22,611,073	2,100,197	4,068,179	12,108,811	373,400	3,960,486
Trade and other payables	9,802,952	9,807,236	9,789,370	13,693	985	705	2,483
Total	**27,442,677**	**32,418,309**	**11,889,567**	**4,081,872**	**12,109,796**	**374,105**	**3,962,969**

Market risk

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

Interest rate risk

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed 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.

Fair value sensitivity analysis for fixed rate instruments

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

Fair values

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

The basis for determining fair value is disclosed in Note 4.

Capital management

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

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

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

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their share capital at all times.

Netting or similar agreements

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

As at 31 December 2014 and as at 31 December 2013 the Group has not the contractual bases concerning the offsetting of financial assets and financial liabilities and also the management of the Group does not assume it in the future on the basis of additional agreements.

(in thousands of Russian roubles, unless otherwise stated)

26 Operating lease

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 5 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Non-cancellable operating lease rentals under land lease agreements are payable as follows:

	31 December 2014	31 December 2013
Less than one year	74,285	69,694
Between one year and five years	189,649	146,529
More than five years	1,340,898	1,416,501
	1,604,832	**1,632,724**

During the year RUB 107,364 thousand (2013: RUB 75,616 thousand) was recognised in profit or loss in respect of operating leases (including expenses incurred on lease other than land lease).

27 Commitments and contingencies

Capital commitments

As at 31 December 2014 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 2,069,006 thousand (31 December 2013: RUB 4,297,159 thousand).

Insurance

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

Litigation

The Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the course of business.

As at 31 December 2014 and 2013 the Group was in dispute with distribution selling entities related to purchase of electricity for compensation of technological losses and electricity transmission services. In the opinion of management the probability of negative outcome of the disputes was probable and recognized a provision of RUB 2,170,887 thousand (as 31 December 2013: RUB 1,085,850 thousand).

Taxation contingencies

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

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

(in thousands of Russian roubles, unless otherwise stated)

As at 31 December 2014 the Group recognized a provision on tax disputes in the amount of RUB 139,406 thousand. The disagreements with tax authority arose regarding a definition of the taxpayer of a land tax for the land plots which according to dividing balance were transferred to the allocated company from the moment of reorganization of the Group's Parent Company in prior periods.

Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The 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 contingencies

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

28 Related parties transactions

Control relationship

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel which comprised of General Director, Deputies General Director and Directors of the branches. The Company's parent as at 31 December 2014 and 31 December 2013 was JSC Russian Grids. The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of JSC Russian Grids.

In the normal course of business the Group enters into transactions with other entities under common government control including Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The Group's parent company produces publicly available financial statements.

Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's Parent, its subsidiaries and associate include transactions with JSC Russian Grids, its subsidiaries and associates, and were as follows:

Revenue

	Transaction value for the year ended 31 December		Outstanding balance	
	2014	2013	31 December 2014	31 December 2013
Parent company				
Other	1,185	5	3,949	–
Transactions with other JSC Russian Grids' subsidiaries				
Rent	3,497	2,807	–	–
Other	3	1,780	208,598	212,309
Allowance for impairment of other receivables	–	–	(168,076)	(168,076)
	4,685	**4,592**	**44,471**	**44,233**

(in thousands of Russian roubles, unless otherwise stated)

Expenses

	Transaction value for the year ended 31 December		Outstanding balance	
	2014	2013	31 December 2014	31 December 2013
Parent company				
Managing services	76,485	76,485	–	–
Other	–	–	–	4,513
Transactions with other JSC Russian Grids' subsidiaries				
Electricity transmission	5,036,790	2,891,959	3,194,300	2,908,361
Rent	33,651	13,465	86,549	31,489
Connection services	3,743	–	133	–
Construction companies	–	–	29,601	29,601
Other	370,086	72,737	553,015	143,777
	5,520,755	**3,054,646**	**3,863,598**	**3,117,741**

Capital transactions with the Company's Parent (JSC Russian Grids) are disclosed in Note 19.

Management remuneration

The Group identifies members of Board of Directors, members of Management Board and top managers of the Company and its subsidiaries as key management personnel.

There are no transactions with key management personnel and close family members except their remuneration in the form of salary and bonuses which were as follows:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Board of Directors	Other key Management Personnel	Board of Directors	Other key Management Personnel
Salaries and bonuses	8,130	75,381	10,638	69,450

As at 31 December 2014 current amount of liabilities of post-employment defined benefit plan, providing in the Consolidated statement of financial position, includes the liabilities related to members of the Board of Directors and key management personnel amounted to RUB 339 thousand (as at 31 December 2014: RUB 513 thousand).

Transactions with government-related parties

In the course of its operating activities the Group is also engaged in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs where applicable.

Revenues from government-related entities for the year ended 31 December 2014 constitute 3.1% (for the year ended 31 December 2013: 10.0%) of total Group revenues. The electricity transmission revenue from government – related entities for the year ended 31 December 2014 constitutes 1.0% (for the year ended 31 December 2013: 0.8%) of total Group revenues.

Electricity transmission costs from government-related entities for year ended 31 December 2014 constitutes 3.3% (for the year ended 31 December 2013: 10.8%) of total transmission costs.

Significant loans and borrowings from government-related entities are disclosed in Note 21.

Pricing policies

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

29 Events after the reporting period

The facts of economic activity after reporting date on 31 December 2014 which have impacted or can impact on the financial state or results of the Group's activity in the future, are not revealed.